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# MERICS Global China Inc. Tracker

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# FOCUS TOPIC: WHAT DOES THE 14TH FIVE-YEAR PLAN MEAN FOR THE BELT AND ROAD?

## "HIGH-QUALITY DEVELOPMENT" WILL NOT COME EASY

China's new 14th Five Year Plan (2021-2025) contains frequent references to "high-quality development" – the phrase appears 28 times – thereby setting the tone for China's own evolution and for its economic engagement with other countries in the Belt and Road Initiative (BRI).

Declarations that China needs to transition from "high-speed" to "high-quality" growth are far from new. However, as 2021 marks the start of a "new development stage" that the CCP has said must be characterized by "high quality development"[1] the phrase has now been elevated to a benchmark for policy making.

"High quality development" is a nebulous concept, used to imply the general upgrading of China's economy. To paraphrase one Communist Party explainer, the question is no longer "Do we have enough?" but "Is it good enough?"[2]

More specifically, it represents greater emphasis on internal consumption and efficiency, and a shift away from the reliance on the fixed asset investment that has powered growth in the past. It also implies a strong focus on high-tech industries, with an eye to boosting overall productivity and creating independent supply chains.[3]

Like much of the 14th Five Year Plan, the chapter on the BRI largely rehashes familiar tropes. However, its themes also offer a broad indication of what "high-quality development" might mean for the BRI:

- **The "digital" and "health silk road" are both prominent;** BRI countries may see more Chinese "smart city" solutions and vaccine diplomacy
- **A greater focus may be placed on green tech and renewables,** along with green finance and greater scrutiny of polluting investments
- **Other sustainability measures** (e.g., debt sustainability) may be addressed through the expansion of governance mechanisms for BRI investments, convergence with international norms, and other strategies to limit risk
- **A move away from hard infrastructure towards other forms of connectivity;** BRI policy documents[4] mention "priorities" such as "financial integration" and "people to people" connections
- **The ongoing decline in the role of policy bank loans** from the Export-Import Bank of China (Exim) and China Development Bank (CDB)
- **An increase in BRI projects financed through private public partnership (PPP)** arrangements and co-financing with other international institutions
- **More instances of "cooperation in third markets"** between Chinese and Western companies

A genuine upgrade of the BRI is in Beijing's interests. There is undoubtedly a rhetorical aspect to the new theme of a "high-quality" BRI, in response to domestic and international criticism. However, that does not diminish the fact that the slogan also matches China's own development needs. Beijing's ambitions for its domestic economy and its foreign policy goal of ensuring a stable international environment for continued growth will be well-served by engaging with the rest of the world in a more sophisticated, greener and cleaner way.

Nonetheless, a successful transition from "high-speed" to "high-quality" development is not guaranteed within China, let alone abroad. The BRI's unsustainable, low-quality aspects are systemic, so change will require the expenditure of significant political capital.

## A GREEN AND SUSTAINABLE BRI WILL REQUIRE BETTER GOVERNANCE

Beijing has often presented the BRI's in "green" language but there has been a significant gap between rhetoric and reality. The same tensions between clean, green development ambitions and dirty, polluting growth runs through the domestic economy's structure and policy tensions. China is a global leader in green tech, but also leads the world in providing finance for new build coal-fired power plants. Renewables climbed from 38 percent of total overseas energy investments in 2019 to 57 percent in 2020, but the share of coal-related investments also rose, from 15 percent in 2018 to 27 percent in 2020.[5] Beijing has introduced a number of BRI-related green initiatives since 2013, but the measures remain largely voluntary or unenforced.[6]

Beijing's ambitions to improve the quality of its offer will be hampered by systemic problems when seeking to address broader sustainability related issues, such as the commercial viability of BRI projects. The BRI has no overarching governance system, and Beijing lacks mechanisms through which it might apply and hold Chinese actors accountable to international standards. Beijing's preference for norms of "non-interference" also mean adherence to "lowest common denominator" host-country standards, with enforcement left to underequipped local regulators. Without more effective governance, the selection and implementation of BRI projects will continue to be captured by short term interests and fall short of the high-quality Beijing strives for.

