

POSITION PAPER

# China's Belt & Road Initiative

Opportunity and challenge for German companies in Eastern Europe

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## Summary

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The Belt-and-Road Initiative of China is predominantly seen by German companies in Eastern Europe as a pragmatic, economic policy measure for the development of China and its various provinces. This goes hand in hand with opportunities for the development of the participating countries. Except in the financial sector, German companies have not been involved in BRI projects to date, or only to a very limited extent.

Risks are the growing dominance of China in the region associated with BRI measures due to the occupation of hubs in Central Asia and Eastern Europe as well as the possible over-indebtedness of individual countries through BRI projects. BRI will remain a Chinese project in the long term, possibly at a slower pace and on a smaller scale, despite demands from participating countries for greater participation.

The EU should therefore pursue a dual strategy and, on the one hand, take an active and self-confident position on BRI by promoting its own connectivity projects, developing its own tailor-made financing offers and pressing for compliance with international rules and standards in the implementation of projects. At the same time, the EU, in close dialogue with China, should agree common project standards and offer and demand participation in BRI projects. There is an urgent need for more active support for European companies wishing to participate in BRI projects. There is a strong desire on the part of companies for more information on BRI. China and the participating countries are expected to provide more open communication and more transparent procedures.

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# 1. The BRI and its impact on the regions of the OAOEV

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China has meanwhile become a global economic, military and tech superpower and Germany's most important trading partner. Chinese companies compete with German companies in almost all industries and markets. The different nature of the Chinese system also puts our Western systems and thought patterns to the test.

There is now a broad consensus in German industry that, as an open market economy, we must basically adapt to long-term systemic competition with China's state capitalism (see BDI position paper on China<sup>1</sup>).

At the latest since the Chinese president heralded the beginning of a new era for "Chinese style socialism" at the CP's 19th party congress in October 2017, the debate on China in German industry has no longer revolved around individual topics in the area of market access and equal treatment, but increasingly around the systemic challenge posed by China. The country is no longer developing in the direction of a market economy and openness but is in the process of implementing its own state capitalist model. Because at the same time China is increasingly becoming a global power, this new era has significance for the German economy far beyond China's own borders and markets.

The Belt-and-Road Initiative (BRI) is a key component of this challenge posed by China's economic policy. The BRI (other designations are "One-Belt-one-Road" [OBOR] and "New Silk Road") was proclaimed in 2013 by the Chinese President Xi Jinping as a framework strategy for the "revitalisation" of the old Silk Road and consists of a large number of different infrastructure measures and investment projects primarily in Asia, but also in Europe and Africa. So far, these have been realised or planned projects and Chinese participations in at least 60 countries, with an upward trend. The BRI concept has long outgrown the initial geographical concentration on China's neighbouring regions. In the meantime, we must speak of a global strategy to strengthen China's influence on the world economy. Trade along the Silk Road could soon account for just under 40 percent of total world trade, with the bulk being by sea.

The BRI is essentially divided into two components:

- "Silk Road Economic Belt" (SREB): Silk Road Economic Belt along road and rail corridors
- "Maritime Silk Road": seaway corridors and associated port facilities

BRI also includes air transport, energy systems and information and communication networks. The latter, however, are only just beginning to become relevant.

