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Belt and Road Initiative
The view from
Central and Eastern Europe

2020

CEE caution

57%
of CEE participants report negative sentiments towards the Belt and Road Initiative (BRI), compared with 18% a year ago.

Mixed experiences

Just **33%**
of CEE participants are satisfied with the outcome of their involvement in BRI, compared with 75% from China.

BRI 2.0

Despite international caution, BRI 2.0 offers many possibilities. 54% of CEE respondents believe it will make BRI more open to non-Chinese participants.

Twin track?

Only **40%**
of CEE participants aim to maintain or increase their involvement in BRI, compared with 90% from China.

BRI challenges

71%
of CEE participants generally feel BRI involvement has been more challenging than they had expected.

Green focus

BRI 2.0 will help to promote the environmental priorities of many BRI participants, as well as new partnerships and more sustainable projects.

Working together

77%
of Chinese participants will consider BRI joint ventures and partnerships. But only 43% of CEE participants feel the same.

Legal risk

A top risk for **72%**
of CEE participants and 71% of Chinese participants, legal and regulatory risk is a major concern in BRI projects.

Health Silk Road

The Covid-19 pandemic is leading to changes, including more investment in BRI healthcare projects, anticipated by 94% of CEE respondents.

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Methodology

In the first half of 2020 Acuris, on behalf of CMS, surveyed 500 senior executives to gauge their views on various aspects of the Belt and Road Initiative (BRI). Of the 500 respondents, 50 were either based in Central and Eastern Europe or predominantly working on BRI projects in the region, and are referred to in this report as 'CEE respondents' or 'CEE participants'. Another 100 respondents were from Chinese entities. All respondents were either currently active or planning to participate in BRI projects. In order to ensure confidentiality, the identities of all respondents will remain anonymous.

Terminology

The term 'CEE' is used in this report to refer to the former Warsaw Pact nations west of the former Soviet Union, and those that were part of the former Yugoslavia. It does not include the Baltic states, except where clearly specified – e.g.in the context of the '17+1' grouping (see page 15). Nor does it include Russia, although given Russia's importance for BRI and its links to CEE, we have included material on pages 33–35 about investments in Russia. We also feature Ukraine as a useful comparison in some areas.

In September 2013, Chinese President Xi Jinping proposed a Silk Road Economic Belt and in October, a 21st-Century Maritime Silk Road, together now referred to as the Belt and Road Initiative. The initiative attracted considerable attention from the international community and won a positive response from the countries involved. It integrates the historical symbolism of the ancient Silk Road with the new requirements of today. The initiative is a Chinese program whose goal is to maintain an open world economic system, and achieve diversified, independent, balanced, and sustainable development, and also a Chinese proposal intended to advance regional cooperation, strengthen communications between civilizations, and safeguard world peace and stability.

The Leading Group on the Construction of the Belt and Road, May 2017

Belt and Road Initiative
The view from Central and Eastern Europe

China's Belt and Road Initiative may be the most ambitious development strategy ever.

A majority of the world's nations – including nearly all of Central and Eastern Europe (CEE) – have signed up to the Belt and Road Initiative (BRI), and many have already seen significant BRI-driven infrastructure development.

Since it was launched in 2013, BRI has grown into a multifaceted global initiative. As well as creating infrastructure, BRI has sought to support priorities such as policy coordination, connectivity, unimpeded trade, financial integration, and connecting people.

There is no official database of BRI projects (and no international consensus on exactly what constitutes a BRI project), but most observers believe that over 3,000 have already been started.

Many CEE nations sit on key trade routes identified by China in its original description of BRI. And – at least until the pandemic – the region has enjoyed generally strong growth figures. It averages better scores than most other regions for concerns such as political risk and corruption. So in many ways it should be an attractive location for BRI activity.

But as our report shows, CEE has yet to realise its BRI potential. Nations in the region obviously differ from one another and some, such as Serbia, have had more success than others in attracting BRI projects. China has continued to develop trading relationships across the region, and Chinese companies have continued to win CEE contracts. But in 2020, as the global pandemic rages, and trade and globalisation are buffeted by tariff wars, some in CEE are questioning whether BRI will ever deliver what they had hoped for.

At CMS, many of our offices are in BRI countries and many of our clients are active in BRI sectors. Building on a major new survey of BRI participants, we are publishing a series of reports – of which this is the third – to assess the challenges for BRI and the steps that BRI participants can take to achieve both success for themselves and a positive future for BRI.

We should like to thank all those who participated in our survey, and in particular our interviewee in this report: Zhiyong Li of PowerChina. We are also delighted to have been able to cooperate with David Gu of leading Chinese law firm TianTong.

We hope you find this report interesting and would be delighted to discuss any of its contents further with you.

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Waiting for BRI?

Key points

- We found diverging attitudes to BRI, with international enthusiasm – including CEE enthusiasm – weakening much more than Chinese support.
- CEE participants have found the BRI process harder than those from China, and report lower levels of satisfaction with the outcome.
- Partnerships and joint ventures can be highly effective in BRI projects but have sometimes caused problems for participants.
- Covid-19 has affected a majority of BRI projects – but many participants feel the biggest changes may be yet to come.

If there are such things as 'BRI countries', then CEE has a greater density of them than anywhere else in the world. Every CEE nation (other than Kosovo, which China does not recognise) has signed up to the Belt and Road Initiative.

But many CEE nations are reported to be disappointed by the number of BRI projects they have seen to date. Although infrastructure investment is needed across the region, the number of BRI projects that have gone ahead – as opposed to being discussed or announced – is relatively small.

There has of course been Chinese activity in CEE, both under the banner of BRI and independently of it. Some of it is described in this report. But the great expectations nurtured by some in the region a few years ago have not yet been realised.

China still has big ambitions for CEE. For example, it would like to create a logistics corridor running from Greece through the Balkans into Central and Western Europe. This would cut shipping time for Chinese exports to Europe by a week or more, with goods able to travel through the Arabian Sea, the Red Sea and the Suez Canal to the Greek port of Piraeus, rather than taking the route through the Atlantic to Northern European ports.

But the region is some way from developing the infrastructure that would be required for this. The railway between Belgrade and Budapest that is now being upgraded thanks to BRI will form one part of the corridor, but various other projects, some of them substantial (such as a similar connection from Belgrade through to Piraeus), would also need to be completed.

Enthusiasm for BRI

Which of the following best describes your organisation's intentions regarding involvement in BRI-related projects?

	China	CEE	Rest of World
Decrease significantly	5%	33%	29%
Decrease moderately	5%	27%	20%
Remain the same	22%	12%	13%
Increase moderately	37%	25%	25%
Increase significantly	31%	3%	13%

In overall terms, what was the sentiment of your organisation regarding BRI 12 months ago?

	China	CEE	Rest of World
Very negative	0%	5%	3%
Negative	5%	13%	15%
Neutral	27%	52%	48%
Positive	65%	30%	33%
Very positive	3%	0%	1%

What is it now?

	China	CEE	Rest of World
Very negative	10%	40%	38%
Negative	14%	17%	14%
Neutral	32%	24%	22%
Positive	43%	19%	25%
Very positive	1%	0%	1%

How would you rate the process of participating in BRI-related projects, based on your experience?

	China	CEE	Rest of World
Easier than expected	8%	0%	3%
As expected	52%	29%	28%
More challenging than expected	40%	71%	69%

Generally, what has been your level of satisfaction in terms of the process and outcome of your involvement in BRI projects?

	China	CEE	Rest of World
Very unsatisfied	11%	27%	24%
Moderately unsatisfied	2%	27%	24%
Neutral	12%	13%	15%
Moderately satisfied	52%	27%	27%
Very satisfied	23%	6%	10%

Have you participated in a partnership/JV as part of your involvement in BRI projects?

	China	CEE	Rest of World
No	31%	55%	49%
Yes	69%	45%	51%

Would you consider such partnerships in the future?

	China	CEE	Rest of World
No	23%	57%	50%
Yes	77%	43%	50%

How would you rate the overall experience of working with Chinese partners/JVs?

	China	CEE	Rest of World
N/A	0%	0%	2%
Very negative	6%	15%	16%
Moderately negative	1%	15%	16%
Neutral	29%	41%	35%
Moderately positive	59%	26%	30%
Very positive	5%	3%	1%

How would you rate the overall experience of working with cross-border, non-Chinese partners/JVs?

	China	CEE	Rest of World
N/A	9%	21%	18%
Very negative	4%	2%	2%
Moderately negative	23%	6%	9%
Neutral	30%	50%	35%
Moderately positive	30%	21%	32%
Very positive	4%	0%	4%

Have you encountered any differences in working with Chinese partners/entities on BRI projects compared to non-BRI projects?

	CEE	Rest of World
N/A	5%	2%
No	43%	38%
Unsure	0%	1%
Yes	52%	59%

If yes, was it generally easier or more difficult to work with a Chinese partner/entity on a BRI project compared to a non-BRI project?

	CEE	Rest of World
Neutral	15%	14%
Moderately more difficult	44%	35%
Much more difficult	41%	51%

Attitudes to BRI

There is ample potential for infrastructure development in CEE. According to the European Investment Bank's *Investment Report 2019/2020*, "infrastructure investment in Europe stands at a 15-year low of 1.6% of GDP, with the greatest declines seen in regions that are already lagging behind in infrastructure".

The report goes on to note that "the comparison with 2008 levels is most striking for the countries of Central and Eastern Europe, where current investment levels are around 35% lower than before the [global financial] crisis".

But will such investment come through BRI? And how enthusiastic will potential participants in BRI projects be about it?

Just over a quarter (27%) of the CEE respondents in our survey expect to increase their involvement in BRI-related projects, leaving a clear majority (60%) who say they expect to be involved less.

It is true that enthusiasm for BRI has cooled somewhat around the world – a change in sentiment that began even before the pandemic put geopolitical relations and globalisation under further strain. But the numbers from CEE are extreme. At the other end of the scale, for example, only 10% of Chinese participants intend to become less involved, while more than two-thirds (68%) anticipate greater involvement going forward. And just under half (49%) of participants from the rest of the world say they will reduce their involvement in BRI, with 40% planning more.

Among Chinese respondents, 44% feel positive about BRI at present (with only 24% being negative). This contrasts with the 19% of CEE respondents who are positive about BRI – many fewer than the 57% who felt the same a year ago.

This weakening sentiment may partly reflect experience. Nearly three-quarters (71%) of CEE respondents generally felt BRI involvement was more challenging than they had expected. This is eight percentage points above the rest of the world and far above the 40% of Chinese respondents who said the same.

The CFO of a Polish contractor highlighted the difficulty of making progress on projects with so many parties participating, a view shared by other participants in our research. "Since there are multiple entities involved and it covers a huge span, decision-making and collaborating has been less than efficient. Time lags and unnecessary delays in communication can also result in financial losses."

Limited transparency is another complaint that arose among those surveyed. "We were not able to determine the risks along the project clearly because the initial disclosures were not clear," says the M&A director of a CEE insurer. "There was a lot of ambiguous information we had to process before we were able to identify the objectives and risk elements attached to the project."

"The level of uncertainty surrounding BRI projects has been worrying. Poland is at a good strategic location, providing useful gateways to other countries. Considering this, we want some clarity that connectivity will benefit us as much as others."