The 14th Five Year Plan does discuss risk control and "overseas investment legislation," but the document should be read purely as setting out China's ambitions for direction of travel. Legislation would need to be introduced, and enforced, before the practices surrounding the BRI could change significantly.

## THE BRI'S LACK OF TRANSPARENCY IS THE FIRST BARRIER TO INTERNATIONAL CO-OPERATION

Beijing has been vigorous in highlighting the prospects for "third-market cooperation" along the BRI,[7] but examples of joint projects remain scarce (see China Inc. updates for news on a recent example).

The traditional BRI project model involves finance tied to contracts with Chinese companies, which account for the bulk of BRI-related procurement.[8] Where European companies have been able to participate in BRI projects, they are largely relegated to niche, “gap filling” roles, supply deals, and the provision of ancillary services.[9]. European companies have been willing to participate more fully so their marginalization remains a source of frustration.

With the transition to “high-quality development,” Beijing also has a growing incentive to encourage “third market cooperation.”

From the perspective of Chinese companies, cooperation might, according to Wang Lijun, Deputy General Manager of China Road and Bridge Corporation (CRBC) speaking to a reporter in 2020,[10] help them “enter higher end markets in the future.” At the same time, Wang noted that cooperation presented an opportunity for another long-term ambition of Beijing’s - the international “promotion of Chinese standards.”

Closed procurement processes are an obvious barrier to entry. However, the first hurdle for European companies is the lack of access to basic information about BRI projects. The same is equally true for international private finance interested in funding BRI initiatives.

Policy makers in Beijing have already received worthwhile transparency recommendations - for instance, Renmin University Professor Chen Yongjun has advocated the creation of a BRI five-year plan with a 10 billion RMB investment cap alongside “open and transparent” mechanisms for releasing BRI project information.[11] If Beijing’s ambitions to build a high quality BRI are to be taken seriously, steps like Chen’s transparency mechanism are a prerequisite.

Furthermore, a BRI-funding gap exists that international financiers could help fill, as credit volumes from Chinese policy banks are decreasing. China’s ambitions for a more “green” and “open” BRI could also be facilitated by more established international companies with “best practice” experience.

## REGIONAL SPOTLIGHT: BEIJING FILLS GAPS LEFT BY BRUSSELS IN THE WESTERN BALKANS

Amid scenes of medical equipment arriving from China as the Covid-19 pandemic took hold in 2020, Serbia’s President Aleksander Vucic called European solidarity a “fairytale” and said that the Chinese “were the only ones who can help us.”[12]

In 2021, Vucic has had further reasons to compare Beijing favorably with the EU. Serbia has led one of Europe’s most successful vaccination campaigns, using a vaccine from Sinopharm, a Chinese state-owned pharmaceutical giant. By contrast, the EU is failing to vaccinate its own people, let alone provide doses to its Balkan neighbors.

### BRUSSELS IS CONCERNED ABOUT BEIJING’S GROWING ECONOMIC PRESENCE

The “Western Balkans Six” - Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia - are all candidates or potential candidates for EU membership. In her 2020 state of the union address, President von der Leyen reiterated the pledge in the EU’s 2003 Thessaloniki declaration, that “the future of the Balkans is within the European

Union,"[13] and gave it added emphasis.[14] Yet the region remains an outside area within Europe, subject to increasing attention from "external powers," whose interests may not always align with those of the EU.

EU Commissioner Johannes Hahn sounded the alarm over Chinese investment in the Western Balkans in 2018 when he said it could turn the region's countries into "trojan horses" that might one day undermine the EU from within.[15]

Since then, scrutiny of Chinese projects in the Western Balkans has grown; concerns have been voiced that the low standards of BRI projects might negatively impact the local environment, rule of law, financial sustainability, and ultimately the EU-integration prospects of the region. [16] EU frustration may also be heightened by the potential for Chinese companies to eat into the market share of European companies.

