

# China's Belt and Road Initiative and Bilateral Investment

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# Content

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- How does it work?
- Where is China investing in Europe?
- Where is Europe investing in China?
- Comprehensive Agreement on Investment

# What is the BRI?

- Not a top-down “grand strategy” with centralised decision-making
  - A loose policy framework that allows many different actors to pursue self-interested agendas under a common rubric
  - Key actors = provincial governments and SOEs, lobbying for loans, subsidies, etc: builds on previous rounds of external expansion
    - 2014-18: construction \$256bn vs investment US\$148bn, led by energy and transportation
    - SOEs got 96% of construction contracts, 72% investment projects
  - What do Chinese SOEs want?
    - Profit!
    - Contracts
    - Technology
    - Market access
- } Mergers & Acquisitions

# How does the BRI “work”?

- How are projects decided?
  - Chinese development financing is always recipient-led
  - Beijing links applicant to prospective SOE to work out the details (other agencies not involved in negotiations)
    - If disinterested, SOEs won't do a project, even when pushed – e.g. nuclear plants in Romania
  - SOEs often lobby would-be recipients to apply for funding in first place
  - Regulators and policy banks review/ approve scheme – very weak oversight
  - Projects can be standalone or packaged into bilateral MOU
  - Top-level “sign off”/ steer can unlock permissions/ funding
- NB “BRI” vs “non-BRI” projects often impossible to distinguish: BRI as bandwagon

Chinese contracts/ investment in Europe

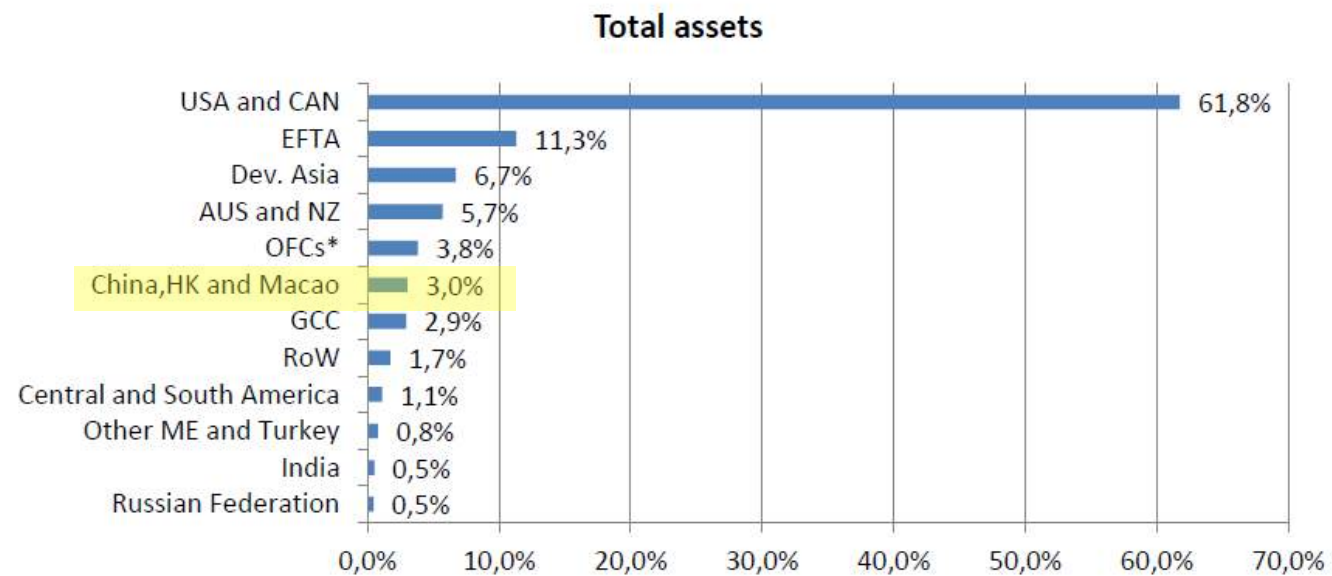
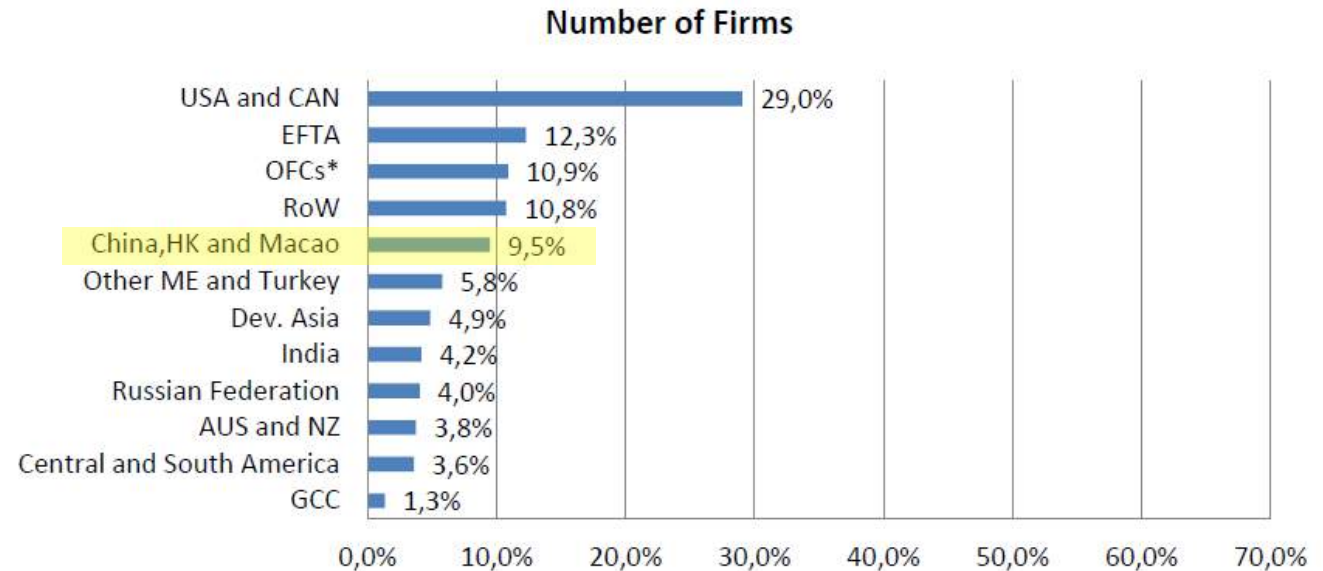
## To note...