Director, Commercial bank, Poland

Working together

Joint ventures and other partnerships are well suited to BRI projects. Pooling resources and knowledge can help to mitigate risk, share skills, encourage local acceptance and move projects forward more rapidly. But many CEE participants find them unappealing.

Most of our CEE respondents do not appear to be capitalising on the advantages that JVs and similar cooperation can offer. Over half (55%) have not participated in a BRI partnership, and a similar number (57%) say they will not consider such partnerships in future. That leaves a large (43%) minority who are prepared to enter into such commercial relationships, but clearly demonstrates a significant level of concern about the desirability of partnerships with Chinese and other foreign entities.

Among CEE respondents who have participated in JVs in the past, opinion on the experience of working with Chinese partners is evenly split: 29% are positive about the experience while 30% are dissatisfied, leaving 41% neutral.

One criticism that several respondents levelled at Chinese BRI project partners was overambition – suggesting that sometimes there is the need for a greater alignment of goals before projects get underway. The managing director of a Hungarian commercial bank says this was a point of contention despite positive outcomes. "The experiences we had with Chinese organisations overall have been good. However, the focus and intensity of the two teams was different. They had ambitious plans for completion of BRI projects and led the teams accordingly."

Another common complaint is of poor coordination and communication between partners. In the words of one Hungarian executive: "Little effort was made to learn about our major objectives and priorities. The level of teamwork and coordination that we were expecting to achieve and transform into future scope was missing."

A majority (52%) of CEE respondents have encountered differences in working with Chinese firms on BRI projects compared with non-BRI projects and, of this segment, 85% report some degree of difficulty in these working relationships – almost half (41%) say it was much more challenging than working with Chinese partners on non-BRI projects.

"Compared to non-BRI projects, there was more pushback, when we tried to intervene and offer our insights. Our perspective on energy efficiency could have been considered more objectively."

Finance director, Infrastructure operator, Romania

The director of strategy and investment of a Hungarian infrastructure operator observes that Chinese businesses appear to behave more opaquely in BRI projects. "Partners have been more closed off and displayed a siloed attitude," he says. "This has affected the functionality of partnerships. We have experienced more positive relations with Chinese firms on non-BRI projects."

Some of our respondents thought that, in the words of an investment director, "there was some political influence that was prompting their unusually reserved behaviour." Non-Chinese participants may be too quick to suspect political intervention, when pressure may be coming from other parties or factors on a project. And some Chinese participants experiencing problems may be happy to let their non-Chinese partners assume that these are the result of official intervention, rather than bad management. But this type of perceived political risk causes many BRI participants anxiety, and those Chinese entities that can help their non-Chinese partners attain reasonable expectations in this area are likely to find that their long-term cooperation is much more satisfactory.

CEE respondents are not the only ones to have experienced problems when working with cross-border partners. Chinese respondents likewise mention areas where foreign partners could have made improvements, like the director of a Chinese fund who lamented a "lack of trust", and the Hong Kong infrastructure operator who observed that "cultural issues became evident as soon as the initial talks began, and did raise some serious concerns on compatibility."

Some Chinese respondents also mention the mismatch between the capabilities of their own well-resourced entities and those of their project partners. "Because of this there have been pushbacks," said one Chinese executive, "making the prospects more complicated than we had initially expected."

"Sourcing suitable projects amid the range of opportunities has been more challenging than we had anticipated. The lack of transparency of project information, timelines and strategic approach creates further risks."

Finance director, Bank, Hungary

Sourcing opportunities

One of the bottlenecks slowing BRI progress has been the ability of prospective parties to source investable projects. There is no official database of BRI projects and so companies and investors are left to their own initiative to access project deal flow.

Our research shows that many of those who have taken part in BRI projects have found the sourcing process challenging. More than half (51%) our CEE respondents say identifying appropriate BRI opportunities is difficult, slightly above the 47% who share this view across the total survey sample. Only 1% of CEE respondents found the process easy.

Unsurprisingly, Chinese participants experience fewer problems. But even they report some difficulties, with 26% finding it hard to source projects.

"Sourcing suitable projects amid the range of opportunities has been more challenging than we had anticipated," said the finance director of a CEE development bank, echoing the sentiment of other respondents in our research. "The lack of transparency in project information, timelines and strategic approach creates further risks."

China is encouraging the adoption of general international rules and standards for BRI procurement, tendering and bidding. But CEE participants do not envisage sourcing opportunities becoming any easier. More than three-quarters (77%) say sourcing BRI opportunities will get more difficult going forward, while only 15% believe it will be easier.

Generally, how would you rate the process of identifying/sourcing BRI opportunities?

	China	CEE	Rest of World
Very difficult	7%	23%	21%
Moderately difficult	19%	28%	31%
Neutral	63%	48%	44%
Moderately easy	11%	1%	4%
Very easy	0%	0%	0%

Do you expect this process to get easier or more difficult going forward?

	China	CEE	Rest of World
Easier	51%	15%	20%
Unsure	19%	8%	12%
More difficult	30%	77%	68%

Chinese investment in CEE

China's investments in CEE have so far lagged significantly behind those made in Western Europe.

CEE countries are important for China's BRI trade routes. The region offers a wide variety of investment and development opportunities. But Chinese investment in CEE has so far been only a tiny percentage of China's capital commitment across Europe as a whole. Investment in Western European strategic assets has accounted for much greater amounts of Chinese FDI.

Research provider Rhodium Group, for example, calculates that the UK received EUR 50.3bn of Chinese FDI between 2000 and 2019. Germany received EUR 22.7bn, Italy EUR 15.9bn, and France EUR 14.4bn. This compares with just EUR 2.4bn for Hungary, EUR 1.4bn for Poland, EUR 1.2bn for Romania and EUR 1.0bn for the Czech Republic.

Much Chinese involvement in Europe – especially but not exclusively in Western Europe – has taken the form of equity investments, ranging from China Investment Corporation's stake in Cadent, the UK's largest gas distribution network, to China Cosco Shipping's majority holding in the port authority of Piraeus (whose container terminal is operated by a CCS subsidiary).

The region has seen far less of the 'classic' BRI structure, in which an infrastructure project has been financed wholly or partly by Chinese lenders, and largely undertaken by Chinese contractors and suppliers.

This may partly reflect a tendency for European nations and businesses to look elsewhere for project finance. Their relatively ready access to local lenders and to the debt capital markets – and in many cases to EU funding – may make Chinese finance less appealing. To date, traditional BRI projects have been more visible in the Western Balkan nations – which are not EU members and whose economies face particular challenges – than in CEE states that are also EU members.

Chinese participants say

40%

plan to be involved in BRI-related projects in CEE, compared with 25% who have been involved previously.

EU rules

Another issue is the application of procurement rules. When Croatia awarded the construction contract for the (largely EU-funded) 2.4km Pelješac Bridge to a Chinese consortium, for example, some losing bidders complained that they were unable to compete economically because of Chinese state subsidies. Croatia insisted that the contract complied with EU public procurement rules, and that there were no illegal Chinese subsidies.

But many in the EU continue to believe that Chinese contractors enjoy levels of state support and easy access to finance that EU contractors lack. In June 2020 the European Commission adopted a White Paper on Foreign Subsidies. It is now expected to introduce legislation in 2021, aimed at tackling distortions in this area.

How this will affect any BRI projects in the EU is not yet clear. It may have the effect of 'normalising' those that involve public tenders, making them more open to non-Chinese contractors. In some ways this is not dissimilar to China's aim under BRI 2.0 (see page 20) of increasing non-Chinese involvement in BRI projects – although clearly the EU's method and motivation are very different from China's.

There have also been suggestions that the EU may move to address issues such as ESG standards in BRI projects. (Again, this could be viewed as incidentally supportive of China's own efforts to drive up the quality of BRI projects.) And there is an active debate in the EU about the extent to which technology investments from China – and other non-EU nations – should be regulated.

As the European Court of Auditors said in its review entitled *The EU's response to China's state-driven investment strategy*: "The BRI is a complex initiative that is constantly evolving, which makes this a 'moving target' for EU policy-makers."

But even if Chinese participants encounter new regulatory barriers, BRI in CEE will continue. The region is an important part of China's network of trade routes. And many of its nations can still give investors an attractive route into the EU single market – compared with Western Europe, they generally offer lower prices for asset acquisitions, more cost-effective human capital and a strategic acceptance for higher concessions to Chinese investors.

In some cases, tougher EU regulation may also focus Chinese interest on the non-EU Balkan nations, some of which have shown a more positive attitude to Chinese investment – and which, in many cases, have more limited regimes for screening FDI.

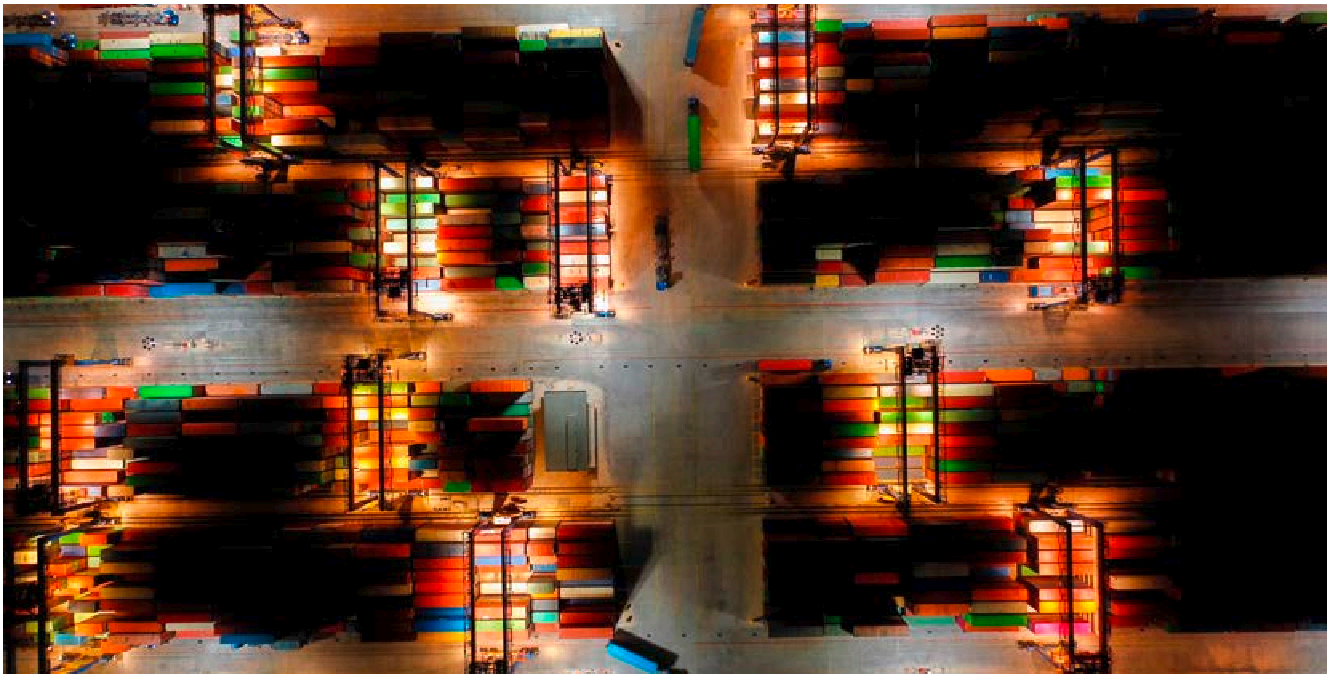
CEE participants say

55%

expect China to maintain or increase its emphasis on BRI. Only 10% think it will cut back.

