



The Limitations of China's BRI: An Analysis

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China 's Belt and Road: Down but not Out

Covid Pandemic Impact on BRI

- China's **economic growth slowed** by Covid
- BRI host countries suffer from **declining economies**, too
- **Declining demand** e.g. for goods and electricity
- **Up to 40% of BRI projects** are affected by Covid, 20% even severely
- **Stuck in implementation** of projects
- **Delayed expansion** of the initiative

- **Less investment**, fewer profitable projects, less reinvestment
- **Strict control measures** adds pressures to finance and project implementation
- The pandemic provides also an **excuse to cut losses** on unviable projects

Pressure from Outside: Geopolitical Headwinds

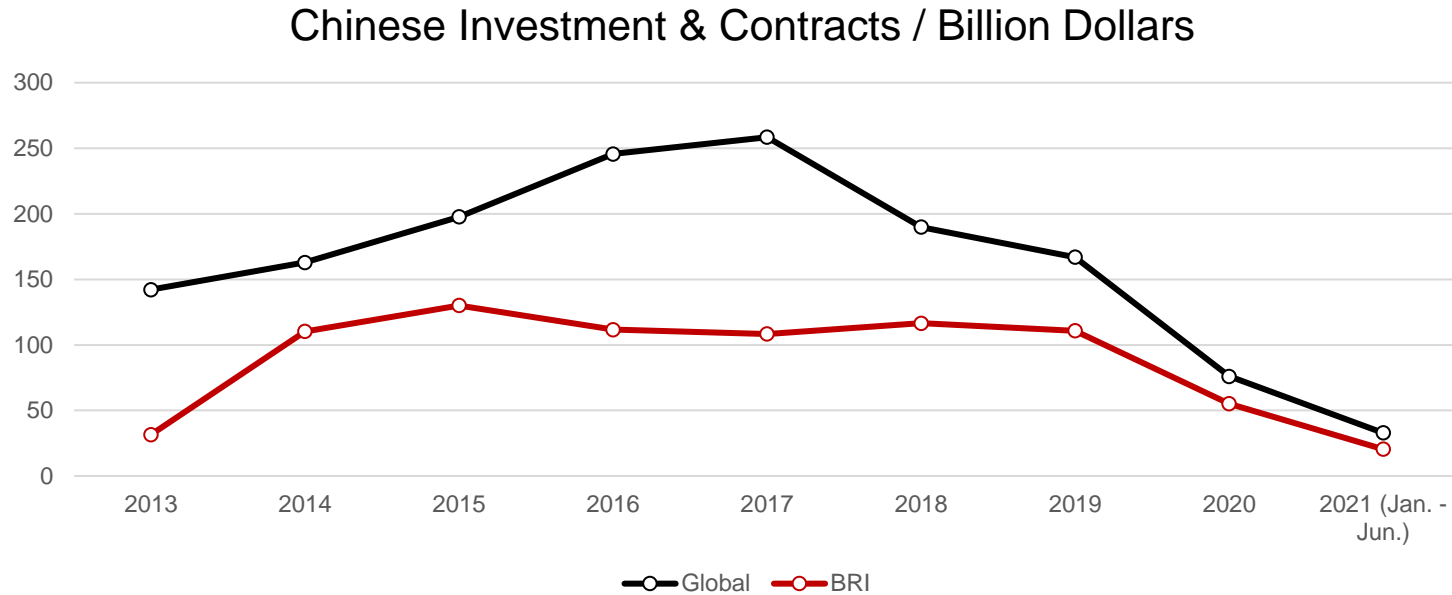
- **G7-Counterinitiative** *Build Back Better World (B3W)*
- **EU-Counterinitiative** *Global Gateway*
- **Quadrilateral Security Dialogue QUAD** (USA, Japan, Australia, India)
- **Security Alliance AUKUS** (Australia, United Kingdom, United States)