- Not all going to Eastern Europe...  
no “grand strategy”
- Concentrated in most lucrative markets
- BRI led to surge, but peaked in 2017

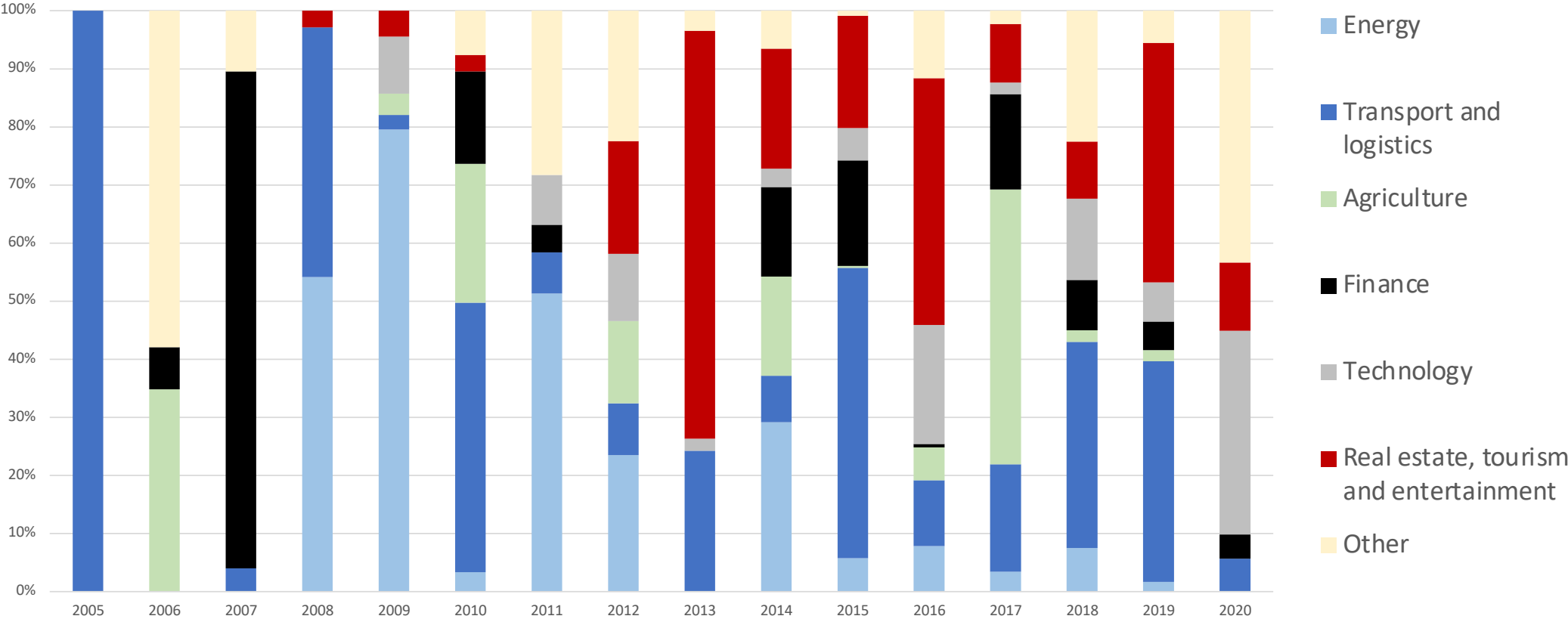


## To note...

- Still a pretty small share of overall inward investment in Europe, despite all the panic