54%

believe BRI will be more open to non-Chinese participants in future. Just 7% say it will not.



BRI SNAPSHOTS

Bosnia and Herzegovina

In May 2020, China Gezhouba Group (part of part of China Energy Engineering Corporation) signed an agreement to build a large hydroelectric plant in Bosnia and Herzegovina, with an estimated project cost of EUR 200m.

Also in Bosnia and Herzegovina, the China State Construction Engineering Company and Synohydro Power China are building a EUR 100m stretch of the Počitelj-Zvirovići motorway, financed by a loan from the European Investment Bank.

Completed projects in the country that have been financed and built by Chinese entities include the 300MW Stanari coal plant.

Hungary

Export-Import Bank of China is providing most of the finance for the (repeatedly delayed) upgrade of the Budapest-Belgrade railway. The terms of the financing have not been made public. The Hungarian finance minister described the loan agreement as “advantageous and secure for Hungary” with terms “favourable relative to the currently available debt financing conditions.” A Chinese-Hungarian consortium has been appointed as main contractor for the Hungarian section of the project. Chinese companies have been engaged in the construction of the Serbian section since 2018.

Frameworks for investment

Chinese engagement in BRI projects across CEE is based on bilateral arrangements (rather than arrangements made through EU or other regional institutions). CEE countries involved in BRI have signed appropriate memoranda of understanding (see page 30).

17+1

An additional regional platform for cooperation between China and CEE countries is '17+1'. The '16+1' initiative, a framework for bilateral and multilateral cooperation in fields such as trade, investment and transportation, was launched in 2012. In 2019 Greece also joined, making the initiative 17+1.

The 17 are 12 EU nations, plus four EU candidate nations – Albania, Montenegro, North Macedonia and Serbia – and potential candidate Bosnia and Herzegovina. The 1 is of course China.

At the start of the 16+1 initiative, the China-CEE Investment Cooperation Fund was established. Sponsored by Export-Import Bank of China and Hungarian Export-Import Bank, this currently comprises two infrastructure funds, with commitments of USD 435m and USD 800m. Using a variety of investment models, the fund's aim is to support infrastructure, telecoms, energy, manufacturing, education, medical and other projects among the 17.

The fund's investments so far have included wind farms in Poland, a Czech solar power business, a regeneration project for Budapest Metropolitan University, a Hungarian telecoms company and industrial companies in Romania and Bulgaria.

Three Seas

A group of CEE nations also hope to benefit from the Three Seas Initiative, which can be seen – depending on one's perspective – as a supplement or a rival to 17+1.

The Three Seas Initiative comprises Austria, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (linking the Adriatic, Baltic and Black seas, hence the name). It is intended to help raise the competitiveness of regional economies, strengthen ties between businesses and increase connectivity (primarily by modernising north-south infrastructure).

Three Seas has its own investment fund, which will finance key investments in transport, energy and digital infrastructure, and which is intended to attract additional financing from the private sector. The fund was launched in 2019 with an initial commitment of EUR 500m from development banks in Poland and Romania.

The Three Seas Initiative has also been encouraged by the Trump administration, which pledged up to USD 1bn of finance, to "galvanize private sector investment in the energy sector to protect freedom and democracy around the world."

Like the China-CEE Investment Cooperation Fund, though, the Three Seas fund is not large in comparison with the EU's funding of projects in CEE. The regional development and cohesion funds allocated to Three Seas countries in the EU's 2014–2020 budget framework, for example, exceeded EUR 150bn. Over one-third of this was for transport, energy and digital connectivity projects.

Many of the 76 individual projects viewed as priorities by Three Seas are already set to receive financial support from EU funds or loans from the European Investment Bank. Three Seas is signalling the importance it attaches to these projects, but how it will help most of them in real terms is unclear.

Both 17+1 and Three Seas will have an impact on individual projects but neither is likely to do more than supplement the established funding structure for CEE nations that are also EU member states. It is possible that 17+1 (and BRI generally) may have a greater impact among the Balkan nations that are not EU members – although even here EU support is not uncommon, with the latest at the time of writing being the EUR 9bn promised to help develop transport and energy infrastructure in the Western Balkans from 2021–2027.

CEE participants say

87%

have worked on BRI projects with some financing from local lenders. For 23% this has been the main source of finance.

33%

have worked on BRI projects with financing from multilateral financial institutions – the lowest percentage from any region we surveyed.

20%

expect more 'cheap money' to be available for BRI through post-pandemic stimulus measures. 69% of Chinese participants expect this.

BRI SNAPSHOTS

Montenegro

In Montenegro a 170km motorway connecting the port of Bar to Boljare at the Serbian border is being built by China Road and Bridge Corporation, with the first section, between Smokovac and Matesevo, largely financed by a USD 944m loan from China's Exim Bank. (Funding for other sections has not yet been arranged.) The first section was due to be completed in September 2020, but now looks set to be finished in 2021, after work was delayed by Covid-19 restrictions.

Montenegro also recently signed a EUR 54m contract with a Chinese-Montenegrin consortium for the reconstruction of the Plevlja thermal power plant, and has seen the EUR 92m Mozura Wind Park, built and run by a Chinese-Maltese consortium, enter into operation. According to the Central Bank of Montenegro, China has become the largest investor in Montenegro with EUR 70m of direct investments in the first half of 2020.

Serbia

The Pupin Bridge over the Danube in Serbia was opened in 2014, and is sometimes described as China's first big infrastructure investment in Europe. Other Serbian BRI projects have included the Kostolac B3 coal power plant, and Serbia's half of the Budapest-Belgrade rail line (see above).

In 2019 Serbia's infrastructure minister said that in the medium term the country would invest up to EUR 8bn in infrastructure, mainly through deals funded by China (but also with support from Russia, Turkey and Azerbaijan). One project in the pipeline is a EUR 2bn high speed rail line between Belgrade and Niš, Serbia's third-largest city, which looks set to be built by China Road and Bridge Corporation.

The impact of Covid-19 on BRI projects

Covid-19 has had a significant impact on the global economy. Inevitably, the pace and scope of BRI projects have also been affected, although China has been keen to emphasise that many BRI activities are continuing.

According to China's Ministry of Commerce, in the first six months of 2020:

— Chinese enterprises made non-financial direct investments of RMB 57.1bn in 54 BRI countries.

— Chinese enterprises signed 2,289 new contracts in 59 countries along the Belt and Road, with a total value of RMB 424.02bn.

Clearly, new BRI projects are still happening. But there have been widespread reports of project delays and cancellations. Supply chains and travel have been disrupted, and in some cases it has not been possible for workers to continue on site. In June 2020, the Ministry of Foreign Affairs said that about 20% of BRI projects have been seriously affected by the coronavirus pandemic, with another 30–40% somewhat affected.

However, while it has impeded BRI, the pandemic also has the potential to reinvigorate it. Globally, governments have arranged massive stimulus packages to support their economies.

Chinese respondents believe some of this funding will reach BRI projects. More than two-thirds (69%) expect a greater availability of 'cheap money' for such investments, a view shared by only 20% of CEE respondents, with 49% disagreeing.

Most CEE respondents (65%) also think there will be less funding available for BRI projects as banks and investors seek to protect and rebuild their balance sheets – a view shared by only 26% of Chinese respondents.

It is certainly likely that commercial lenders will now tend to seek more robust protections and be more selective in the projects they finance. And even before the pandemic, Chinese lenders showed signs of becoming more rigorous in their criteria for financing projects. But, over three-quarters (78%) of Chinese respondents expect at least some BRI projects to enjoy more favourable terms, as the Chinese authorities seek to create demand for the output of Chinese companies.

A similarly large majority (81%) of Chinese respondents also believe that some nations will now be more open to new BRI projects, in the hope that these will provide a boost to their economies. (CEE respondents also tend towards this view.) In practice it may depend on the project in question. Some, such as renewable energy projects or digital initiatives, could provide a relatively immediate boost. Many benefits from larger and more traditional infrastructure projects will take much longer to come through.

Around two-thirds (64%) of CEE respondents believe that some BRI projects will have to be restructured or abandoned, and that some governments will use the economic situation as a reason to withdraw from unsuccessful or controversial BRI projects. However, any increased aversion to BRI among host nations is not expected to be shared by the Chinese government.
A majority of CEE respondents expect China to maintain its emphasis on BRI.

As the investor relations director of a Polish bank says, "there are many projects being undertaken simultaneously and reducing the hold now would mean further disruption and lack of control on activities. China has a flexible policy when it comes to BRI projects, but maintaining its focus is still important even if unsustainable projects are put on hold."

Opinions on the impact of Covid-19 on BRI

In the light of the coronavirus pandemic and its likely economic and political impacts, do you agree or disagree with the following statements?

A greater availability of 'cheap money', through measures to stimulate the international economy, will support more international investment in BRI projects.

	China	CEE	Rest of World
Strongly disagree	3%	28%	15%
Moderately disagree	11%	21%	28%
Neutral	17%	31%	25%
Moderately agree	50%	19%	28%
Strongly agree	19%	1%	4%

China is likely to reduce its emphasis on BRI in favour of supporting more domestic projects.

	China	CEE	Rest of World
Strongly disagree	41%	28%	32%
Moderately disagree	18%	27%	25%
Neutral	22%	35%	31%
Moderately agree	9%	9%	10%
Strongly agree	10%	1%	2%

Some nations will be more open to new BRI projects, in the hope that they will provide an economic boost.

	China	CEE	Rest of World
Strongly disagree	2%	5%	4%
Moderately disagree	4%	21%	27%
Neutral	13%	29%	22%
Moderately agree	29%	24%	21%
Strongly agree	52%	21%	26%

Some governments will use the economic situation as a reason to withdraw from unsuccessful or controversial BRI projects.

	China	CEE	Rest of World
Strongly disagree	3%	0%	1%
Moderately disagree	33%	8%	16%
Neutral	29%	28%	18%
Moderately agree	21%	40%	29%
Strongly agree	14%	24%	36%

The coronavirus crisis will lead to a renewed emphasis on the Health Silk Road, intended to strengthen health coverage in BRI countries through Chinese cooperation and support.

	China	CEE	Rest of World
Moderately disagree	1%	2%	1%
Neutral	14%	4%	8%
Moderately agree	37%	21%	26%
Strongly agree	48%	73%	65%

Less commercial funding will be available for BRI projects as banks and investors seek to protect and rebuild their balance sheets.

	China	CEE	Rest of World
Strongly disagree	9%	0%	2%
Moderately disagree	42%	19%	23%
Neutral	23%	16%	13%
Moderately agree	16%	31%	29%
Strongly agree	10%	34%	33%

Some BRI projects will enjoy more favourable terms, as the Chinese authorities seek to create demand for the output of Chinese companies.

	China	CEE	Rest of World
Moderately disagree	3%	36%	23%
Neutral	19%	31%	33%
Moderately agree	33%	17%	22%
Strongly agree	45%	16%	22%

Some existing BRI projects will become unsustainable and will have to be restructured or abandoned.

