BRIEFING

European Parliament

Towards a joint Western alternative to the Belt and Road Initiative?

SUMMARY

Since the People's Republic of China (PRC) launched its Belt and Road Initiative (BRI) in 2013, President Xi Jinping's signature foreign policy project has drawn widespread criticism, including for challenging the traditional model of multilateral infrastructure financing. Western-led bilateral and plurilateral infrastructure and connectivity initiatives designed as alternatives have remained fragmented and have been dwarfed in scope and scale by a geographically and thematically rapidly expanding BRI, which has thrived on an attractive brand and a streamlined authoritarian one-stop-shop project management system. In contrast to Japan, it has taken the EU and the US years to respond with separate regional strategies reflecting their distinct geopolitical outlook and economic relations with the PRC. The manifold implications of the PRC's use of physical and digital infrastructure projects as a foreign policy tool to expand its sphere of influence both across the world and within international organisations have been widely under-estimated.

At their 2021 G7 Summit, however, leaders from Canada, France, Germany, Italy, Japan, the UK and the US agreed on a global 'values-driven, high-standard and transparent infrastructure partnership', known as the 'Build Back Better World' (B3W) initiative, which echoes US President Joe Biden's 2020 'Build Back Better' campaign trail slogan. It is the first collective attempt of major democracies to craft a sustainable and targeted alternative to the BRI and to address the challenges it poses to the rules-based international order. It seeks to help fill, by 2035, an infrastructure gap in low and medium-income countries estimated at US$40+ trillion, by leveraging public development finance to mobilise untapped private-sector funds. Trends in the flows of global private infrastructure investment suggest that the initiative will face opportunities and challenges.

The European Parliament's 2021 resolution on connectivity and EU-Asia relations calls for an EU global connectivity strategy as an extension of the 2018 Europe-Asia connectivity strategy, in order to strengthen the EU's role as a geopolitical and geo-economic actor with a single narrative, and to broaden partnerships with democracies across the world that share the EU's fundamental values.

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The rationale for a joint Western alternative to the BRI

In 2013, the PRC launched its One Belt One Road (OBOR) initiative as a regional Sino-centric infrastructure development scheme designed to revive the historic Silk Road and to improve trade routes between the PRC and Europe along a 'Silk Road Economic Belt' (a land route across the Eurasian landmass divided into six economic corridors) and along a 'Maritime Silk Road' (along major maritime routes connecting Chinese ports with European ports). Relabelled in English as the Belt and Road initiative (BRI), it has gradually drawn criticism for a wide range of issues, among other things, for morphing from a regional economic integration initiative (in response to an alleged US containment policy under former President Obama's 'Pivot to Asia') into a rapidly expanding global foreign policy endeavour. It has increasingly been perceived as a tool to promote a new model of regional and international relations and an alternative governance model challenging the Western-led rules-based international order. The BRI has branched out geographically to the Arctic via a Polar Silk Road as well as across all of Africa and Latin America. Thematically, it has broadened its scope from physical to digital infrastructure and emerging technologies. The PRC has used its Health Silk Road to try to convince allies of Taiwan, such as Paraguay, to shift their diplomatic allegiance to the PRC in exchange for vaccine supplies.

Implications of the BRI's financing model

Criticism of the BRI has targeted its opaque and complex project financing model – usually a government-to-government arrangement involving Chinese state-owned banks as creditors and Chinese state-owned enterprises (SOEs) as executors of the construction contracts. A Chinese-dominated joint venture may also be the borrower, as in one railway project in Laos, making the deal more of a Chinese internal debt in a foreign country. The model includes confidentiality clauses on the lending terms and even on the existence of the contract itself, prioritising debt repayment to Chinese lenders and debt renegotiation restrictions. BRI loans typically require sovereign guarantees. Strategic assets of host countries such as ports or power grids may be collateralised.

The PRC leaves roughly half of its lending to developing countries unreported to the World Bank, thus creating 'hidden debt', estimated to have grown to US$385 billion by 2017. Moreover, it keeps cases of debt distress outside the Paris Club (an informal group of Western creditor countries seeking sustainable solutions to the payment difficulties of debtor nations), hindering the implementation of its core principles. From a Western perspective, this hidden debt restructuring appears to be at odds with the G20 common framework on debt treatment, while the PRC sees it as part of an emerging 'new order'. While these opaque lending practices give Chinese creditors an advantage over non-Chinese ones, host countries may be drawn into a debt trap and over-dependence on the PRC. As the PRC is now the largest global lender and the largest single external creditor to some 30 countries and often acts as the lender of last resort, the related risks have increased significantly and the number of borrowing countries facing repayment problems, such as Montenegro in Europe, is on the rise. Cases like those in Montenegro undermine the EU's enlargement policy for the Western Balkans, which includes an infrastructure framework aimed at fostering peace, economic stability, good governance and the rule of law in an effort to prepare them for EU accession.