## CHINA'S PRESENCE IN THE WESTERN BALKANS IS CONCENTRATED ON SERBIA AND INFRASTRUCTURE LOANS

China's economic footprint in the Western Balkans is still shallow, but it has grown rapidly over a short period of time. The region's first Chinese infrastructure project was completed in 2014, making the Western Balkans one of the last frontier in the world for Chinese investment.

Serbia hosts the vast majority of Chinese finance in the region; it is the Western Balkan's largest market and the front runner for EU membership. Chinese companies have made several large greenfield investments in Serbia, largely financed by loans from China's Export-Import Bank. The loans were issued for infrastructure projects and tied to contracts with Chinese state-owned enterprises (SOEs).

Some of these projects are at odds with EU expectations – for example coal fired power plants or corruption-plagued highway projects. Experience has shown that Chinese finance can fuel positive development when projects are well-chosen and implementation is prudent, or it can bring out the worst in corrupt local elites. The availability of Chinese finance decreases the EU's leverage to push for regulatory convergence.

At a broader geopolitical level, Beijing provides foreign policy flexibility for regional leaders. However, no one in the Western Balkans claims that the offer is more desirable than EU membership and European integration.

## BEIJING ADVANCES IN VACUUM LEFT BY EU'S LACK OF STRATEGY

Beijing's newcomer status confers advantages. While European, Russian, and Turkish partnerships carry historical baggage, Beijing arrives with a clean slate, promising interference-free development. In many countries, China serves as a foil to the regional hegemon, a dynamic that is at play between Beijing and Brussels in the Balkans.

China is mainly making use of spaces where the EU has been absent – for instance, building highways that North Macedonia and Montenegro had unsuccessfully sought funding from European partners for. Likewise, anti-Western narratives and frustration with the progress of European integration show China in a more positive light.