- **Australia, Myanmar, Malaysia:** Retreat from BRI projects
- **Baltic states:** Increasing criticism
- **Serbia** asks EU for financial support to reduce dependence on China
- **Eastern European countries:** 17+1 put China-projects on hold
- **Other BRI host countries:** Social tensions, security problems

Response from Inside: China's Own Decoupling and Retreat

- Further **Decoupling** from the West: technology, research, data, free movement of people, supply chains, standards
- **Domestic circle**: Strengthening of the domestic economy
- **Red New Deal**: Reduce inequality and make life better for ordinary people
- Domestic Circle Strategy **works against the BRI**
- China focuses more on the **domestic market** and less on other countries
- Retreats also due to **internal budget pressure**
- **Greater Bay Area** increased financial pressure
- Reduce Foreign Investment, **more trade than investment**
- **Reallocation** of BRI-budgets

Decreasing BRI Investment



Source: China Global Investment Tracker, American Enterprise Institute

Boston University: Policy bank loans from China peaked in 2016 and have been declining since.
Rhodium Group: Beyond 2020, overseas lending by China's policy banks will continue to slow.
American Enterprise Institute: Construction activity was weak in the first half of 2021.

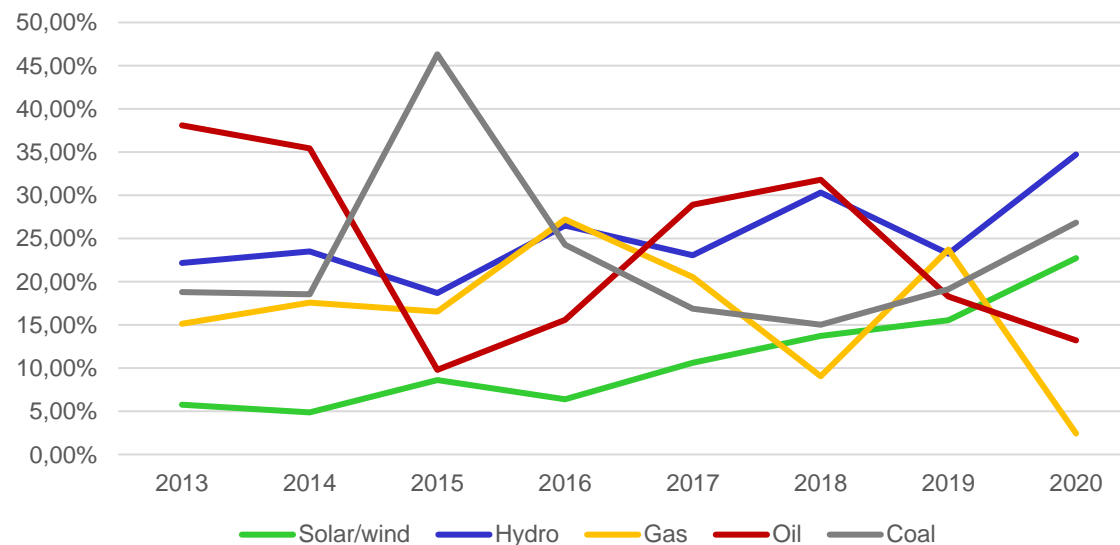
China's Limited Reliability

- In Beijing, the BRI now has a **low priority**
- Projects are **renegotiated, reduced or even cancelled** by China
- BRI is a **very adaptable concept** is that Beijing can turn in any desired direction
- **Contracts** suddenly **become invalid**: “Sorry, the situation has changed”
- Beside: In 2021 there is **no BRI Forum**, neither offline nor online

BRI is Being Transformed into Green

- In 2021, China started to **wind down** its new investment into traditional capital-intensive infrastructure, both at home and abroad
- Alignment with **international environmental standards**
- Greater emphasis on **low-carbon** and **climate-resilient infrastructure**