	China	CEE	Rest of World
Strongly disagree	4%	0%	1%
Moderately disagree	23%	8%	14%
Neutral	39%	28%	27%
Moderately agree	25%	44%	34%
Strongly agree	9%	20%	24%

> We need to pursue high standard cooperation to improve people´s lives and promote sustainable development. We will adopt widely accepted rules and standards and encourage participating companies to follow general international rules and standards in project development, operation, procurement and tendering and bidding.
>
> *Keynote speech by President Xi Jinping, 26 April 2019*

Belt and Road 2.0: Looking to the future

Key points

- Launched in 2019, BRI 2.0 addresses many of the points that concern international participants.
- Chinese participants are enthusiastic about e.g. its increased emphasis on environmental and sustainability issues.
- Many international participants are not yet positioning themselves to take advantage of the opportunities it offers, with some clearly sceptical about the change it promises.
- The pandemic is expected to boost the Health Silk Road initiative. There are also significant opportunities for BRI participants along the Digital Silk Road.

A new phase of BRI was announced in April 2019 by President Xi Jinping at the second Belt and Road Forum for International Cooperation in Beijing

It was described as 'BRI 2.0' by another speaker at the forum, Christine Lagarde, who at the time was managing director of the International Monetary Fund, and that name is now widely used to refer to it.

President Xi spoke of

- Being guided by the principle of extensive consultation, joint contribution and shared benefits.
- Acting in the spirit of multilateralism, and pursuing cooperation through consultation.
- Pursuing open, green and clean cooperation.
- Making a strong commitment to transparency and clean governance.
- Pursuing a high standard of cooperation to improve people's lives and promote sustainable development.
- Adopting widely accepted rules and standards and encouraging companies to follow general international rules and standards in project development, operation, procurement and tendering and bidding.
- Respecting the laws and regulations of participating countries.
- Giving priority to poverty alleviation and job creation.
- Ensuring the commercial and fiscal sustainability of all projects.

President Xi also described reform and opening-up measures that would:

- Expand market access for foreign investment in more areas.
- Enhance international cooperation in intellectual property protection.
- Increase the import of goods and services.
- More effectively engage in international macroeconomic policy coordination.
- Ensure the implementation of related policies, including multilateral and bilateral economic and trade agreements, and the revision and improvement of laws and regulations.

Contrasting views of BRI 2.0

Commentators who saw this only as a response to foreign criticisms of BRI, or a portfolio of policies to align BRI more thoroughly with broader development practice, overlooked President Xi's emphasis on international cooperation and joint contributions.

Indeed, some of our respondents feel that a limited response and limited enthusiasm from governments and businesses outside China is preventing BRI from achieving its potential. A key driver behind BRI 2.0 is a wish to ensure more non-Chinese participation in BRI: to spread risk, to share knowledge, to raise the quality of BRI projects and related standards, to secure international trade, and to enable the initiative to move forward more rapidly.

A majority of both Chinese and non-Chinese respondents believe BRI 2.0 will be more open to non-Chinese participants. More than half (54%) of CEE respondents believe that BRI 2.0 will be more open to non-Chinese participants going forward and only 7% disagree.

Chinese respondents are even more confident, with 83% agreeing that the initiative will open up further to non-Chinese participants. However, it is clear that many of those non-Chinese participants are yet to be convinced of its potential.

Only 12% of CEE respondents, for instance, agree that BRI 2.0 will be more transparent than in the past, compared with 83% of Chinese respondents.

Just 11% of CEE respondents agree that procurement processes will be more open and competitive, compared with 76% of Chinese respondents.

This pessimistic view of BRI 2.0 among non-Chinese participants may be unjustified. There are signs that Chinese BRI participants are increasingly prepared to take minority stakes in projects, and to work more closely with regional and international players. There is real scope for BRI 2.0 to bring about more collaborative and sustainable partnerships with between Chinese and international businesses, reflecting the changing global realties of the 2020s.

CEE participants say

54%

believe BRI 2.0 will be more open to non-Chinese participants, as do 55% from the rest of the world.

33%

agree that sustainability and environmental considerations will have greater importance for BRI in future, with 24% disagreeing.

24%

think BRI 2.0 will make dispute resolution easier, compared with 70% of Chinese participants.

Opinions of BRI 2.0

Do you agree or disagree with the following statements about BRI 2.0 and future BRI projects?

BRI will be more transparent than in the past.

	China	CEE	Rest of World
Strongly disagree	6%	40%	27%
Moderately disagree	3%	25%	30%
Neutral	8%	23%	27%
Moderately agree	43%	11%	14%
Strongly agree	40%	1%	2%

In general, BRI will be more open to non-Chinese participants.

	China	CEE	Rest of World
Strongly disagree	1%	0%	2%
Moderately disagree	3%	7%	8%
Neutral	13%	39%	35%
Moderately agree	26%	35%	28%
Strongly agree	57%	19%	27%

Dispute resolution (including cross-border disputes) will become easier.

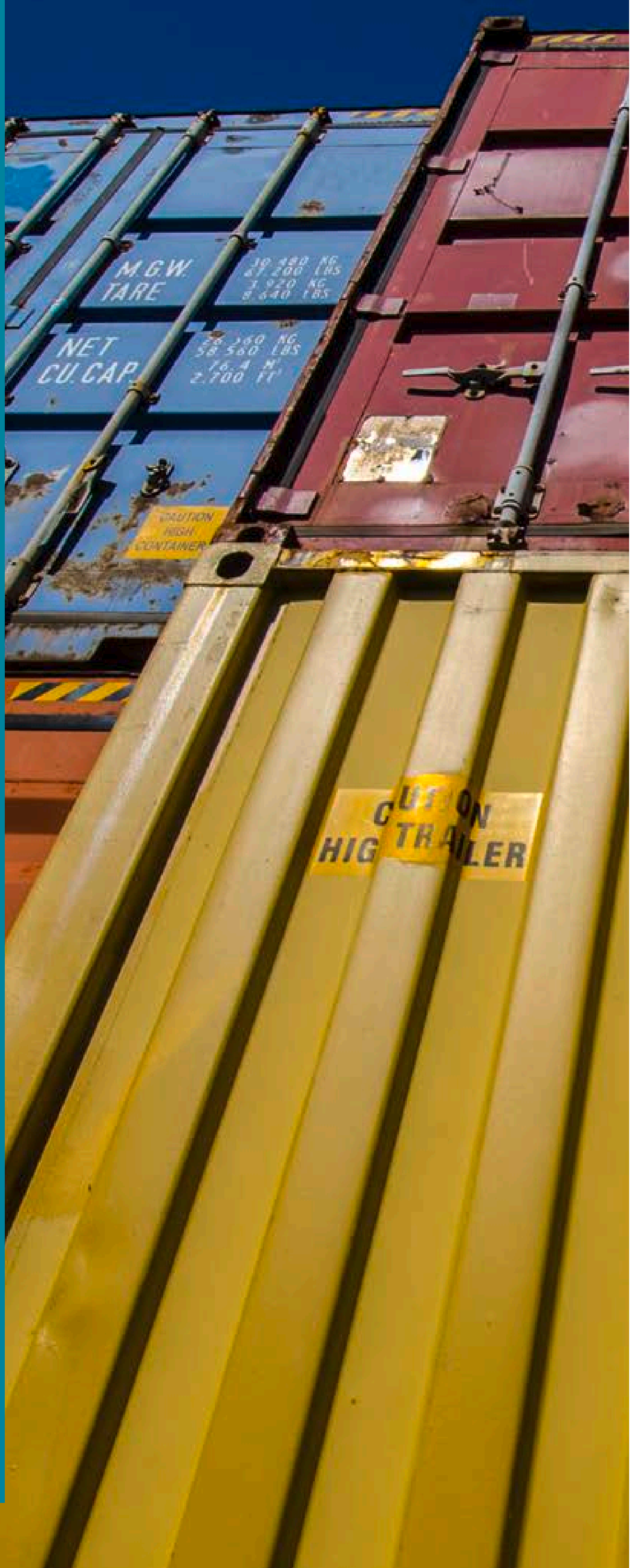
	China	CEE	Rest of World
Strongly disagree	4%	19%	18%
Moderately disagree	11%	36%	30%
Neutral	15%	21%	30%
Moderately agree	40%	19%	15%
Strongly agree	30%	5%	7%

Procurement processes will be more open and competitive.

	China	CEE	Rest of World
Strongly disagree	4%	35%	36%
Moderately disagree	6%	37%	25%
Neutral	14%	17%	22%
Moderately agree	36%	9%	14%
Strongly agree	40%	2%	3%

Sustainability and environmental considerations will be given greater importance when planning and completing projects.

	China	CEE	Rest of World
Strongly disagree	1%	4%	8%
Moderately disagree	5%	20%	26%
Neutral	10%	43%	31%
Moderately agree	59%	28%	34%
Strongly agree	25%	5%	1%



Greener and cleaner?

BRI's scope – in the number and size of its projects, as well as its decades-long duration – means it will have a profound environmental impact.

BRI 2.0's greener focus coincides with a broader investment trend, whereby institutional investors are reallocating capital away from companies and projects with poor ESG credentials in favour of businesses that are prioritising their impact on the environment.

A significant majority (70%) of CEE respondents say it is important for BRI projects to be sustainable and eco-friendly. Indeed, some said improvements to sustainability would make them more willing to participate in BRI projects.

The finance director of a CEE development bank says: "We need to be selective with our involvement in the initiative and be aware of the procedures that take place in projects. Assessing ESG compliances will be one of our priorities to promote sustainable development and more positive outcomes."

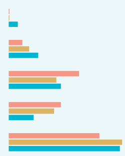
However, recognising that the initiative would benefit from becoming more sustainable and believing that it will are two different things. Our findings show that Chinese respondents are significantly more optimistic about BRI 2.0 delivering on its intentions, with 84% believing that sustainability and environmental considerations will be given greater importance when planning and completing projects. Just one-third of 33% of CEE respondents agree (although only 24% actively disagree).

There are indications that our CEE respondents are underestimating the commitment of their Chinese counterparts to sustainability. Chinese BRI participants are increasingly aware that sustainable projects tend to lead to fewer disputes, and China already has real strength in areas such as renewables, which may be easier to progress in the aftermath of Covid-19.

We are also seeing Chinese financial institutions increase their focus on sustainable finance. A number of projects that cannot show financial viability or sustainability have recently been refused loans from policy banks.

As an official report from the Office of the Leading Group for Promoting the Belt and Road Initiative noted last year, "the Belt and Road Initiative is in urgent need of finance" – meaning finance from non-Chinese sources. And China understands that, to attract such finance, projects will have to embrace principles such as sustainability where these are required by international banks and other sources of funding.

When considering involvement in a BRI project, how important is it that the project should be sustainable/eco-friendly?



	China	CEE	Rest of World
Very unimportant	0%	0%	4%
Somewhat unimportant	6%	9%	13%
Neutral	31%	21%	23%
Somewhat important	23%	20%	11%
Very important	40%	50%	49%

The shift to digital

While much traditional infrastructure remains central to BRI 2.0, digital technology is an increasingly important focus area.