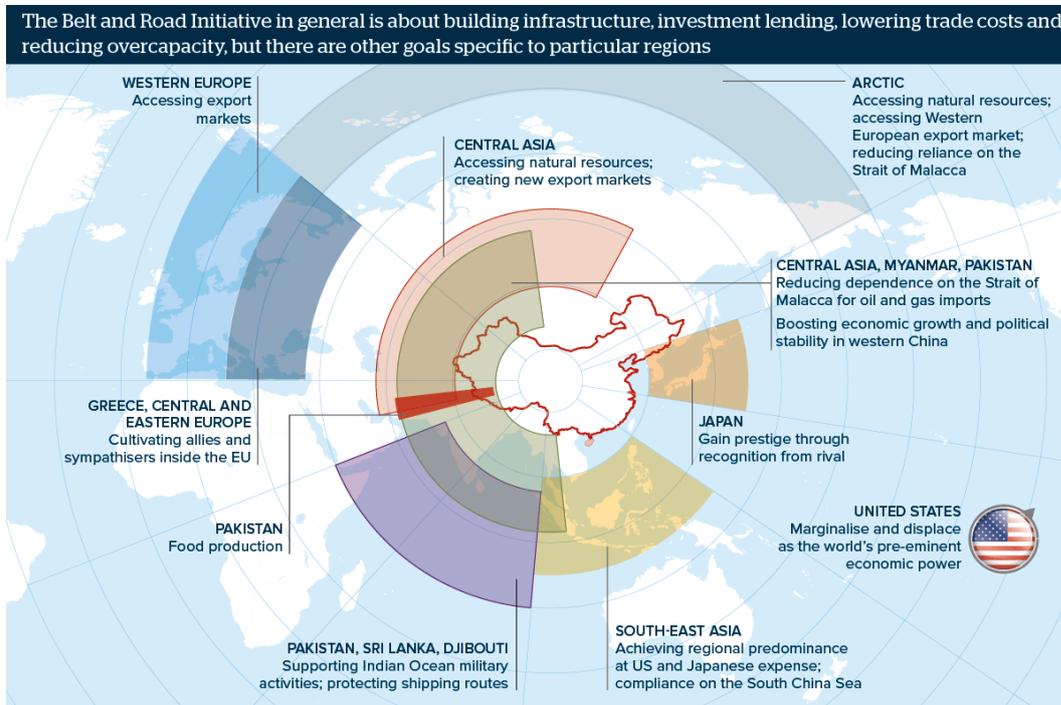
BRI is at the same time and primarily a programme for overcoming China's economic and domestic challenges. This includes the transformation of the Chinese economy from a low-cost model (Made in China) to a value-added production model (Created by China). BRI expands and diversifies trade routes, thus securing China's supply of raw materials and sales of production

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<sup>1</sup> <https://bdi.eu/media/publikationen/#/publikation/news/china-partner-und-systemischer-wettbewerber/>

and overproduction. At the same time, the programme is a manifestation of China's "soft power".

The following figure provides an overview of the different objectives of BRI in different regions of the world:



Quelle: <https://dailybrief.oxan.com/Analysis/GA241080/Belt-and-Roads-purposes-differ-in-different-regions>

The value of the silk road projects planned to date totals around 900 billion US dollars.

In the years 2013-2017, Chinese banks and companies invested over 285 billion US dollars in BRI countries<sup>2</sup>. This was accompanied by an intensification of trade relations through free trade agreements, the establishment of special economic zones and simplified customs clearance processes.

The main sources of funding for BRI projects are:

- Chinese development banks (China Export-Import Bank; China Development Bank);
- the Asian Infrastructure Investment Bank (AIIB, founded in 2016 by 57 member states with a capital of 100 billion US dollars; Germany is the fourth largest shareholder);
- the Chinese Silk Road Fund (approx. USD 55 billion);
- the New Development Bank (initiated by Brasil, Russia, India, China and South Africa, 100 billion US dollars).

BRI projects can be found in practically all 29 countries of the German Eastern Business Association (OAOEV). Particular emphasis is placed on the countries of Central Asia, Southeast Europe, the South Caucasus and Belarus.

In the case of BRI, however, there is a gap between project announcements and expectations on the one hand and measures actually implemented and sometimes disappointing results for the partner countries on the other. Recently, therefore, many BRI projects have been

<sup>2</sup> See study: Bertelsmann Stiftung (Hrsg.) Was der Westen entlang Chinas neuer Seidenstraße investiert, Ein Vergleich westlicher und chinesischer Finanzströme, 1. Auflage 2019

reassessed with regard to their economic viability and sustainable financing, both by BRI's partner countries and by China itself.

## I. BRI regions in detail

### a) Cooperation with Central Asia

China (apart from international financial institutions) is by far the largest single international investor and financier of infrastructure projects in Central Asia. This applies in particular to non-investment grade countries.