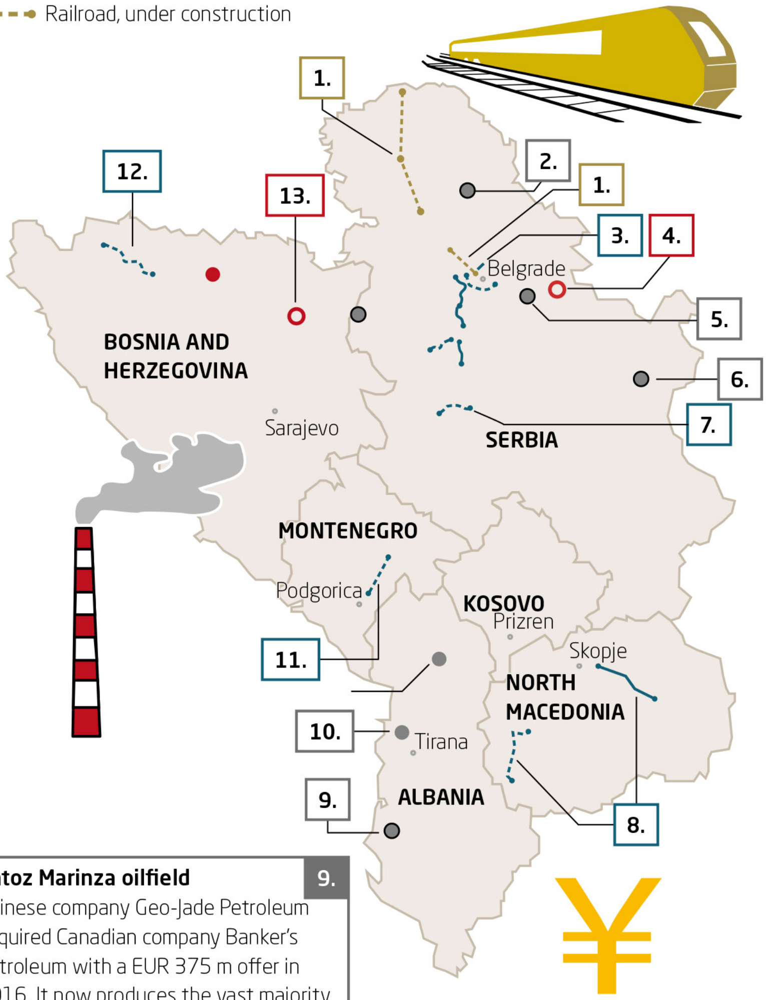
Exhibit 1

### Beijing in the Western Balkans

Selection of Chinese financed deals and projects

- Coal plant, completed
- Under construction / late-stage plan
- Acquisition
- Acquisition and substantial investment

- Road, completed
- Under construction / late-stage plan
- Railroad, under construction




**Belgrade-Budapest railway modernization** 1.
CCCC and China Railway, USD 350 m and USD 1.16 bn Exim-financed contracts.

**Shandong Linglong tyre factories** 2.
EUR 800 m investment faces opposition.

**Surcin-Obrenovac Highway** 3.
17.6 km and 1.8 km bridge built by CCCC. USD 234 m contract.

**Kostolac B3 (350 MW) & mine expansion** 4.
USD 715 m Exim financed project contracted to CMEC. Foundation stone lain 2017, but construction delayed.

**Smederevo steel mill Hesteel Group** 5.
2016 acquisition and investment.

**Zijin RTB BOR copper smelting complex** 6.
Planned USD 1.46 bn investment.

**Preljina-Pozega highway** 7.
30.9 km under construction by CCCC with Exim loan. EUR 450 m contract.

**Miladinovci-Stip and Kicevo-Ohrid highway** 8.
Two Exim financed highways plagued by delays and corruption scandal: EUR 818 m.

**Patoz Marinza oilfield** 9.
Chinese company Geo-Jade Petroleum acquired Canadian company Banker's Petroleum with a EUR 375 m offer in 2016. It now produces the vast majority of Albanian oil after investments in Patoz Marinza concession.

**Tirana Airport** 10.
China Everbright Group acquired 100 percent of the airport operator, reportedly paying USD 90 m to operate the airport until 2027.

**Smokovac-Matesevo section of Bar-Boljare highway** 11.
41 km stretch of technically challenging highway. Original EUR 810 m contract.

**Banja Luka - Prijedor Highway** 12.
42 km to be built and operated by China Shandong International. Third deadline for construction missed September 2020.

**Tuzla bloc 7 (450 MW)** 13.
Controversial expansion of lignite coal plant. Gezhouba Group. EUR 614 m loan Exim Bank.

Source: MERICS

China's growing influence there is symptomatic of the Western Balkan countries' troubled relationships with the EU, which have other causes. The best way for Brussels to counter concerns about China's influence would be to make greater efforts to listen to local needs and provide realistic, attractive alternatives to BRI projects and funds.

One step in the right direction is the EU's new EUR 9 billion investment plan, which could provide sustainable alternatives to potentially corrosive Chinese capital.[17] The Western Balkans is not the EU's backyard or neighborhood – it is an "inner courtyard," integral to the future of Europe, and hence an important arena for the work of the EU's self-described "Geopolitical Commission."[18]

## KEY PLAYER: CHINA ROAD AND BRIDGE CORPORATION (中国路桥工程有限责任公司)

What do Montenegro's first ever highway, a controversial bridge project in Croatia, and the Mombasa-Nairobi Standard Gauge Railway all have in common? The answer: China Road and Bridge Corporation (CRBC).

China's economic footprint in the Western Balkans is largely the work of CRBC. The latest deal in the region for the state-owned enterprise (SOE) is a package of municipal works in Serbia worth 3.2 billion EUR.[19] The project, involving wastewater treatment infrastructure in 73 locations, is atypical, but indicative of CRBC's growing capacity to deal with complex projects that are up to European standards.