Since it emerged as a concept in 2015, the Digital Silk Road (DSR) has not seen as much investment as many other aspects of BRI. But with the new priorities of BRI 2.0 and the worldwide boost given to new technologies by the pandemic, it looks set to achieve much greater prominence over the next decade.

Some DSR projects are traditional BRI-style infrastructure, such as submarine communication cables and mobile phone networks. But there is an increasing sense that DSR can cover all types of digital development along the Belt and Road, including fintech, artificial intelligence, the Internet of Things, smart cities and digital healthcare.

Many DSR projects globally have been focused on meeting local development goals, but others are commercial ventures that reflect the worldwide advance of the digital economy, enabling China's tech businesses to access new markets. DSR also creates demand for telecoms equipment, smart sensors, data centres etc.

The managing director of a Hungarian commercial bank has noted the importance of digital developments to BRI: "I have seen them continuing with the Digital Silk Road, despite the complications and lack of manpower available during the pandemic crisis."

Many CEE countries already have high-quality digital infrastructure, with high speed broadband, e-commerce and 4G usage. To be on par with other developed nations, though, the region needs to become more digitally competitive through new technologies such as 5G networks and AI.

The potential benefits to CEE nations of improved digital infrastructure, especially after the economic damage caused by the pandemic, are clear. But only 7% of our CEE respondents are considering DSR projects, with a further 9% having considered them in the past, and a large majority (84%) never having considered them. This compares unfavourably with the interest shown by our Chinese respondents, over one-third (35%) of whom are considering DSR projects.

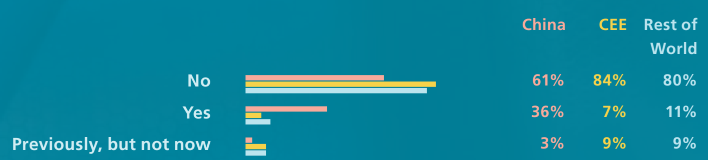
However, a rather larger percentage of CEE participants say they have plans to target BRI tech opportunities (see page 37), so these low numbers may partly reflect a lack of knowledge about DSR in the region, or an unduly limited view of its scope.

Some BRI participants are keen to be involved in DSR projects, but are wary of potential problems, such as rapidly evolving technical standards, and local sentiments about cybersecurity.

A bigger concern for many is geopolitical tension. The Trump administration has pushed back against aspects of the DSR, notably with its Clean Network Program, which aims to restrict or eliminate Chinese involvement in, for example, telecoms networks that connect to US networks, and cloud systems and apps that handle US data.

This may limit the scope of DSR in some markets. But with so many BRI countries still in need of new tech and comms infrastructure, there will clearly still be significant opportunities for BRI participants along the Digital Silk Road.

Are you currently considering or searching for investments/projects related to the Digital Silk Road?



Interview: Zhiyong Li, PowerChina International

Zhiyong Li, General Manager, Legal and Risk Management Department, PowerChina International, talks about opportunities and risks in CEE and the growing importance of ESG to BRI.

In which types of Belt and Road projects has PowerChina been involved in Central and Eastern Europe?
We have offices and subsidiaries in 11 countries in Central and Eastern Europe (Russia, Ukraine, Belarus, Poland, Serbia, North Macedonia, Bosnia and Herzegovina, Romania, Albania, Montenegro and Moldova).

Until the end of August 2020, we had 40 projects in CEE. Recently we just had four projects completed successfully in Poland, Romania, North Macedonia and Albania. We are executing the Belgrade Roundabout Road project in Serbia. And we also have engineering, procurement and construction projects in Bosnia.

How do you decide which BRI projects to target?
We do all types of infrastructure projects. We work in the power sector including hydropower, thermal power, wind and solar power, and transmission line.

We also have transportation projects such as road and high-speed railway. And then, there are the different sectors such as residential buildings and industry buildings, pipelines, agriculture, irrigation, etc.

We do not have any special preference. But the projects we work on should have strong social support from host authorities and local communities.

What are the opportunities for infrastructure projects in CEE? And what advantages do you have in the region?
We are expanding our business in the region. And I think we have competitive strengths there. We are expecting more business because there is ongoing and improving demand from those countries.

What are the risks and challenges you face in CEE?
The top challenges are local authority standards, local regulations, and the legal framework. We are more familiar with African and Asian countries as we have worked there for so many years. But for the CEE countries, we are still getting to know the lay of the land.

For example, in Africa, there are English and French-speaking countries, and the countries have some legal similarities. Asian countries can have quite similar cultures too. But in CEE, every country has different regulations and requirements – we need to be more careful about complying with the system in each CEE country. We have to rely on legal advice from local law firms.

How focused are you on building more sustainable projects?
We are extremely focused on sustainability. Both from an external compliance perspective and internally. It is a management imperative. We have to respect environmental laws, but we are also encouraging project leaders to deliver more benefits to the local environment.

We want to stay in these countries long-term, so we're instructing our employees to pay more attention to the sustainability of the project.

What will attract more international companies to BRI in the future?
On the construction side, they will be looking at profitability and also the relationship with the clients and whether they can make the project work or not.

On the investment side, it's about looking at the long term: 10, 20, even 30 years. International companies need to think about long-term cooperation with the government, the stability of the government, profitability of the project and the bankability from the different financing institutions.

What is the future of BRI?
There will be greater cooperation from international partners – not only on the construction side but also with the financing institutions as well as equipment suppliers and manufacturers. I believe other international contractors will form different types of joint ventures to undertake more projects.

I think the future of BRI will be more open and more transparent. There will be more opportunities around the world – for clients, contractors and for a wider variety of projects, particularly sustainable projects.

Overcoming obstacles

Key points

- Legal and regulatory issues are the most commonly perceived risk in BRI projects.
- Such risks can be managed through a mitigation plan, with appropriate risk identification, management and mitigation measures.
- A good mitigation plan will include an appropriate strategy for managing disputes, as well as realistic enforcement options.
- BRI participants have additional means to help projects run smoothly and reduce risk, beyond formal mitigation strategies.
- Operational obstacles are the second greatest challenge for CEE respondents.

"Addressing any challenges earlier on is the most effective way to mitigate them. Proactive decisions limit uncertainties in the form of political influences or legal challenges. Understanding the risks and their implications on the business is crucial."

Finance director, CEE development bank

Legal considerations

Among our CEE respondents legal frameworks (53%), operational difficulties (52%) and political issues (49%) are by far the most frequently cited obstacles to BRI activity – as they tend to be in other regions.

Legal and regulatory issues are also the top-of-mind risk for both those in CEE (72%) and those in the rest of the world, with project stability (45%) and political issues (43%) the other risks most commonly cited by our CEE participants.

So what are the principal legal issues for BRI projects in CEE?

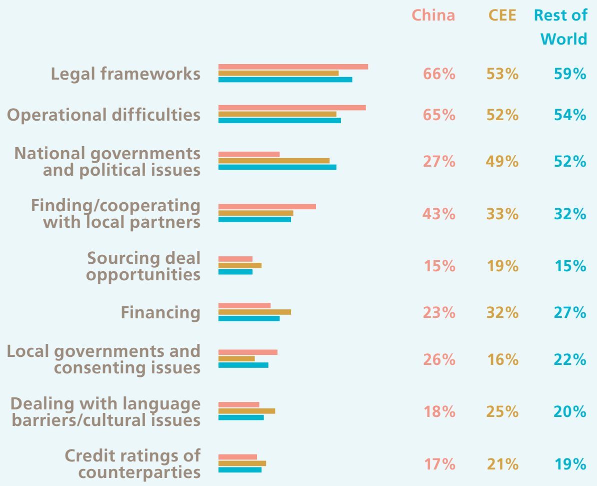
In CEE countries, BRI projects do not enjoy special legal or tax treatment that would differentiate them from other infrastructure projects. No specific BRI regulations exist to cover e.g. zoning issues, permits, contractual set up, subcontracting, supplies or financing, and there are no systemic obstacles that would make BRI projects more complex or challenging than any similarly large infrastructure or energy project. In addition, no CEE country plans to introduce BRI-specific regulations.

BRI projects sponsored by CEE governments or local authorities may be procured only on the basis of public procurement regulations. This may force Chinese parties to compete for these projects with others, both domestic and international.

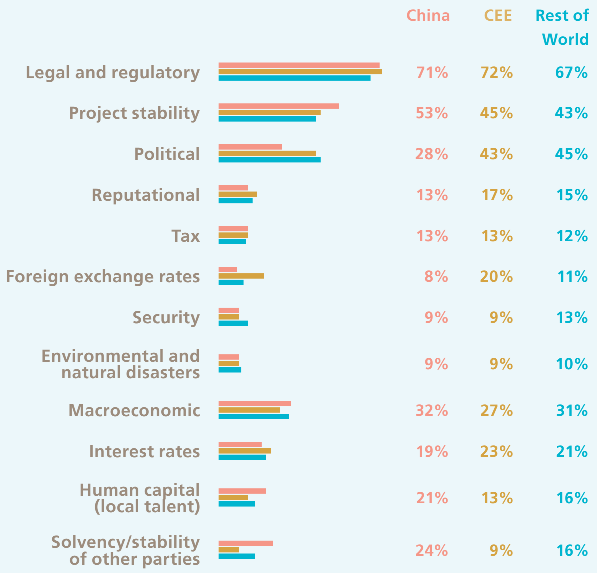
Some other considerations will tend to be common to BRI projects throughout CEE, including:

- A lack of accumulated know-how allowing public sector entities to structure infrastructure projects efficiently.
- Limitations on the private ownership of many infrastructure assets (e.g. roads and ports).
- A lack of sovereign guarantees for large projects.
- Limitations on land ownership and leasing by foreign investors.
- Bureaucracy, and complex processes for securing permits.
- Foreign currency exchange risk.
- Potential unavailability of project financing for mega-projects.
- Inefficiencies in court systems that may affect enforcement in local courts.

Which of the following have presented the greatest obstacles to your BRI-related activity? (Select top three)



Which of the following represent the most serious risks as they relate generally to involvement in BRI projects? (Select top three)



There are also country-specific challenges for parties contemplating CEE projects. For example:

— In **Ukraine** local financial institutions have only limited experience of project finance, and there are restrictive competition protection regulations. Settlements between local entities may be made only in local currency, and there are time restrictions on payment settlements (with additional requirements relating to interest on a cross-border loan and the notification of the funds transfer to the central bank). And while state-owned enterprises do not generally enjoy immunity, there are some limitations on certain assets or shares of companies in which the state has a 25%+ stake.

— In **Romania**, investments in strategic sectors are only permitted if the competition authority and Supreme Defence Council accept that they do not pose a risk to national security, with acquisitions of oil and gas infrastructure by non-EU parties also subject to government approval. The owners of assets identified as critical national or European infrastructure additionally have certain statutory responsibilities relating to e.g. the security and financing of the assets.

— In **Poland** obtaining permits for infrastructure projects is challenging and time-consuming. Court enforcement is ineffective and unpredictable, while the enforcement of encumbrances on infrastructure assets may be unattractive, as only public sector entities may own certain types of assets.

Infrastructure projects implemented in CEE will have to meet standard criteria for bankability if they are to be financed by local or international financial institutions. Consequently, Chinese financial institutions, if interested in co-lending with international lenders, will have to tighten the risk assessment and bankability review in their analysis of projects submitted for funding in CEE.