China has already provided around 50 billion US dollars for infrastructure projects in Central Asia (in the non-oil sector). The focus countries are Kazakhstan, Tajikistan and Kyrgyzstan. So far, 51 investment projects with a volume of over 27 billion US dollars have been agreed with Kazakhstan alone (including the port of Lianyungang, the dry port of Khorgos, the port of Aktau, the 900-kilometer rail corridor Kazakhstan-Turkmenistan-Iran to the port of Bandar Abbas and the international transit corridor Western Europe - Eastern China).

For the countries of Central Asia, the BRI projects represent a solution to the traditional infrastructure and overall economic dependence on Russia. Another "advantage" of Chinese investors is that, unlike Western and international donors, their loans are granted "free of political conditionality".

In Kazakhstan, the BRI supplements national infrastructure programmes ("Nurly Zhol") on a largely equal basis (e.g. 51 percent of the shares in the inland port of Khorgos are held by Kazakhstan and 49 percent by China; in the port terminal of Lianyungang in China, conversely, 49 percent are held by Kazakh and 51 percent by Chinese companies).

### b) 16+1 – Cooperation with Central Eastern and South Eastern Europe

Since 2012, Chinese activities in CEE and SOE have been summarized in the "16+1" format (11 EU member states and 5 Western Balkan countries as well as China)<sup>3</sup>. The "16+1" format ensures frequent and direct contact between political decision-makers and BRI projects. For example, Croatian Prime Minister Andrej Plenković said that he had met with the Chinese President or Prime Minister six times bilaterally from the time he took office until early 2019.

BRI's main focus in the region is on the transport and energy infrastructure sector, in which the CEE and SEE countries have considerable needs.

Almost two-thirds of the planned project costs are attributable to the three countries Serbia, Bosnia-Herzegovina and Hungary, almost half of the funds go to transport and energy projects. The main project is the Budapest-Belgrade rail link, which will provide a faster logistical link between the port of Piraeus (owned by China) and Central Europe.

The EU is also financially active in the region but concentrates on EU members. There are EU funds (European Structural and Investment Fund ESIF, partly European Regional Development Fund ERDF and Cohesion Fund CF) for infrastructure projects in Greece, Bulgaria and Croatia, for example, with a volume of 11.8 billion euros from 2014 to 2020.

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<sup>3</sup> At the "16+1" summit meeting in Dubrovnik in April 2019, Greece joined this initiative as the 17th country.

The Western Balkans is also integrated into the EU Trans-European Network (TEN) and included in the "Berlin Process". BRI infrastructure projects are sometimes compatible with European projects, but are sometimes associated with different prioritisation or technology types (e.g. coal-fired power plants instead of low-carbon economies in power generation).

For the Western Balkan countries that are not yet EU members, however, Chinese financing plays a much more important role in view of the co-financing and compliance requirements of the funds available under EU programmes (pre-accession assistance Investment for Pre-accession Assistance IPA II; Western Balkans Investment Framework). Of the approximately 30 billion US dollars that China has invested in Eastern and South Eastern Europe to date, about one third went to Serbia. There, investments were made in Danube bridges, motorways and the modernization of power plants. In April 2019, further contracts were signed between the two countries for the construction of a new subway network in Belgrade, further road construction projects around the capital and the modernization of railway lines in the direction of North Macedonia. In Montenegro, China is currently financing a motorway worth one billion euros. This corresponds to almost a quarter of the gross domestic product of the Balkan country. Like the projects in Serbia, the motorway in Montenegro is being built by a Chinese construction company using Chinese materials and Chinese workers.

### **c) South Caucasus and Belarus**

The South Caucasian countries Azerbaijan and Georgia see their opportunity in the BRI in positioning themselves as an EU-China transit route independent of Russia ("middle Eurasian route"). Existing infrastructure projects in the region are therefore often associated with BRI, such as the Baku-Tbilisi-Kars railway line, the deep-sea port of Anaklia or the Baku Sea Port.

BRI will gain additional attractiveness in the region through security policy guarantees for Chinese investments (especially in Georgia vis-à-vis Russia) and greater economic independence from Russia (diversification). Armenia has not yet been affected by the BRI.

In Belarus, BRI is manifesting itself in particular with its main project, the joint industrial park "Great Stone" near Minsk (60 percent Chinese shareholders, 40 percent Belarusian shares and Duisport, which joined the project in 2018).