Chinese Energy Investments in BRI 2013-2020

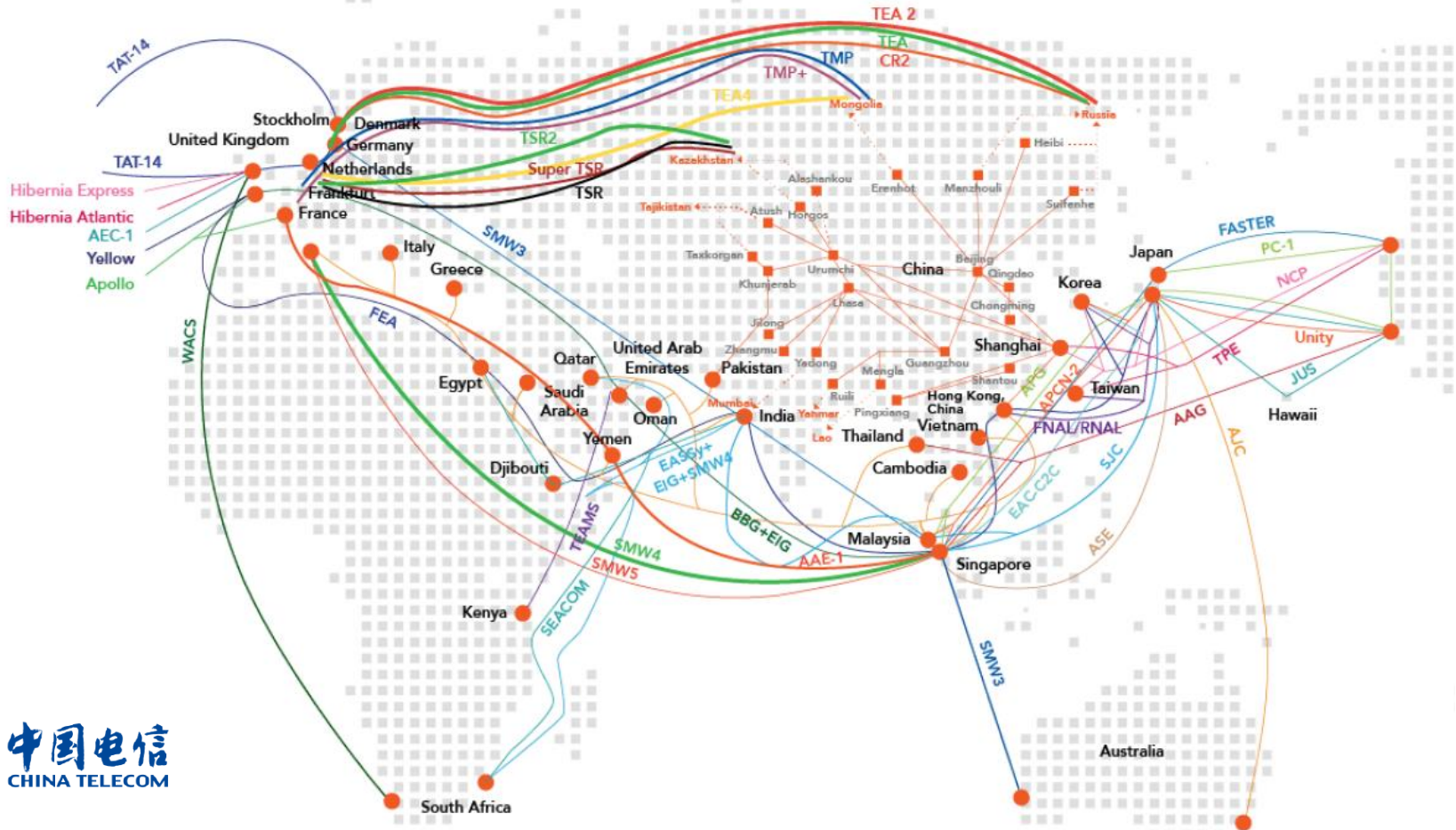


Source: 2021 IIGF Green BRI Center, data based on AEI and others

The Strategy Behind

- Implementing green finance policies will **help to attract major financial institutions** to invest in green industries in host countries
- Projects that meet international environmental standards **can be more easily financed** by international financial institutions
- That means that **green projects can reduce China's financial burden** by attracting international financing and tripartite cooperation with banks, investment companies, etc.