# Sectoral composition

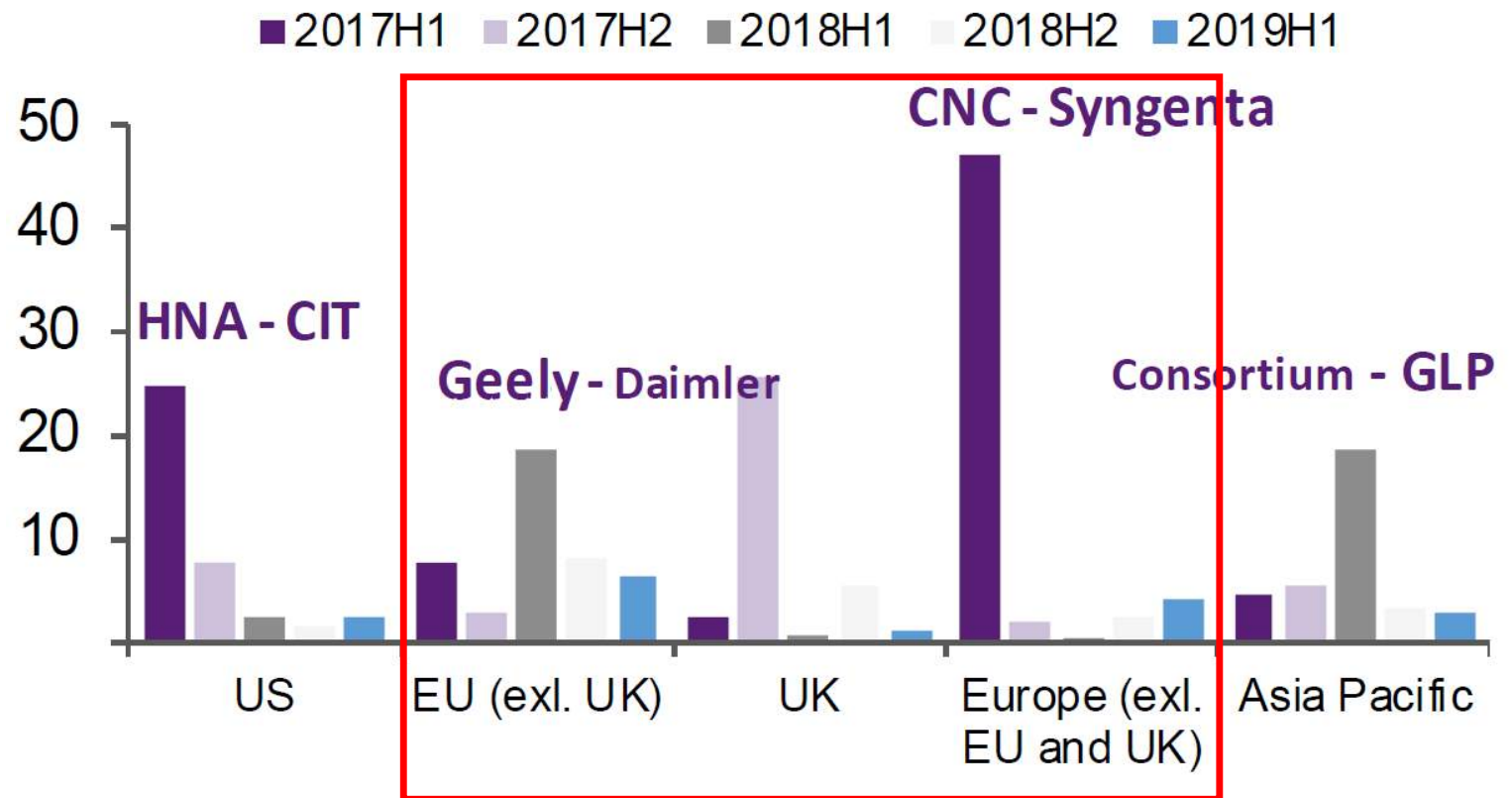