CRBC is a wholly owned subsidiary of China Communications Construction Company (CCCC) (中国交通建设股份有限公司), an engineering and construction behemoth ranked 78th on Fortune's Global 500 in 2020, with an annual revenue of 95 billion USD (79.6 billion EUR).[20]

CRBC was incorporated in its current form in December 2005. Its institutional life began in 1958 as the Foreign Aid Office under the Ministry of Communications. Throughout the 60s and much of the 70s it built aid-financed projects in Africa, the Middle East, and South Asia – e.g., a 160 km road from Rwanda's capital, Kigali, to the border with Tanzania.[21]

With "reform and opening" under Deng Xiaoping in the 1980s, bridge-building became less about promoting Maoism and more about domestic economic interests. CRBC began developing business in around a dozen countries, including North Yemen and Rwanda, expanding to Southeast Asia in the 1990s.[22]

CRBC drew on its large-scale project experience within China to expand its expertise and began winning increasingly lucrative projects, graduating from multi-million Euro subcontracts in the 1980s to turnkey contracts upwards of 100 million EUR in the 1990s and 2000s.[23]

CCCC was created in October 2006 by merging China Harbor Engineering Company (CHEC) and CRBC. Along with CHEC, CRBC became one of the "wings" in CCCC's "one body and two wings" overseas development strategy. CRBC was tasked with CCCC's execution of China's "Go Out" strategy to encourage outward investment, which gathered pace from 2000 onwards.[24]

Like other Chinese SOEs, CRBC's global expansion was aided by Chinese policy banks, which financed a pipeline of large-scale infrastructure projects tied to the use of Chinese contractors. The launch of the BRI in 2013 expanded such financing and netted CRBC large-scale projects, including Kenya's 3.8 billion USD (2.77 billion EUR) Mombasa-Nairobi Railway project – at the time the largest overseas infrastructure project implemented by a Chinese company.[25]

As demonstrated by the following table, CRBC still has a strong presence in its first established markets – like Kenya and Rwanda – but it now has a truly global presence, with offices in over 60 countries, including in Europe.

Like many other Chinese companies, the quality of CRBC's offerings has become world-class, and it is taking on more complex and higher-quality contracts. In line with Beijing's wider ambitions,[26] CRBC seeks to promote Chinese standards in the global construction industry. According to Yao Haidong, CRBC's Chief Engineer, China's "Go Out" policy used to mean using cheap Chinese labor to compete, but in future it will increasingly mean the going out of "Chinese standards" and "Chinese technology."[27]

In 2010, CRBC was signed to build Europe's first Chinese-funded infrastructure project – the Zemun-Borca friendship bridge over the Danube river, connecting Serbia's capital Belgrade with the suburb of Borca. It has since established an impressive foothold in Serbia and CRBC representatives often meet with Serbian officials.

CRBC's regional foothold helped it enter the lucrative EU market in 2018, when it won the contract for Peljesac bridge, an EU funded project in Croatia.[28] CRBC's bid was 20 percent cheaper than that of STRABAG – an Austrian firm which took CRBC to court for what it claimed was an unfeasibly low offer.

EU officials found no grounds for intervention nor proof of illegal subsidies from Beijing, but CRBC's successful bid added fuel to the ongoing European debate about how to compete against increasingly successful Chinese SOEs.

China's embassy in Croatia credits CRBC's win to meticulous preparation of bidding documents and a successful public opinion campaign.[29] Although these were important factors, it is unlikely CRBC would be where it is without billions of dollars in indirect subsidies from Chinese banks. CRBC established itself so quickly in the region because its services were tied to financing from Exim, enabling CRBC to adapt to a European regulatory environment using tools that would be illegal in the EU.

However, CRBC's prospects of further expansion into the EU market have dimmed since 2018. Enthusiasm for economic cooperation with China has dwindled in much of Central and Eastern Europe,[30] and the EU has made progress developing several instruments to help level the economic playing field with China. Romania has moved to exclude Chinese firms from public tenders, and Croatia has annulled a tender for Rijeka port that would have gone to CRBC.[31] CRBC appears to be attempting to delay an unrelated Croatian railway project in retaliation.[32]

The Peljesac bridge project was a success story for China – evidence of the BRI facilitating an important SOE's progress into a more advanced market – but CRBC's future in the EU is uncertain.