Belarus, with its rail network, as well as Kazakhstan, Russia and Poland, is involved in the rail link between China and Western Europe. Since 2014, there has been a direct connection from China to Duisburg of around 11,000 kilometers in length, which is now used by 35 container trains a week, with a growing trend. This train connection is cheaper than air travel and, at around 14 days, significantly faster than container ships.

## **II. Evaluation of BRI projects in the countries/regions of the OAOEV**

### **a) Negative aspects**

BRI and its projects are subject to a number of risks:

- The commercial sustainability and long-term viability of some projects is not assured<sup>4</sup> and can lead to greater indebtedness or even over-indebtedness of the countries;
- Lack of transparency in project tendering and execution involves potential risks of corruption;
- China's political influence grows with increasing financial dependence of the countries;
- BRI projects generate only low development potential for local industry due to high value added for Chinese companies (liquidation by Chinese companies, with Chinese equipment and labour)<sup>5</sup>;
- Chinese loans are mostly granted by the state-owned Exim Bank (approx. 85 percent of the amount) with a long term (usually 20 years) and low interest rate (approx. 2 percent), but mostly in US dollars, which can be an additional burden for the Southeastern European states whose currencies are pegged to the euro;
- There are economic risks associated with "over-connectivity" or over-dependence on the development of the Chinese economy.

Problematic are also:

- lack of coordination with other (international) donors, lack of coordination of projects with other connectivity initiatives;
- low transparency in the award process (unfair tender conditions);
- intransparent conditions (China as a non-OECD member does not have to adhere to OECD rules and recommendations), loans against commodity rights;
- low interest in the development of soft infrastructure (investment climate, good governance, anti-corruption, training, etc.).

In Western Europe as a whole, BRI is associated with a number of fears that are dominated by political and security arguments:

Some commentators speak of "China's neo-colonialism", "China's version of the East India Company, adapted to today's times", "Beijing's new colonialism", "road to hegemony" in Eurasia, etc. The dangers of a "debt trap" and its geopolitical effects are particularly highlighted.

This is associated with fears of military use of the Silk Road/infrastructures and an expansion of power in the region (South China Sea), especially against the "competitor" India. The BRI is used as a master plan for the establishment of Chinese supremacy in Eurasia and Africa, which should make the "Friends of China" financially and structurally dependent (infrastructure, data flows, cyber security) and prepare China's rise to superpower in the world. These fears are also based on the fact that no detailed plans for BRI have yet been published, that the investment requirement of one to eight trillion US dollars is very vaguely stated and that there is no transparency within the BRI plans. The BRI would also strengthen central government control over China's economy.

## **b) Positive aspects**

Positive voices assess the BRI mainly economically as a "gigantic Marshall Plan, only much more comprehensive", as a plan to solve China's domestic economic and political problems, as a local

<sup>4</sup> For example, rail container transport between China and the EU has so far been linked to transport subsidies, which amounted to USD 88 million in 2016.

<sup>5</sup> 70% of the loans granted by China Development Bank and Exim Bank to SOE between 2013-2015 were granted on condition that they were at least partially used for Chinese labour and equipment.

strategy for the development (sales and energy supply) of Northwest and Central China, for the reduction of industrial overcapacities and for securing China's raw material and energy supply. The BRI promotes closer links with China's 14 neighbours and with the continents of Africa and Europe through improved infrastructure by land and sea.

At the same time, many commentators point out that China is not interested in weakening the EU, but on the contrary is interested in a stable and economically open Europe. And vice versa - an economically growing China is also positive for the world economy and for an independent, open Europe. In view of the current international trade policy situation, these are not negligible factors.

In any case, BRI is a "soft power scheme" of China, a (strategic) alternative to the West (financial system, rules, standards, dominance, tying aid to values and strict conditions). In Southeastern Europe it appears as an alternative to Brussels, in Central Asia to Russia, in South Asia to India.

### **c) Alternatives / Supplements to BRI**

The USA's and the EU's own initiatives (EU connectivity strategy) have so far produced hardly any alternative projects in the infrastructure sector in Central Asia and the South Caucasus, with the result that there is currently little that can be compared with BRI. For the countries of the Western Balkans, there are hardly any European alternatives to BRI in the financial sector. Only for the EU members in Central and South Eastern Europe do significant EU funds (grants) exist.