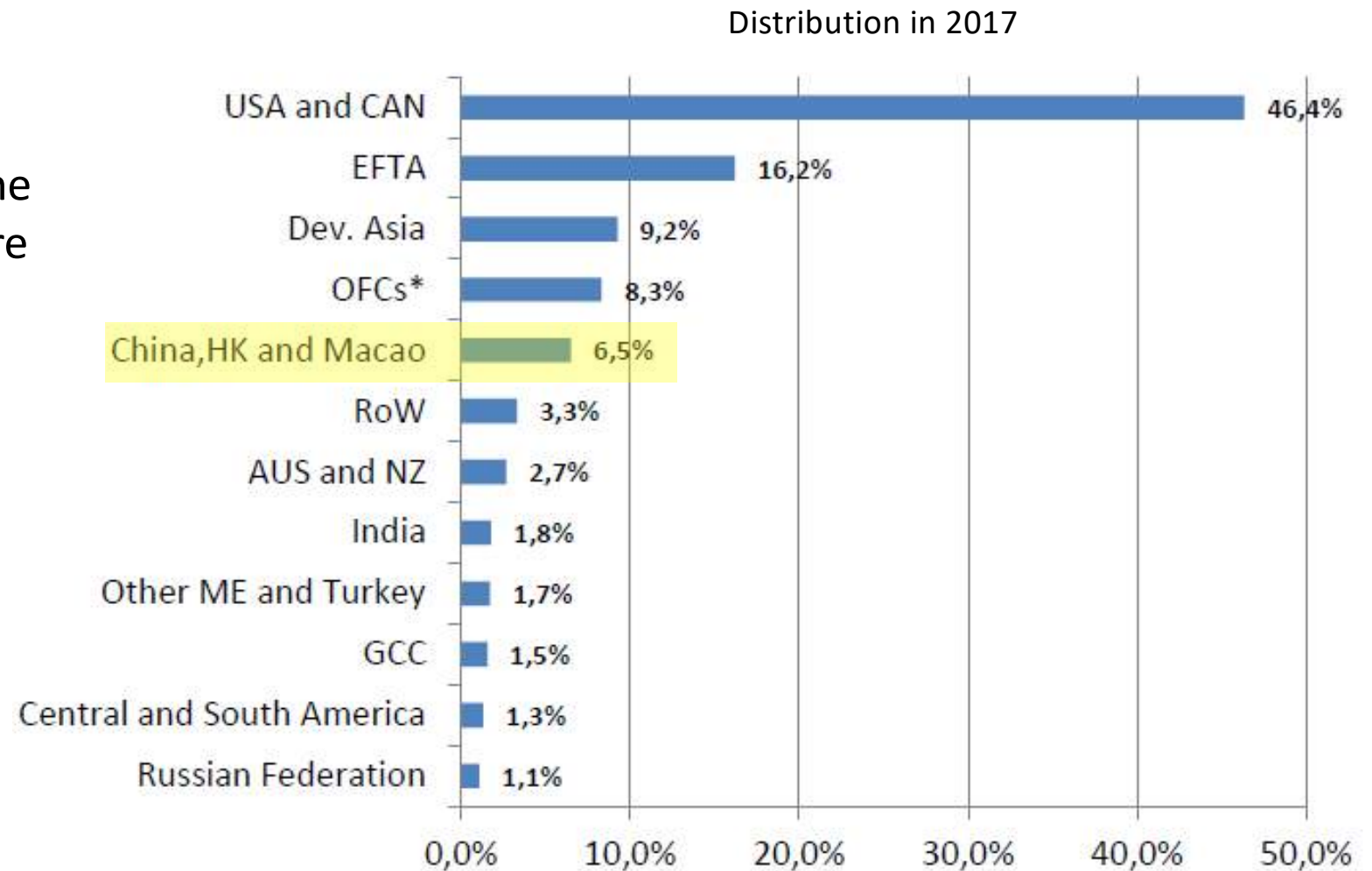
# M&As

... and a lot of M&As are targeting EU companies...