The overwhelming majority of BRI-related engineering contracts are allocated without a public bidding process to Chinese SOEs that use Chinese workers and equipment and thus do little to boost local jobs and skills development; moreover, the PRC has been accused of imposing forced technology transfer requirements on foreign companies in violation of World Trade Organization (WTO) rules. Although the BRI has been promoted by the PRC as an open infrastructure development scheme, foreign companies hardly play a role in BRI projects. Business reports reveal that only a handful of EU companies have taken part in BRI projects. The lack, non-disclosure or poor quality of impact assessments on economic viability, on environmental and social sustainability, and on human rights increase the risk that BRI projects would yield poor economic returns and/or create

adverse environmental and social impacts or even useless 'white elephants'. Given the absence of competition, BRI projects tend to be overpriced. Their opacity makes them particularly prone to sustaining or fostering corruption and nepotism. Since the PRC has sought to promote the BRI within the UN system, there are concerns that its lobbying may among others ultimately impact on the integrity of flagship projects of international financial institutions, such as the World Bank, and on the future of the conditionality-based lending of multilateral development banks, by offering a counter-model with 'no strings attached'.

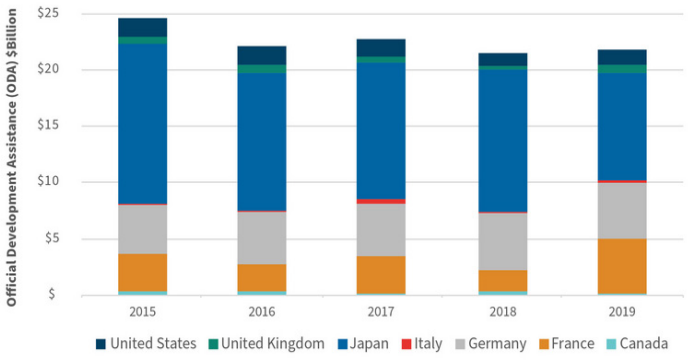
The BRI's wider geopolitical and human rights implications

Western democracies have become increasingly concerned about the BRI's growing scope and scale and its political, economic, geopolitical, security-related and human rights challenges. The PRC's infrastructure diplomacy, initially rolled out in competition with Japan in Asia, has evolved into a major tool in the great power competition with the US for global influence and more broadly in the competition between democracies and autocracies for the superior governance system. The BRI has enabled the PRC to extend its sphere of influence by exporting, along the Digital Silk Road, key features of its techno-authoritarianism, such as facial recognition software (e.g. to Serbia in the framework of Huawei's 'Safe City project'), and by pursuing a controversial mask and vaccine diplomacy and disinformation policies during the coronavirus pandemic. The BRI moreover has the potential to enable the PRC to co-opt or coerce countries into behaviour supportive of or refraining from criticism of Chinese policies. BRI countries have regularly backed the PRC in international organisations against accusations by liberal democracies of human rights violations in Tibet, Xinjiang, Hong Kong, and Inner Mongolia. Majority Muslim BRI countries have turned a blind eye to what some international law experts have referred to as genocide of Uyghurs in Xinjiang.

Towards a joint Western alternative to the BRI

Data on G7 infrastructure development assistance show that collective contributions have been somewhat in decline in recent years (see Box 1 below), while the gap in global infrastructure has remained huge. The shortage of public funds in the West and the significant drop in overseas lending by Chinese policy banks since 2016 over growing concerns about the PRC's mounting domestic debt levels support the case for greater coordination of Western regional strategies and fragmented initiatives and for a greater role for private sector funds to be collectively leveraged with G7 public funds. Some lessons regarding a joint Western alternative to the BRI could be drawn from bilateral and trilateral infrastructure or connectivity partnerships launched by G7 members in the past. These include early-stage cooperation between Australia, India, Japan and the US in different formats, for the development of financing schemes for quality infrastructure in the Indo-Pacific aimed at leveraging private funds.

Figure 1 – G7 Infrastructure assistance 2015-2019 in US$ bn



Source: Center for Strategic & International Studies (CSIS), The G7's New Global Infrastructure Initiative, based on OECD data, June 2021.

Japan's response to the BRI

Japan has long experience in overseas infrastructure financing as part of its traditional approach to providing development aid. It has engaged in partnerships with G7 and non-G7 partners.