The compatibility of the EU-Asia connectivity strategy and the BRI that the EU is striving for is only in its infancy. At present, there is no committee to ensure coordination between BRI and planned connectivity strategy projects (including EU-TEN projects). The EU Commission has merely set up an "EU-China Connectivity Platform", which records an exchange of information on (Chinese) projects in the individual countries; representatives of the member states also meet sporadically in this framework; Chinese representatives are apparently not present.

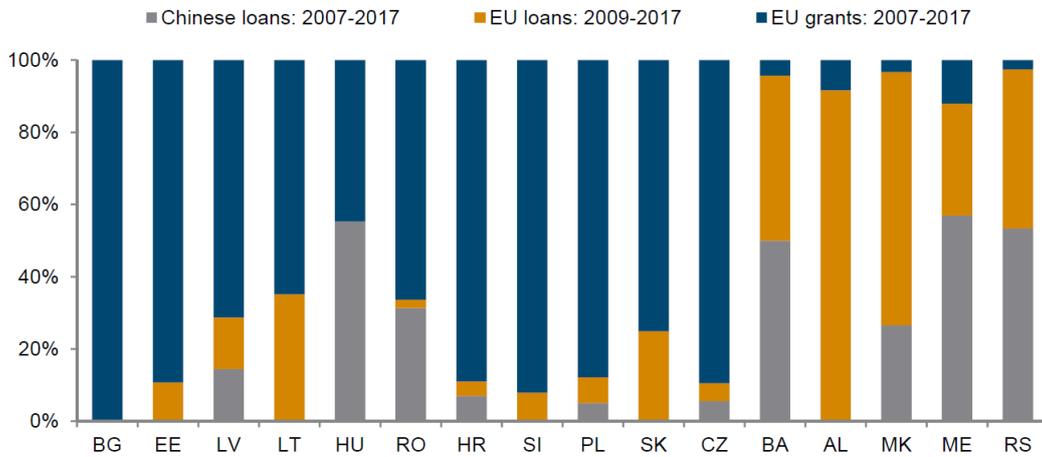
Apart from small-scale financing by the EIB and EBRD, the role of European financing institutions in implementing the EU-Asia connectivity strategy has not yet been clarified. The reason for this is that the EU's medium-term financial framework for 2021-2027 has not yet been agreed. It is therefore currently unclear how much funds will be available for connectivity projects. European co-financing mechanisms for projects thus remain a pipe dream for the time being. As a result, there are still no joint EU-BRI projects.

Nevertheless, closer and direct cooperation would be in the interests of European companies and, in our view, of considerable benefit to the countries of Eastern Europe and Central Asia involved.

The framework of the new EU-Central Asia Strategy currently being developed could now be used to develop infrastructure projects compatible with the Central Asian countries and China.

Such joint projects would also be desirable for appropriate TEN projects.

### Comparison of loans and grants provided by the EU and China for infrastructure investments



Note: 100% refers to the sum of EU and Chinese financing of infrastructure investments in the BRI investment fields of transport, energy, environment and information and communication technology (ICT).

Source: European Commission ESIF, CEF, TEN-T, WBIF, EFSI data; China Global Investment Tracker; wiw calculations.

Quelle: wiw, Forecast Report / Autumn 2018, p. 55.

The growing criticism of BRI measures in Asia and Africa in recent months has led to individual countries and governments withdrawing from BRI projects. The main points of criticism are the low transparency of the projects, the sometimes dramatically increasing indebtedness of the recipient countries, examples of debt-for-assets-swaps that endanger national security and the lack of or low local added value in project implementation.

Increasing financing problems in China itself have also slowed down the dynamics of BRI projects and are leading to a reassessment of individual projects. Nevertheless, BRI does not seem to question this as a whole, but at best to delay its implementation and make economically justified corrections.

### Telecommunications: Chinese enterprises and 5G development

One of the fears of BRI is that Chinese standards will spread in parallel with China's international economic progress, making it more difficult for Western companies to gain access to markets in the long term, initially in the BRI countries, and in the longer term worldwide.