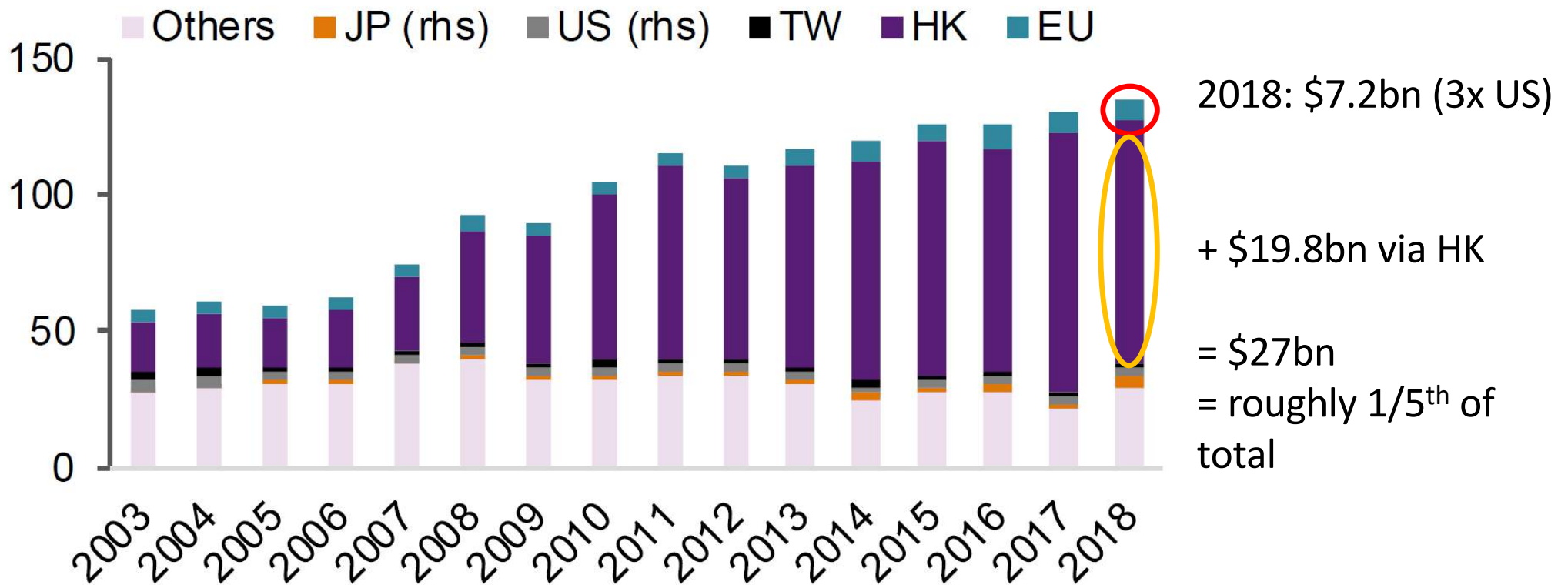


# M&As

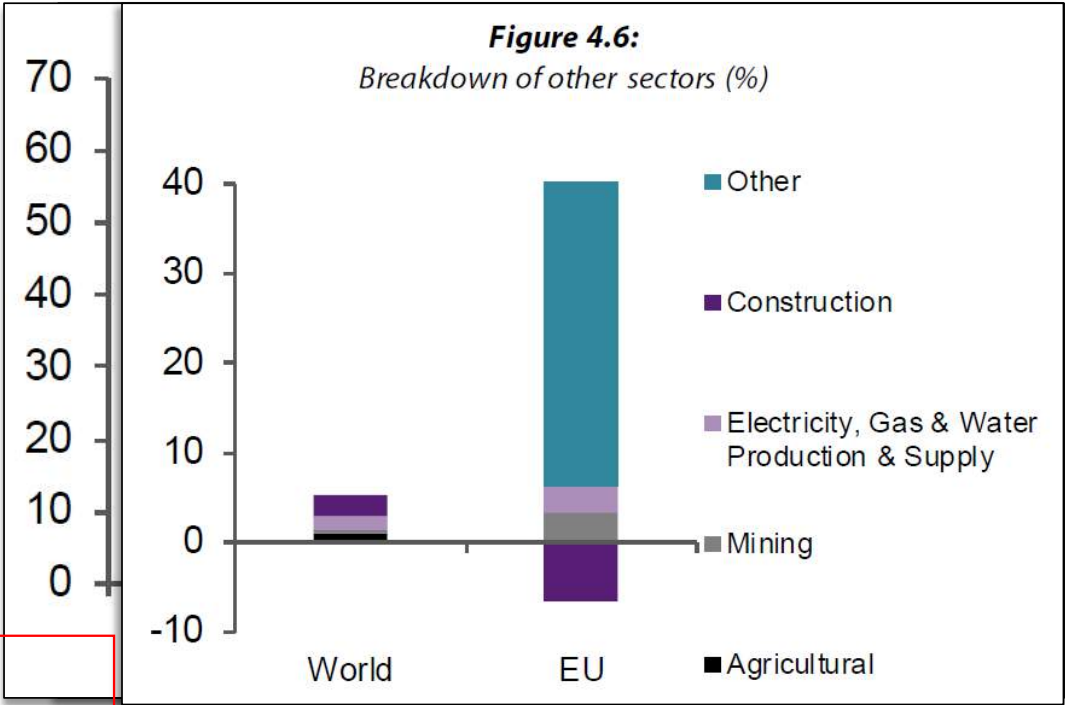
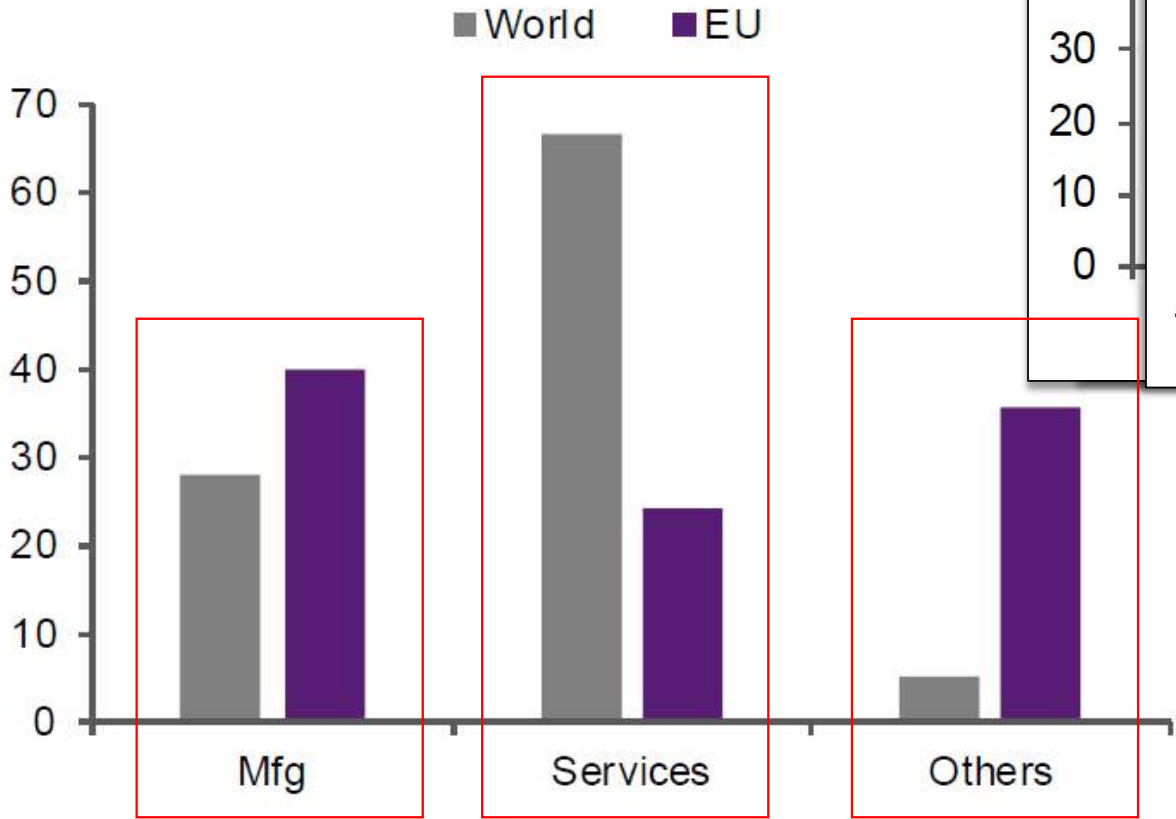
... but despite all the panic, again, they're still only a small share of the total overall in EU