Lending in local currency is the preferred mode of financing infrastructure projects in CEE, though it may not be an option if a project is very large. In Poland, for example, local currency financing may be challenging, as a number of large infrastructure projects are already underway, and the capacity of Polish and foreign banks for złoty loans is limited.

CEE participants say

65%

expect less commercial funding to be available for BRI projects as banks and investors seek to protect and rebuild their balance sheets.

Risk mitigation

Whatever the challenges posed, participants are well advised to manage their risks through an effective risk mitigation plan with appropriate risk identification, management and mitigation measures. Some of these may include:

— Conducting robust due diligence on local partners, including their track records on projects, creditworthiness, corporate structures and ownerships, key individuals, compliance with laws, litigation records, and any connections with local authorities.

— Careful negotiation and drafting of contracts to include adequate risk management and allocation provisions, which are supported by clear liability language.

— Effective contract management and compliance with contractual obligations, ensuring that the commercial and project teams are familiar with the relevant contracts.

— Being alive to areas where the risk of corruption is present, such as excessive commissions to third-party agents or consultants, vague consulting agreements, and any close relationships between third-party agents and officials.

— Avoiding shortcuts around compliance requirements, such as engaging a third party to manage government approvals without adequate due diligence or controls.

— Selecting well-established and neutral dispute resolution forums (see below).

— Appointing appropriate local advisors, familiar with the regulatory environment and relevant authorities, who can be invaluable in due diligence, risk analysis and risk management.

Dispute resolution

What is the best way to resolve disputes concerning BRI projects? One option is to rely on established mechanisms. The most prominent of these is international arbitration: either commercial arbitration based on the agreement between two commercial parties, or investor-state arbitration based on an investment treaty concluded between sovereign actors.

Well-established international arbitral institutions are generally selected to resolve disputes arising out of large infrastructure projects in CEE. Those most commonly chosen include the International Court of Arbitration of the International Chamber of Commerce (ICC) in Paris, Stockholm (SCC), Vienna (VIAC) and Berlin (DIS).

Over the years these arbitration centres have gained trust among investors and contractors active in CEE, with a record of properly handled large-scale international infrastructure disputes. Given this record, it seems unlikely that this sentiment would change in favour of Chinese arbitration courts, or even other Asian ones.

Furthermore, in BRI projects sponsored by state-owned entities which are conducted under national public procurement laws, the parties will be obliged to choose the law of the host country as the law governing the project agreements. Opting for a solution where CEE country-specific laws are applied by a court in China would seem difficult to justify.

However, a contract is arrived at by negotiation, and there may be circumstances in which a CEE party judges it advantageous to accept the provision of a non-European venue for arbitration in return for concessions in other areas. The loan agreement for the first phase of Montenegro's Bar-Boljare highway, for instance, reportedly stipulates arbitration in Beijing.

Mediation is still not a very popular alternative for dispute resolution relating to infrastructure projects. In project agreements signed in connection with large CEE infrastructure projects, it is more frequent for the parties to agree that any dispute should be adjudicated by an independent expert than for them to opt for mediation.

CEE participants say

32%

have been involved in a BRI project that generated legal disputes.

72%

see legal and regulatory risk as one of the most serious risks in BRI projects.

Enforcing foreign arbitral awards in China

David Gu
Partner
TianTong Law Firm

The ability to enforce arbitral awards across borders is one of the main attractions of international arbitration.

Nearly all BRI states, including China, are signatories to the Convention on Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention), and to facilitate the resolution of BRI-related disputes, a pro-arbitration policy has been adopted by Chinese courts in enforcing foreign arbitral awards. But in practice the enforcement process may still have several stages.

Application

An application for enforcement must be made to the intermediate people's court located where the respondent is domiciled or where the respondent's assets are situated.

Documents will be required, including a written application; proof of the applicant's identity and power of attorney for their agent; original or certified copies of the arbitration agreement and the award; and a Chinese translation of the agreement and the award, certified by a PRC embassy or consulate or notarised by a Chinese public notary. A registration fee is also required.

Theoretically, an application may be rejected if the documentation does not comply precisely with these requirements. But according to the Supreme People's Court (SPC), a court should accept any imperfect application and then notify the applicant that other documents are needed to rectify its submission.

An application must be submitted within two years of the last day for the fulfilment of the obligations specified in the award. If this is not specified, the application must be submitted within two years of the date when the award is issued.

Examination under the New York Convention

Once an application is accepted, the court will decide whether to enforce the award. If it finds no grounds for a refusal to enforce under the New York Convention, it must grant an order for enforcement. The enforcement proceeding should be completed within six months of the order, except in exceptional circumstances.

Enforcement could also be declined because of public policy considerations. But the courts are extremely cautious about exercising their discretion to do this. There has only been one instance in the past three decades, in a case where the underlying dispute between the parties had been heard and decided by a Chinese court before the issuance of the arbitral award. The court in that case held that the award interfered with the judicial sovereignty of the PRC.

Any decision not to enforce a foreign award, either at the respondent's request or on the court's own initiative, will be subject to further judicial scrutiny before being issued.

Judicial scrutiny

If an intermediate people's court decides not to enforce a foreign arbitral award, it must report the case to the high people's court in the same province. That court will review the case and either direct the lower court to grant an order for enforcement or report the case to the SPC. A lower court can only issue its decision not to enforce a foreign award once the SPC has confirmed that decision.

This process of scrutiny is an internal judicial proceeding. The parties may not formally plead the case to the higher court or the SPC in written submissions or oral hearings. Nor is there a time limit for the process.

Parties wishing to enforce foreign arbitral awards in China should engage experienced local counsel to expedite any judicial scrutiny.

MoUs, MITs and BITs

There is no overall ‘Belt and Road Treaty’. But the context for BRI projects is often determined by various local agreements.

By the end of January 2020, China had signed 200 BRI cooperation documents with 138 countries and 30 international organisations.

These documents include memoranda of understanding on aspects of BRI, cooperation agreements, ‘intergovernmental documents’, joint statements on various initiatives, and documents relating to particular projects.

Though differing in legal implication from country to country, a memorandum of understanding (MoU) is generally aimed at increasing cooperation within the BRI framework and substantiating the initiative’s legitimacy.

In many countries, the strategic framework for the general or sectoral development of BRI projects and the organisational framework for specific BRI projects are introduced by MoUs, typically listing general principles, setting objectives and guiding principles for future cooperation between parties, and covering the main areas of cooperation.

Regardless of whether MoUs are strictly legally binding, they arguably influence and guide the way China engages with these countries and organisations.

The MoUs between CEE countries and China, as well as MoUs regarding specific projects, are confidential. But an MoU’s basic structure generally covers BRI cooperation priorities such as policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

In addition to its MoUs China has numerous bilateral investment treaties (BITs) and multilateral investment treaties (MITs) which relate to BRI.

These are international law instruments agreed between two states (BITs), or between more than two states (MITs). In many cases they were signed before BRI began, but their provisions are often relevant to BRI projects, and Chinese investors in BRI projects in CEE may be protected by the provisions of these agreements. Some common forms of guaranteed protections include:

- commitments familiar from international investment law, such as ‘fair and equitable treatment’ and ‘full protection and security’;
- compensation for foreign investors whose assets are nationalised or expropriated;
- protection of foreign investors from discrimination in e.g. taxation, licensing or regulation; and
- ‘umbrella clauses’ which can be used to bring specific commitments relating to particular investments under the ‘umbrella’ of the treaty.

Every EU member state except Ireland has a BiT with China. Most were signed before 2000; some date back to the 1980s. The EU wants to replace them with a single bilateral Comprehensive Agreement on Investment, which it has been negotiating with China for some time.

Operational issues

Operational difficulties are another major challenge, and 52% of CEE participants say such issues are one of their top three obstacles. Again, there are various risk mitigation strategies. But there are things that all BRI participants can do to help projects run smoothly and reduce risk, even if they are not part of a formal mitigation strategy.

Some steps to reducing risk are as simple as having clear objectives and being flexible when considering the structures you can adopt to protect your interests in BRI projects and partnerships.

Finding and cooperating with partners

Positive cooperation – either generally or through structures such as joint ventures – can help to mitigate risk, share skills, encourage local acceptance, avoid local legal difficulties and move projects forward more rapidly. It may be particularly useful for businesses participating in markets with which they are not completely familiar.

Finding reliable partners can be challenging, and if not done well can bring its own risks. Businesses need a range of knowledge about their partners, from their financial strength to their technical capacity. Both these priorities inevitably involve a degree of transparency and information-sharing.

To form effective partnerships, organisations also need to understand where conflicts could arise, and ensure there are effective mechanisms for dealing with them. These include dispute resolution mechanisms, but also processes that can help to avoid conflicts, or to resolve them before they become serious disputes.

"Working with local lenders has helped us with financing requirements. We want our company to be perceived as trustworthy, so dealing with language barriers and cultural issues has been important. Hiring translators has proved effective, but we are also looking for more innovative ideas going ahead."

Managing director, Contractor, Croatia

Flexible structures and partnerships are likely to be more effective in dealing with problems. But these should not be confused with ill-defined structures. Clarity about the nature and degree of flexibility available provides certainty for all parties.

It is also important to consider potential cultural conflicts or misunderstandings. Some respondents see this as a stand-alone problem to be addressed with training from their HR department. But there are others who view it as a potential opportunity, such as the Chinese supplier who noted that in dealing with different BRI countries "we have learnt many new things and business concepts that will be useful in future projects."

Not all BRI participants are enthusiastic about partnerships, like the CIO from Hong Kong who told us that "during these tough times, we prefer to work independently" and the Chinese professional services provider who said "partnerships will be avoided for the most part because we prefer control on decision-making." But for every comment like that, we gathered many more positive ones, from participants such as the managing director of an investment fund in Poland, who said that "through these partnerships, we have been able to create sustainable value".

Comprehensive due diligence

Any project requires due diligence, and the more high-risk the project, or the market, the deeper and more wide-ranging it should be. Despite this, in some cases due diligence is insufficiently thorough, or is undermined by participants making faulty assumptions based on limited experience.

Due diligence should also lead to more than a 'stop/go' conclusion. It is a way of understanding the risks you are taking on, enabling the early identification of potential problems and, crucially, facilitating an appropriate risk management strategy. If it is treated simply as a way of identifying risks, rather than understanding them, it will not fulfil its commercial potential.

Effective due diligence and risk management are essentially collaborative. Identifying risks at the earliest possible stage, especially where local or specialist knowledge is needed, will probably involve expertise not only from within but also from beyond the organisation. Participants in a project will also benefit from working together, wherever possible, in risk management. Combined efforts are likely to reduce the risk profile of their project in a way that uncoordinated individual risk management strategies will not.

Using technology

Some respondents are addressing operational challenges through the use of technology to improve communication and to ensure projects run more smoothly. For the investment director of a Chinese investment firm: "Adding new technological capabilities helped in communication and coordination among multiple parties and added more confidence to various critical processes. This helped to mitigate operational challenges."

Technology has, of course, become even more important in recent months. For some of our respondents it is a way to improve planning and project management, while others feel that, during the pandemic, remote access to projects and data has become critical.

Some contractors hope that mechanisation and automation will reduce the number of people needed to work on projects, which is an issue where freedom of movement is restricted to control infection. And some plan to use technology to monitor the health of workers, particularly in remote projects.