It must be said at the outset that this view is a "Western" one, since the standards existing today have historically emerged as predominantly Euro-Atlantic ones and reflect the economic supremacy of the "West"; a genuine "internationalisation" of the standards makes sense in principle and is to be welcomed. The creation of a single global market brings greater advantages for all participants, including consumers, over fractionation.

The example of the development of the 5G standard in the telecommunications sector shows that Chinese companies are participating on an equal footing in the development of the global 5G specifications. The 3rd Generation Partnership Project (3GPP) has developed specifications for 5G access technology and network architecture that include China Mobile, China Telekom, Huawei and ZTE alongside leading Western and other Asian companies.

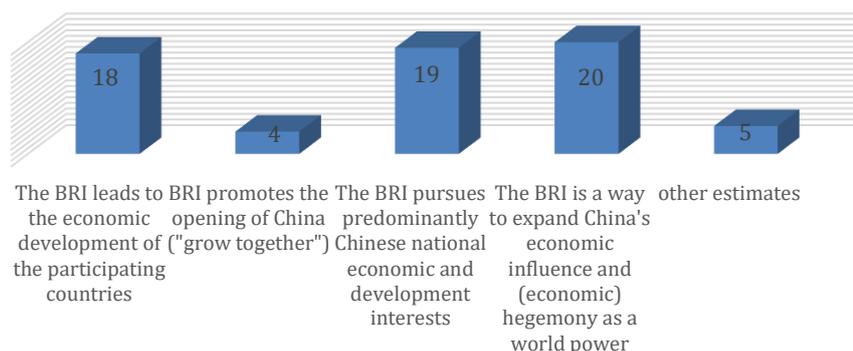
The practice of implementing 5G technology is problematic. Here, Chinese providers use state financing support, compensation transactions and other advantages that are not available to Western companies and thus distort competition. The distortion therefore consists in the fact that the presence of Chinese technology is massively pushed into the market with state support.

## 2. Assessments of German companies

A survey of selected OAOEV member companies with above-average involvement in the countries affected by the BRI in Southeast Europe and Central Asia has produced the following results:

Most companies see BRI predominantly as a way of expanding China's economic influence and striving for (economic) hegemony. At the same time, however, it is also seen as an opportunity for the development of the participating countries. Low expectations are placed in an opening of China associated with BRI. Some companies have the impression that the "BRI" brand is used in many Chinese foreign projects to justify bidding by Chinese consortia. A distinction between "BRI projects" and other infrastructure projects is fluid and often unclear.

How do you rate China's BRI overall? (several answers possible)



The majority of companies see the projects associated with BRI as an opportunity, especially for the Eastern Europe/Central Asia region, and for the world as a whole.

Of the OAOEV member companies, however, only a few are involved in BRI measures and projects, mostly indirectly. The regional focus is on Central Asia.

Nevertheless, companies are interested in participating more actively in BRI projects or in infrastructure projects in the region as a whole. However, quite a few companies cite a lack of knowledge of the markets and their hurdles as a barrier to market entry. Here, better information about the region is needed.

However, the main obstacle to participation is seen in the linking of projects with Chinese companies and financial institutions, which extremely restricts the participation of companies from third countries. In order to achieve improvements here, the tendering practice would first and foremost have to be improved in order to achieve a level playing field: Compliance with customary transparency requirements, transparent tendering processes, environmental and social impact studies by renowned experts.

In terms of financing, the pricing provided by Chinese banks outside the market gives Chinese companies decisive competitive advantages.

Special promotion and support of the European export industry at all levels for projects along the new Silk Road, e.g. through high export financing coverage frameworks or the creation of attractive (complementary) offers, especially for project financing, is an important requirement of the companies.