Digital Silk Road: Chinese Standards and IP



Digital Silk Road: Cyber Security, Data Protection, Standards

- The digital Silk Road is mainly **a matter of data**:
 - Cyber security
 - Data protection
 - Personal information
 - Cross-border data transfer ...
- Risk of **increasing dependence** on **chinese technical standards e.g.** in Big Data, IoT, and 5G, as well as Chinese digital infrastructure products
- In 5G, some 10,000 **Standard-Essential Patents (SEP)** are in Chinese and South-Korean hands. This leads to high expenses for licenses (FRAND)



A Minefield of New Regulation: Overlapping and Extraterritorial Impact

- Cyber Security Law (CSL)
- Network Security Review Methods (Revised, Draft for Comment)
- Data Protection Law (DSL)
- Personal Information Protection Law (PIPL)
- Export Control Law (ECL)
- Anti-Foreign Sanction Law (AFSL)
- National Security Law (NSL)
- Information Security Technology – Personal Information Security Specification (2020)
- Information Security Technology – Guidelines for Data Cross-Border Transfer Security Assessment (Draft for Comment)
- Measures on Security Assessment of the Cross-border Transfer of Personal Information (Draft for Comment)

Will the BRI Expand to Afghanistan?

- Afghanistan means for China: **minerals, rare-earth materials**, BRI trade routes – and massive risks
- There is **no infrastructure** for the extraction of raw materials
- Afghanistan borders the **Chinese region of Xinjiang**, home to the predominantly **Muslim Uighur minority**. A Taliban-controlled Afghanistan could become a hub and training ground for suspected Uighur fighters
- Estimation: China could **expand its BRI to Afghanistan** with 57 billion USD to boost its influence
- This could **reallocate BRI budgets** in the region

Will the BRI Expand to Afghanistan?



BRI Shift to RCEP

- China Investment Research: The RCEP nations were **big winners** in Q2 Chinese investment 2021
- Southeast-Asia will become the geopolitical and economic **battlefield**, the pivot of the Chinese-US disputes, and the most promising **marketplace**
- **Stronger Chinese investment** in RCEP countries, **increased competition** from Japanese and South Korean companies
- China's RCEP-strategy: **reduce dependence** on foreign technologies and focus supply chains on countries with which China has good political relations
- Some planned **BRI corridor projects** will not be realized !

With the BRI, Chinese IP and Standards conquer more and more Terrain

- China has a high-quality, fast, powerful and **efficient IP regime**, largely equivalent Europe and the USA
- **International registration** of Chinese trademarks and patents
- **Instrumentalization** of the IP regime for **political purposes**: As a state-sponsored and managed system, the **government actively intervenes in the market**, distorting risks and opportunities for foreigners and Chinese alike
- **Limited Freedom to Operate (FTO)** for foreign companies
- China is attempting to **export standards via the BRI projects** to the host countries and to undermine international standardization efforts

The Belt & Road Initiative will ...

- become more strategic, also from a military point of view
- focus on trade, logistics, and energy
- not highlight economic corridors and connectivity between countries
- increasingly become green
- emphasize data, standards, and IP

Tasks for Foreign Companies

- **Re-evaluate** BRI plans, opportunities, and projects
- **Avoid investment** in traditional capital-intensive infrastructure projects
- **Cut losses** in non-profitable projects or **disinvest**
- Invest in small BRI projects with **short-term ROI perspectives**
- Focus on **sustainability, Greentech, and digitalization**
- Consider new Chinese **laws and regulations** also in BRI projects – particularly regarding
 - cyber security,
 - data protection,
 - cross-border and
 - export control

Thank You for your Attention

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