As the director of finance at a Polish real estate fund says: "Digital transformation activities are being carried out to make sure we can contain the level of operational difficulties to a certain extent."

CEE participants say

45%

have participated in a partnership or joint venture as part of their involvement in BRI projects.

33%

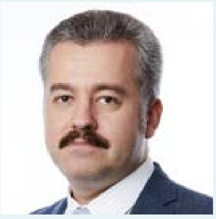
say finding and cooperating with local partners has been one of the greatest obstacles to their BRI-related activity.

25%

have found dealing with language barriers and cultural issues to be one of their biggest challenges.

The Russian Belt and Road

Vladimir Zenin
Partner
CMS Russia



Georgy Daneliya
Counsel
CMS Russia

BRI investment in CEE is dwarfed by BRI investment in Russia.

Russia is one of China's most important BRI partners. Its proximity to China means many trade routes between China and Europe pass through its territory. Its natural resources – particularly its oil, gas and coal – are also important for Chinese industry.

In some cases Chinese involvement in Russia's BRI projects is limited. The Meridian Highway, for example, is being built as part of a key BRI route, enabling fast passage through Russia from its border with Kazakhstan to its border with Belarus. But the highway is a privately funded PPP, led by Russian businesses.

One of the biggest of all BRI projects is the 3,000km Power of Siberia gas pipeline which Gazprom is building from the Russian Arctic to China. Its first phase came into operation in 2019. Again, the project has been led (and financed) from Russia.

Another project in the Russian Arctic, but one which does have Chinese backing, is the Yamal LNG plant, whose shareholders are Russia's Novatek, France's Total, China National Petroleum Corporation and the Silk Road Fund. The project came fully online in 2018.

China's interest in the potential of the Arctic as a trade route (the 'Polar Silk Road') and as a source of valuable natural resources has led to its participation in a number of similar projects, including the Payakha oilfield (to be developed by China National Chemical Engineering and Neftegazholding), and the port of Zarubino.

Other BRI projects in Russia include numerous collaborative coal mining ventures, the construction of the Eurasia high speed railway (partly financed by the Silk Road Fund), and a USD 13bn natural gas processing and chemical plant to be built by a subsidiary of China National Chemical Engineering.

Russia has also sought to encourage Chinese investment in its Eurasian Economic Union partners, such as Kazakhstan and Kyrgyzstan.

Investing in Russia: legal considerations

The Russian legal system generally belongs to the continental European legal family. The constitution, federal laws and regional laws form its foundation. Presidential executive orders, government decrees and the decisions of ministries are used to support and develop the provisions of primary legislation.

The constitution states that general principles of international law and international treaties are part of the Russian legal system. So if Russia is a signatory to an international treaty containing provisions contrary to domestic legislation, the treaty will prevail. The constitution, however, takes precedence over any such treaty.

The Russian Civil Code sets out the foundation of civil law and is the key source of law for business.

Prospective sources of legal protection

Foreign investment is permitted in most sectors, although restrictions may be introduced to e.g. protect the constitutional system or certain third party rights, or in order to ensure state security or defence. Federal Law No. 160-FZ ensures that foreign investors and investments will be treated no less favourably than domestic investors and investments, subject to wide-ranging exceptions.

Foreign investors are protected against nationalisation or expropriation unless this is provided for by federal law, in which case investors are entitled to compensation.

Foreign investors may also enjoy rights and protections set out in contracts concluded with local partners, such as warranties and representations, parties' liability, indemnity, termination rights, choice of governing law and rules of dispute resolution.

As a general rule, any party whose rights are breached is eligible to claim damages, including direct damages and loss of profits. A contract may set forth additional penalties (although courts may reduce them in disputes) and the parties can also agree indemnification provisions. Clauses may also be used to limit parties' liability (e.g. with a cap) or to allow the termination of the contract without significant financial losses if circumstances change (e.g. if sanctions are imposed or the law changes).

Investors may enjoy certain rights under special contracts with the state (e.g. special investments contracts or offset contracts), which may set forth special guarantees in exchange for a certain level of investment in the economy.

Russia also has an extensive network of treaties in order to prevent double taxation.

Governing law and dispute resolution

The parties to an agreement may generally choose Russian law or foreign law as its governing law, provided it involves a foreign element. Russian law may be preferable if contractual relations involve Russian state bodies and enterprises, but the use of English law or the law of the state of New York remains a common option (although the choice of foreign law cannot completely exclude the relevance of Russian law, whose mandatory rules cannot be overcome).

Care should be taken in selecting the forum in which disputes may be heard, to ensure enforceability in Russia or abroad, as necessary. The parties are free to choose national courts (Russian or foreign), arbitration or other forms of dispute resolution, such as mediation procedure.

Russia has treaties allowing reciprocal enforcement of court judgments with only a few countries. But it is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and an arbitral award obtained in another signatory jurisdiction should be enforceable by a Russian court.

Examples of restrictions

Foreign investors generally enjoy the same land rights as Russian individuals and legal entities. But they may not own land in certain border territories or other specifically designated territories (such as land located in sea ports), or agricultural land. They may however lease such land.

Legal entities – both Russian and foreign – providing many construction and design activities must become members of self-regulated organisations, which will authorise them to carry out those activities. Membership fees may be substantial.

The so-called 'Strategic Industries Law' provides for the strict regulation of all transactions or agreements that would result in foreign investors (or Russian groups with a foreign element) gaining control of entities engaged in sectors of Russia's economy which are deemed strategic for its defence and security (including many 'natural' monopolies and some communications services). Any such transactions must be cleared by a governmental commission. This law does not affect foreign investments which are governed by other federal laws or international conventions.

Foreign currency operations between Russian residents are largely prohibited. Contracts between residents may be denominated in foreign currencies, but the actual payment must be made in roubles – something which may lead to exchange rate differentials. Foreign currency transactions between residents and non-residents are generally permitted, although higher value foreign trade contracts must be registered with an authorised bank, and residents must repatriate roubles and foreign currency received from international trade and commercial activities to accounts held with Russian banks.

State procurement

Around ten years ago, Russia started to adopt measures aimed at increasing the domestic production of goods and reducing its dependency on foreign goods. Procurement law allows state and municipal authorities to purchase both domestic and foreign goods, but for bidding purposes, some goods from the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) enjoy a 15% pricing preference over those from elsewhere. Furthermore, an increasingly wide range of foreign goods may be procured only in tenders where no domestic or EEU alternatives are available.

Sanctions

Since 2014 the EU, the US and other countries have imposed various sanctions on Russian individuals and legal entities, including travel restrictions and asset freezes, and restrictions on exports and certain financial transactions. Russia has adopted countersanctions banning certain imports, and has legislated to allow the imposition of other measures against foreign companies and their affiliates.

These sanctions do not prohibit all commercial activity, but are focused on specific individuals, entities, regions and economic sectors.

Companies wishing to contract with Russian entities should carry out enhanced due diligence to ensure that they do not become involved in activities prohibited by sanctions. If an individual or company may be included into sanctions list, the foreign investor should ensure that their contract includes rights and remedies allowing them to terminate it and minimise their losses.

Special zones

Taxpayers implementing major investment projects may, in many Russian regions, benefit from tax and economic incentives – including subsidies and exemptions – fixed at a regional level.

Russia also has many Special Economic Zones (SEZs), which typically offer beneficial tax regimes, as well as Territories of Advanced Social and Economic Development (TASEDs), created to boost economic development and attract foreign investors prepared to conclude an investment agreement with the relevant regional authorities in return for significant tax breaks. Currently, there are 21 TASEDs located in the far east of Russia.

The Free Port of Vladivostok

Near the eastern end of the Chinese-Russian border, Vladivostok is Russia's largest Pacific port and the terminus of the Trans-Siberian Railway. It is a key node in East-West trade routes.

Neither an SEZ nor a TASED, the Free Port of Vladivostok, established in 2015, now covers 22 municipalities across five neighbouring regions. It offers various tax breaks and administrative advantages for new projects satisfying certain investment criteria, including five years with 0% tax on profits and property, and low rates thereafter. There is also the possibility of using the free customs zone regime.

Spotlight on sectors and regions

Key points

- BRI participants are increasingly interested in more overtly sustainable and eco-friendly sectors, which are also often seen as lower-risk options.
- Most CEE participants do not pursue BRI projects elsewhere, but some participants from other regions are interested in CEE opportunities.

Only 5% of our CEE respondents say their organisation has plans to target BRI opportunities in conventional power sectors in future, a 19 percentage point fall from the 24% who have targeted the sector in the past. This is part of a clear tilt away from conventional energy projects towards renewables.

Power grids remain an area of focus, with 46% of CEE respondents saying they plan to target them (an increase on the 39% who have previously done so). Roads (32%) and logistics (31%) are also priorities.

Renewables are now in joint second place (with roads) among CEE respondents as a target sector (32%), a big step up on the 11% who have previously targeted them.

This green trend is also reflected by the high number (87%) of of CEE respondents who view oil and gas as a high-risk sector for BRI projects. Conventional power (60%) and extractive industries (53%) are also seen as relatively high-risk, with renewables ranked among the least risky.

While this 'green shift' is the most dramatic aspect of sector sentiment, 'traditional' BRI sectors relating to trade are still those where most CEE participants see opportunities. Most (73%) view roads as presenting the most opportunities, with logistics (65%) not far behind. These sectors remain significantly ahead of energy networks (50%) and renewables (49%).

A domestic focus

Unsurprisingly, the main territory in which CEE participants have previously been involved in BRI projects is CEE itself (99%). The next most popular regions have been North Africa, Latin America and South-East Asia – all, on 11%, a long way behind CEE in popularity.

Similarly, 97% of CEE respondents will continue to look to their own region for BRI projects. North Africa may be growing slightly in popularity: 41% say it is one of the regions that offers them the most opportunities for BRI projects, and 16% actively plan to target projects there.

Significant numbers of BRI participants elsewhere expressed an interest in CEE projects. Nearly half (49%) of those in the Middle East and North Africa, for example, want to explore opportunities in CEE and/or Russia.

If BRI projects in CEE come to offer more opportunities for non-Chinese participants, CEE businesses may find they have strong competition from – but also opportunities for collaboration with – participants from other regions.

Sector opportunities and risks

In which of the following sectors has your organisation previously targeted BRI opportunities?

	China	CEE	Rest of World
Energy networks/ power grid	44%	39%	38%
Transportation: Road	47%	28%	30%
Logistics/industrial parks/ free trade zones	37%	28%	27%
Conventional power	30%	24%	28%
Social infrastructure: hospitals, healthcare	34%	18%	22%
Transportation: Rail	33%	19%	17%
Other technology and e-commerce	25%	18%	18%
Oil & gas (including LNG, pipelines, refineries etc.)	22%	20%	17%
Transportation: Ports	30%	9%	15%
Smart city projects	25%	16%	14%
Telecommunications/ICT	20%	12%	14%
Other urban development	23%	16%	12%
Renewables and hydro	18%	11%	14%
Heavy/extractive industries	26%	9%	9%
Other social infrastructure (e.g. schools, civic buildings)	21%	5%	11%
Water and sanitation	16%	0%	8%
Transportation: Air	14%	4%	6%

In which of the following sectors does your organisation have plans to target BRI opportunities?