The answer to the question of whether China is more likely to compete with BRI for German companies in Eastern Europe and whether the EU should push ahead with its own projects, or whether increased cooperation with China should improve the chances of participation in BRI projects, can only be "both":

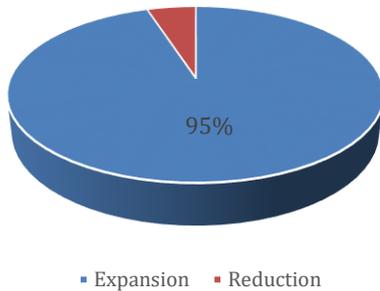
With its own EU projects and financing alone, the EU will only be able to implement a few large infrastructure projects in Eastern Europe and Central Asia. On the other hand, there is little chance of persuading China to change its tendering and awarding practices without substantially entering into individual projects itself. It therefore seems most promising to agree on transparent and equal participation opportunities through coordinated joint projects and co-financing by the EU and BRI.



For their own business activities in the OAOEV countries, most of the OAOEV member companies surveyed see no risk from BRI projects.

However, a critical assessment of the geopolitical risks of the tendering countries is considered necessary in the context of the "BRI" projects.

Do you expect an expansion of BRI measures in the region, or do you see a reduction in BRI?



Notwithstanding the current discussion on the reassessment of BRI in China, companies are almost unanimously expecting an expansion of BRI.

### 3. Recommendations for action

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#### a) Recommendations to the EU

The new Silk Road must not degenerate into a one-way street. With the help of a clever strategy, it can mean new opportunities for both sides. The wishes of German companies to politicians in connection with the BRI focus primarily on the EU as a strong partner for European companies in the region and as an equal negotiating partner with China. The EU has done some preparatory work with the new Central Asia Strategy and a new Connectivity Strategy. Its implementation, however, will only succeed with the necessary political agreement and sufficient financial resources, which must be included in the new EU financial framework from 2021.

In dialogue with China and the participating BRI countries, the EU must press for internationally recognised transparency and sustainability criteria to apply to BRI projects (level playing field in "third markets" for financing, sustainability/responsibility/local development, labour and social standards, environmental criteria, good governance). Existing efforts should be continued. It is important that internationally recognised standards are observed in the implementation of projects and that China does not use BRI to establish its own standards against the EU. The promotion of China's OECD membership and a strengthening of the WTO are suitable fields of action for this.

In addition, the BRI countries should be given more active support in infrastructure development and the establishment of requirements and criteria for infrastructure projects (through expertise and training in corporate governance, true diversification, commercial feasibility, sustainability ...).

The most important key to the success of the EU and European companies in the region is the development of tailor-made project financing models. This requires closer coordination within the EU at the regulatory level, as there are so far completely different conditions under which financial institutions can and must operate. Such an alignment would be a prerequisite for a level playing field.

We welcome the plans to set up a special EU investment fund for projects in the region. Existing institutions such as the EBRD and the EIB should be involved, while at the same time making their existing financing offers better known and more responsive to the needs of the Belt&Road region. At the same time, the private capital available in the EU for joint projects needs to be more strongly activated.

With BRI, China has succeeded in establishing a trademark for its own investment projects. A European counterpart has so far been sought in vain, even though a study by the Bertelsmann Stiftung has just shown that between 2013 and 2017 the amount of investment from Western sources in the region between 2013 and 2017, at around 290 billion US dollars, was even slightly higher than the Chinese investment (285 billion US dollars)<sup>6</sup>. So there is also a clear question about better marketing of existing EU activities and the involvement of European companies in the region.

To this end, the EU should act in a unified and united manner vis-à-vis China and the BRI countries.

China's interests could be the starting points for the EU-China dialogue:

- economic cooperation with the EU;
- the diversification of its trade routes and exports (from previously predominantly trans-Pacific to additionally Eurasian);
- a jointly more efficient and sustainable implementation of BRI projects (costs - benefits);
- Chinese BRI projects should not be prevented and reduced in total, but should be implemented more effectively and sustainably.

For Central and South Eastern Europe in particular, the EU should push for complementary, non-competitive infrastructure projects that reflect the economic needs of the EU and its neighbours and develop infrastructure in economically weaker countries in joint coordination. Proposals such as that of the Vienna Institute for International Economic Studies (wiiw) for a "big push" in infrastructure investments of a "European Silk Road" could be a suitable way to achieve this<sup>7</sup>. In the case of suitable complementary projects within the framework of TENs and BRI, joint implementation with EU partners and China should be sought.