Exhibit 2

**Project agreements signed and projects completed by CRBC (January 2020 to end of February 2021)**

| Country | Development(s) |
|---|---|
| **Angola** | Agreement signed for University of Cabinda projects and rehabilitation of National Road 230 (Malange to Saurimo) |
| **Bangladesh** | Matarbari coal plant subcontracts completed |
| **Cambodia** | 1551 project and highway 55 completed; price negotiations concluded for Ring Road 146B |
| **Chile** | Maule region hospital supply and maintenance contracts won |
| **Cote d'Ivoire** | Odienné-Gbéléban highway completed |
| **Ecuador** | Housing project completed |
| **Gabon** | Bid won for Libreville school; Port Gentil-Omboué road and Booué bridge completed |
| **Kenya** | Rangers house project, Mombasa Likoni floating bridge, Mombasa Makupa bridge, Nairobi-Naivashi-Malaba SGR completed; Nairobi municipal roads, Naivasha-Malaba metre gauge agreements signed |
| **Kyrgyzstan** | Agreement signed for Phase II Bishkek municipal roads |
| **Madagascar** | Agreement signed for Asphalt overlay of National Highway 44 |
| **Morocco** | Agreement signed for Mohammed VI Tangier Tech City project |
| **Mozambique** | Montepuez bridge completed |
| **Nigeria** | Agreement signed for flood control project |
| **Pakistan** | Havelian-Thakot section of Karakoram Highway completed; agreement signed for Rashakai SEZ |
| **Philippines** | Agreement signed for Davao-Samar Bridge |
| **Rwanda** | Kigali roads and three city stadiums completed; agreement signed for Nyungwe Forest road, Busanza infrastructure, Gasabo municipal roads, and Kagitomba-Kayanza, Kagitom-ba-Rusumo ancillary works; |
| **Senegal** | Bid won for operation of TT & AMT Expressways and the Foundiougne bridge |
| **Serbia** | Agreement signed for sewage treatment projects and Fruskogorski Corridor |

Source: CRBC company news https://www.crbc.com/site/crbc/zNewsIndex/index.html

# GLOBAL CHINA INC. UPDATES

## TRANSPORT & LOGISTICS

### French companies sign 4.4 billion Euro metro deal in Serbia, a rare example of Sino-European BRI cooperation

Alstom and Egis signed a MOU in January with and China's Power Construction Company to build a metro project in Belgrade.[33] The agreement involves 454 million EUR of French state financing, opening Paris to the same accusations of buying competitive advantges through tied financing that Europeans levy at Beijing. "Third market cooperation" between Chinese and Western companies for BRI projects remains rare. However, a high proportion of the existing examples are French, following a bilateral strategic agreement in 2015. [34] [35]

### China funds 940 million USD rail project in the Philippines

In January, a 940 million USD (774 million EUR) funding agreement for the Subic-Clark rail freight line was signed during Foreign Minister Wang Yi's Southeast Asian tour. China Harbor Engineer Company will build the 71 km railway. For China to fund a rail linking two former US military bases is symbolic of the shifting regional power balance. [36]

### COSCO expands presence with 140 million USD acquisition in Saudi port

In January, COSCO Shipping Ports (CSPL) acquired a 20% stake in the Red Sea Gateway Terminal at Saudi Arabia's Jeddah Islamic Port. The stake was bought by CSPL subsidiary Sound Joysce Enterprises Limited for 140 million USD (115 million EUR). COSCO Shipping is the world's third largest shipping company by market share and shipping capacity.[37]