# European investment in China



# Sectoral composition



# Comprehensive Agreement on Investment

- In negotiation since 2014
- EU increasingly alarmed about influx of Chinese investments to EU (and surging M&As)
- Given Chinese growth, prospects for EU investors far greater than, say, US ... *if* China grants full market access
- But in reality EU investors increasingly gloomy about China market

# Comprehensive Agreement on Investment

EU Objectives	China-side issues
1) Equal treatment with SOEs (incl. eliminating subsidies/ disciplining their behaviour)	SOEs are powerful interest groups and central to China's economic strategy
2) "Non-discriminatory treatment" e.g. no forced joint ventures/ technology transfers	Seen as necessary to escape "middle income trap" (Made in China 2025)
3) Regulatory clarity, predictability and objective regulation, licensing etc	Lack of clarity is a key tool of CCP control over business
4) IPR protections	IP theft is widespread, hard to suppress, and part of value-chain climb
5) "Adequate commitments" on environment and labour	Standards increasing in China, but low standards are part of its "comparative advantage"
6) Dispute-settlement system based on Investment Court System	See 3; CCP control over courts means they may not enforce international rulings

# Useful sources

- European Parliament, *EU-China Trade and Investment Relations in Challenging Times*, Report PE 603.492, May 2020  
[https://www.europarl.europa.eu/RegData/etudes/STUD/2020/603492/EXPO\\_STU\(2020\)603492\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/603492/EXPO_STU(2020)603492_EN.pdf)
- European Commission, *Commission Staff Working Document on Foreign Investment in the EU, Following up on the Commission Communication “Welcoming Foreign Direct Investment while Protecting Essential Interests”*, 13 September 2017, 13 March 2019  
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