Concrete steps are also desirable to achieve the EU's desired compatibility of the EU-Asia connectivity strategy with BRI projects. This can be accomplished through the establishment of a joint EU-Asia Joint Consultative Body, in which European financial institutions are also involved.

The framework of the new EU-Central Asia Strategy adopted in May 2019 could also be used to develop joint infrastructure projects compatible with the Central Asian countries and China. The proposals contained in the EU-Central Asia Strategy go in this direction<sup>8</sup>.

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<sup>6</sup> Bertelsmann Stiftung (Hrsg.) Was der Westen entlang Chinas neuer Seidenstraße investiert, Ein Vergleich westlicher und chinesischer Finanzströme, 1. Auflage 2019

<sup>7</sup> Holzner, M. et al., A „European Silk Road“, wiiw Research report, No.430, Vienna 2018 (<https://wiiw.ac.at/a-european-silk-road-dlp-4608.pdf>).

<sup>8</sup> vgl. Joint Communication to the European Parliament and the Council. The EU and Central Asia: New Opportunities for a Stronger Partnership, Brussels, 15.5.2019 JOIN (2019) 9 final, p. 11-12.

The promises made at the 2nd Silk Road Summit at the end of April 2019 in Beijing by the Chinese President and Party Chairman to open up the market more widely and to increase transparency are a step in the right direction from the point of view of German companies. They must remain more than rhetoric.

**b) Recommendations to the Federal Government**

The Federal Government is expected by the companies to successfully support a common strategy and united action at EU level. Special routes taken by individual EU countries weaken Brussels' position and should be ended. In order to achieve greater unity in the EU with regard to China, different interests within the Union must be taken seriously and balanced.

Political flanking of German bidding consortia is of the highest value when it comes to decisions on tenders.

In direct talks with companies, the Commission also expresses its wish for improvements in border crossing (expansion of border clearance, electronic consignment note), the legal framework for fleet management and greater transparency and fairness in the application of existing air traffic rights.

**c) Business recommendations to business organisations**

From the OAOEV, the companies would particularly like to see the German economy positioned in appropriate forums and committees, as well as a targeted approach from governments and authorities in the region.

Also desired are up-to-date information on new developments and strategy changes at BRI and access to decision-makers on the European and Chinese sides. Knowledge about the goals and background of the BRI is only rudimentary and there is a lot of catching up to do. Accordingly, information should be increasingly disseminated in the form of this position paper, but also through conferences and bilateral rounds of talks.

China's Belt and Road Initiative - Opportunity and challenge for German companies in Eastern Europe



### **Logistics – Railway**

Even though the transport of goods between China and Western Europe currently takes place almost entirely by sea (just under 90 percent) and by air (just under 10 percent), the expansion of rail communication (currently slightly more than 1 percent) is the focus of most observations on BRI.

For China, however, the rail link to Western Europe is particularly important for connecting its western provinces to export markets. For this reason, rail transport is currently still heavily subsidised.

Two main rail corridors are being developed between China and Western Europe - the "northern" one via Mongolia and Russia or via Kazakhstan and Russia, and the "middle" one via Kazakhstan or Kyrgyzstan, the Caspian Sea, the Caucasus and the Black Sea or Turkey (several routes). (A "southern" corridor from South China via India, Pakistan, Caspian Sea, Turkey and the Balkans has not yet come out via planning stages).

#### ***OAOEV-Subject***

##### ***Railway logistics:***

The border crossings for trains are a bottleneck in railway traffic. It is not so much a question of changing lanes to different lane widths but rather of practical questions of clearance. Simplifying processes here and thereby increasing speeds and capacities should be in the interest of all those involved.

The OAOEV could take up this topic and, together with Polish, Belarusian and Russian logisticians and railway operators, develop solutions for purely practical questions (without political demands) for Brest and Kaliningrad.

## About the publisher

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The German Eastern Business Association (OAOEV) represents the interests of German business in 29 countries in Eastern Europe and Central Asia. It accompanies important economic policy developments in bilateral relations with these countries and promotes trade, investment and service transfers by German companies in the markets of the region.

Current statistics, position papers and much more information on German economic relations with the 29 OAOEV countries at [www.oaev.de](http://www.oaev.de)

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