### Nigeria gets Chinese funding for 3 billion USD railway

Nigeria's transport minister announced in March that "a syndicate of Chinese financiers" would provide 85 percent of funding to rehabilitate a 1,443 km railway between Port Harcourt and Maiduguri. The project is part of a nationwide rail network upgrade to support economic diversification. China Civil Engineering Construction Corporation (CCECC) will do the work and is also heading a consortium investing a further 700 million USD (2.52 billion EUR) in the related port and industrial park.[38]

## DIGITAL

### Pakistan green-lights Huawei's contribution to 12,000 kilometer fiber-optic cable

In February, Pakistan approved Huawei to lay its portion of the 12,000-km PEACE cable, (or "Pakistan, East Africa, Connecting Europe"), due to go online later this year. China's Hengtong Group heads the cable-building consortium. The cable will improve connectivity to Europe and reduce Pakistan's exposure to internet traffic routed through India.[39]

## Malaysia to partner with Huawei on government cybersecurity lab

Malaysia clinched a partnership with Huawei in February for Southeast Asia's first cybersecurity lab. Huawei, together with the government's digital security agency, and a local telecoms firm, will focus on cybersecurity capacity building, standards, and certification to support 5G deployment.[40]

## Tencent Cloud announces first data center in MENA region

In March, Tencent Cloud announced it will launch a data center in Bahrain this year. Its competitor Alibaba Cloud has a data center in Dubai. Gulf countries are fertile markets for Chinese Internet companies, with several governments crafting ambitious digital economy plans.[41]

## US lends 3.5 billion USD to Ecuador in deal that bans China from networks

Ecuador's president announced the country had secured a 3.5 billion USD (2.88 billion EUR) loan in early January, in return for excluding Chinese companies from its telecom networks.[42] The US International Development Finance Corporation (DFC) made the landmark loan, in a potential new debt-for-allegiance model that the US could deploy to promote its "Clean Network" initiative.

# ENERGY

## Bangladesh cancels polluting projects worth 3.6 billion USD

Dhaka has unilaterally dropped five projects totaling 3.6 billion USD (2.96 billion EUR), which were picked for Chinese funding during President Xi Jinping's 2016 visit to Bangladesh. The canceled projects include a coal-fired power plant and the expansion of Barapukuria coal mine.[43] Local media reported the Chinse embassy responded by asking for any replacements to be smaller and less polluting.

## China Energy signs 2 billion USD worth of wind projects in Vietnam in 2020

In January, China Energy's Planning and Design Group reported it signed 15 wind power projects in Vietnam in 2020, with a cumulative value of almost 2 billion USD (1.65 billion EUR).[44] China previously funded billions of dollars-worth of coal power plants in Vietnam, and now seems likely to benefit from the Vietnamese government's shift toward renewables.

## China Three Gorges buys Spanish wind and solar projects worth 500 million EUR

In March, China Three Gorges Europe (CTGE) acquired a 400 MW portfolio of Spanish renewable energy projects from Madrid-based X-Elio for around 500 million EUR. It will take sole ownership of one solar photovoltaic park and 11 wind farms. It was CTGE's second investment in Spanish renewables - it bought a 572 MW portfolio from X-Elio last autumn. CTGE has expanded overseas since 2011, focusing on Latin America and Brazil in particular.[45]

## MANUFACTURING

### Indonesian steel plant gets 1 billion USD worth of Chinese funding

Bank of China and ten other banks agreed in January to finance a 1 billion USD (0.82 billion EUR) steel plant in South Sulawesi, Indonesia.[46] The plant is owned by Shanghai-listed company Xiamen Xiangyu and includes a nickel mine, steel smelting plant, port, and 1440 MW thermal power project. Indonesia has the world's largest reserves of nickel, making it pivotal to China's domination of the global steel industry.

### China-Africa Development Fund to support Moroccan tech hub

In February, the China-Africa Development (CAD) Fund signed an MoU with the Bank of Africa to co-finance Chinese companies hoping to invest in Mohammed VI Tangier Tech City. Dubbed the "Shanghai of Morocco" by local media, is intended as a hub for Chinese manufacturing firms, and is being built by China Communications Construction Company (CCCC)[47]

## ENDNOTES

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