	China	CEE	Rest of World
Energy networks/ power grid	50%	46%	42%
Transportation: Road	49%	32%	34%
Logistics/industrial parks/ free trade zones	57%	31%	36%
Conventional power	34%	9%	24%
Social infrastructure: hospitals, healthcare	41%	15%	28%
Transportation: Rail	43%	18%	22%
Other technology and e-commerce	30%	22%	19%
Oil & gas (including LNG, pipelines, refineries etc.)	19%	8%	13%
Transportation: Ports	42%	11%	19%
Smart city projects	44%	24%	27%
Telecommunications/ICT	32%	12%	13%
Other urban development	32%	18%	22%
Renewables and hydro	43%	32%	35%
Heavy/extractive industries	26%	8%	10%
Other social infrastructure (e.g. schools, civic buildings)	30%	9%	17%
Water and sanitation	24%	5%	14%
Transportation: Air	21%	5%	11%

Which of the following sectors offer the greatest number of BRI-related opportunities? (Select top five)

	China	CEE	Rest of World
Energy networks/ power grid	48%	50%	50%
Transportation: Road	89%	73%	79%
Logistics/industrial parks/ free trade zones	40%	65%	52%
Conventional power	9%	5%	14%
Social infrastructure: hospitals, healthcare	26%	24%	25%
Transportation: Rail	49%	27%	35%
Other technology and e-commerce	17%	39%	25%
Oil & gas (including LNG, pipelines, refineries etc.)	6%	3%	6%
Transportation: Ports	61%	28%	39%
Smart city projects	35%	48%	39%
Telecommunications/ICT	15%	23%	18%
Other urban development	15%	13%	20%
Renewables and hydro	48%	49%	42%
Heavy/extractive industries	8%	7%	9%
Other social infrastructure (e.g. schools, civic buildings)	8%	15%	6%
Water and sanitation	13%	23%	27%
Transportation: Air	13%	8%	8%

Which of the following sectors are perceived to be the riskiest? (Select top five)

	China	CEE	Rest of World
Energy networks/ power grid	9%	5%	9%
Transportation: Road	5%	5%	6%
Logistics/industrial parks/ free trade zones	27%	19%	18%
Conventional power	68%	60%	51%
Social infrastructure: hospitals, healthcare	22%	33%	34%
Transportation: Rail	23%	44%	37%
Other technology and e-commerce	13%	8%	5%
Oil & gas (including LNG, pipelines, refineries etc.)	83%	87%	77%
Transportation: Ports	8%	13%	14%
Smart city projects	27%	11%	18%
Telecommunications/ICT	24%	12%	21%
Other urban development	31%	35%	29%
Renewables and hydro	2%	1%	2%
Heavy/extractive industries	57%	53%	50%
Other social infrastructure (e.g. schools, civic buildings)	30%	34%	40%
Water and sanitation	41%	30%	28%
Transportation: Air	30%	50%	52%

BRI: Still to achieve its potential?

Bulgaria

Bulgaria is on the shortest transportation route that connects China with Western Europe and China's presence in Bulgaria has been on the rise over last few years. However, historically, Chinese investments in Bulgaria have been limited. According to Rhodium, Bulgaria attracted only EUR 400m of Chinese FDI between 2000 and 2019.

Some significant BRI projects planned for Bulgaria have not come to fruition, such as the award of the Plovdiv Airport concession to a Chinese-led consortium which then withdrew from the deal.

Chinese entities continue to tender for significant projects in Bulgaria – notably, China National Nuclear Corporation was invited to bid for the development of the Belene Nuclear Power Plant –Bulgaria's largest energy project to date, which will involve investment of USD 11bn.

In April 2020 China Communication Construction Company was one of the companies that tendered for the long-awaited USD 148m Shipka road tunnel. (Chinese finance for the tunnel was previously mooted, but not realised.)

In 2019 China Machinery Engineering Corporation signed a EUR 120m contract to develop infrastructure in Varna, Bulgaria's largest port.

Other Chinese involvement in Bulgaria includes the EUR 20m financing of a logistic hub in Burgas, the country's other major port.

Romania

Romania ought to be an attractive target for BRI investment, not least because of its oil and gas reserves. But, per capita, it has so far attracted about the same relatively low levels of Chinese investment as Bulgaria.

With the launch of the 16+1 initiative and BRI, Romania signed agreements with Chinese parties for projects worth a reported USD 10bn, including the construction of various power plants. But none got off the drawing board.

The largest project to have been slated for Chinese involvement – the construction of two new reactors at the Cernavodă nuclear plant – was halted in 2020, six years after the initial contract with a subsidiary of China General Nuclear was signed. It now looks as though the project may resume with American backing and without Chinese involvement.

Despite these disappointments, the future may bring new opportunities for the BRI projects in Romania. The Romanian government plans ambitious upgrades to its highways and railways, and the Power Construction Corporation of China recently signed a contract for the construction of a ring road in Zalau, reportedly the first road project in the country to be undertaken by a Chinese company. Chinese entities have also expressed interest in financing and building Romanian rail projects.

Poland

Poland is key to rail connectivity between China and Europe, via Kazakhstan, Russia and Belarus. This is the New Eurasian Land Bridge, one of the key BRI trade corridors.

Some routes in this corridor are already well established. The rail connection that was opened in 2013 between Łódź and Chengdu halved the time that some Chinese goods had to spend in transit to Europe. But infrastructure around the route continues to be upgraded, to avoid bottlenecks. For example, several new logistics hubs have been created in Poland, such as those in Łódź itself, Małaszewicze and Kutno.

However, Poland is another country where there has been relatively little BRI investment on the ground. Some new projects have been coming through: for example, a partnership of China Power Construction and Intercor recently signed a contract for the repair and reconstruction of the Chizhev-Bialystok railway. The route is strategically significant for BRI trade, and this appears to be the first Chinese involvement in such a project in Poland. But whether it is the start of a trend is unclear.

Poland is also keen to attract Chinese industrial investments, particularly greenfield investments. Examples to date include Nuctech screening systems, the TCL plant near Warsaw, and the Guotai Huarong electrolytes factory in Lower Silesia.

Ukraine

China is now Ukraine’s biggest trade partner, and its leaders have been keen for it to play an active part in BRI, not least in logistics and transport, given its strategic location. But it has so far seen relatively few completed BRI projects.

China Oil and Food Corporation is developing infrastructure in the Ukrainian port of Mariupol – the latest in a handful of projects involving Chinese companies in Ukrainian ports. Sinohydro has been building a road in the Zhytomyr region, funded by both Chinese lending and money from the EIB and EBRD – again, there have been a few similar projects.

Chinese businesses have been involved in several energy projects, including a large solar power plant in Nikopol and one in Progressovka. A flagship project, in which Chinese companies would build a USD 2bn extension to the Kyiv metro, largely funded by Chinese lending, appears to be on hold.

Chinese businesses have also invested in e.g. Antonov (builder of the world’s largest plane), and have been trying for several years to buy aircraft engine manufacturer Motor Sich – a deal which the US has been lobbying against.

The Health Silk Road

There is a strong consensus that the coronavirus pandemic will lead to an increased emphasis on the Health Silk Road, intended to strengthen health coverage in BRI countries through Chinese cooperation and support. Nearly all our CEE respondents expect this to happen.

A three-year plan for Belt and Road health exchange and cooperation was devised as long ago as 2015. By 2017 it had evolved into the Health Silk Road (HSR), endorsed both by participating nations and by international bodies such as the World Health Organization and OECD.

Much of HSR's initial focus was on policies such as public health and strengthening people-to-people exchanges. But in 2020 the pandemic has emphasised the deficiencies in health infrastructure in many BRI countries. An overwhelming majority (94%) of our CEE respondents believe that the pandemic will lead to a greater emphasis on HSR.

In the spring of 2020, China shipped large volumes of medical supplies and equipment to about 150 countries, including CEE nations such as Poland, Hungary, Bulgaria and Serbia, and a number in Western Europe. Medical personnel were also sent to some countries to offer advice and aid.

Some EU governments have complained that this assistance received much more publicity than the European medical aid sent to China in February 2020, before the pandemic took hold across Europe. But there is little doubt that China's medical outreach created a generally positive impression, and emphasised the potential benefits for some nations of Chinese healthcare projects.

Although healthcare systems in both Western Europe and CEE have been put under enormous strain by Covid-19, they do not require the investment in basic medical infrastructure that is needed in some parts of the world. A number of European nations, however, have healthcare systems that have suffered from continuing underinvestment.

Across CEE, too, there is considerable scope for investment in 'next generation' medical infrastructure, particularly in relation to telemedicine and other digital applications. These offer potential synergies with the Digital Silk Road– an area in which China may also wish to build on its data-driven successes in combating the coronavirus.

China also hopes that cooperation on HSR projects – both those related to the pandemic and those addressing other health needs – will help to build strong foundations for similar cooperation on other aspects of BRI.

A Belt and Road future

BRI is a massive policy initiative but it should still be seen in the context of the world's infrastructure requirements.

The coming decades will pose massive challenges to governments that are seeking investment to upgrade inadequate infrastructure, help them move to carbon neutrality and, more broadly around the world, achieve a variety of sustainable development goals.

A recent analysis by McKinsey, for example, estimated that Poland's transition to carbon neutrality will need an additional EUR 13bn a year for the next 30 years – increasing the annual level of investment in the Polish economy by 10 – 12%. Other nations will need similar levels of investment.

However big BRI may be, it isn't big enough to do more than meet a fraction of these challenges. But even though it is only one route among many to global development, BRI seems certain to be the world's largest infrastructure initiative for many years to come.

Even many of the commentators who have expressed reservations about BRI acknowledge that the world will not be able to meet its goals for sustainable development and a post-carbon future without extensive Chinese involvement and leadership.

BRI will also continue to evolve. Its participants are increasingly looking to meet the trends of the future. Affordable projects, embracing modern technologies and methods, as well as the "open, green and clean" approach of BRI 2.0, will often be those that stand the greatest chance of success. So will those that anticipate the genuine future needs of the societies in which they are built.

If BRI had never been conceived, developing countries would still be seeking to fund much-needed infrastructure projects with international financing, often from China, and contractors from China would still be tendering for many of those projects. There would still be a huge need for international development, and the parties involved would still be grappling with complex questions, such as managing risk, negotiating local partnerships, and balancing sustainability with value for money and profitability.

In its early days BRI was widely seen outside China as being primarily an umbrella under which such projects could be grouped. The question now is whether it will come to be appreciated internationally as a vehicle for higher standards of project sustainability and governance, as well as mutually beneficial cross-border partnerships for both Chinese and foreign participants. If it does, then it will truly be possible to describe it as, in President Xi's words, a path of "win-win cooperation".

Belt and Road Initiative: CMS reports

As a leader in many of the sectors that make up BRI – including infrastructure, energy, renewables, real estate, technology and healthcare – CMS commissioned a survey and interviews of over 500 BRI participants from around the world, to assess in depth their current feelings about BRI and the prospects they see for it.

We are publishing our findings in a series of six reports, beginning with reports on China and the Asia-Pacific region, and continuing with this report on CEE.

Reports covering the Middle East, Africa and Latin America will be published in the coming months.

Our findings are presented across six reports, each focusing on a different region. You can find the reports at **cms.law/bri**

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