Japan's quality infrastructure partnership

Japan was the first G7 member to be exposed to the BRI's regional impact and to the rapidly increasing competitive edge of Chinese companies in overseas low-cost turn-key infrastructure construction enabled by large economies of scale at home and massive state support under the PRC's 'going out' policy. Consequently, in 2015 Japan designed a quality infrastructure alternative to the BRI, based on its decades-long expertise and solid track record in financing infrastructure in third countries. Called Partnership for Quality Infrastructure (PQI), this Japanese initiative had a five-year budget of US$110 billion earmarked for PQI projects and was initially limited to Asia. In 2016, the PQI became global and its budget was raised to US$200 billion. The key features of Japan's alternative are:

- the label *quality* infrastructure versus *standard* infrastructure provided by the PRC;
- a financing model that stresses the importance of leveraging private funds and knowhow from the private sector as opposed to a mainly state-funded financing model, as in the BRI.

However, the Japanese financing model bears some similarities to the PRC model:

- like the PRC, Japan tends to prioritise the use of official development assistance (ODA) *loans* rather than ODA *grants*;
- loans may be tied to the use of Japanese inputs (33 % of Japan's overall ODA in 2018, down from 21.8 % in 2014).

From a macroeconomic perspective, the PQI has implemented both Japan's infrastructure system export strategy and its push for Japanese corporations' overseas expansion as part of the country's 2013 revitalisation strategy ('Abenomics') spurred by then Japanese Prime Minister Shinzo Abe. The PQI promotes public-private partnerships (PPPs) by linking domestic and multilateral finance institutions with private sector funding based on a range of quality criteria promoted by the Japanese government as international standards in the G7 and G20 formats. This has involved the following stakeholders:

- the Japan International Cooperation Agency (JICA), responsible for ODA;
- the Japan Bank for International Cooperation (JBIC) responsible for export promotion (major overseas infrastructure projects as of March 2021);
- the Japan-led Asian Development Bank (ADB), at the time when the PRC set up the Asian Infrastructure Investment Bank (AIIB) as a regional competitor to the Japan-led ADB, challenging Japan's regional and global influence. Like the US, Japan has not joined the AIIB, but the ADB and the AIIB have co-financed a number of infrastructure projects under a partnership agreement;
- the Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN), a government-private sponsored investment fund created in 2014 with a focus on south-east Asia, but also including among its projects a high-speed connection between Dallas and Houston in the US, with financial support from Japan to the tune of US$300 million and more than US$450 million from private investors.

The Quality Infrastructure Management Casebook of the Japanese government includes a list of infrastructure projects based on a set of criteria defining the quality label. Experts, have noted, however, that different Japanese agencies have used various sets of quality requirements presumably in order to preserve flexibility for public financing institutions to support Japanese industries and for the government to endorse specific projects of high geopolitical relevance.

According to recent reports, Japan has invested US$259 billion (PRC: US$157 billion) in unfinished projects in Indonesia, Malaysia, the Philippines, Thailand and Vietnam. There have nonetheless been setbacks in Japan's competition with the PRC on high-speed train projects in south-east Asia (e.g. in Indonesia, Laos, and Thailand), although the alleged advantages of the PRC often wane. The PQI has not been able to keep pace with the meteoric expansion of the BRI in quantitative terms at global level despite Japan's strong foothold in south-east Asia's infrastructure construction sector.

Japan's role in international infrastructure standard-setting

Beyond establishing the PQI, Japan has been a major driver of global standard-setting, starting off with the Principles for Promoting Quality Infrastructure Investment at the 2016 G7 Ise-Shima Summit, two years after the creation of the G20 Global Infrastructure Hub. The principles spell out five quality elements and led to the adoption of the G20 Principles for Quality Infrastructure Investment (PQII) at the G20 Osaka Summit in 2019 (see Box 2). However, the PQII are voluntary and non-binding and lack some important indicators that are necessary both for their meaningful implementation and for turning the Sino-Japanese infrastructure competition into a race to the top. In tandem with the World Bank, Japan created the Quality Infrastructure Investment (QII) Partnership, which aligns to the 2019 G20 PQII and had funded 10 projects by September 2021.

Box 1 – The G20 PQII

Principle 1: Maximising the positive impact of infrastructure to achieve sustainable growth and development

Principle 2: Raising economic efficiency in view of life-cycle cost

Principle 3: Integrating environmental considerations in infrastructure investments

Principle 4: Building resilience against natural disasters and other risks

Principle 5: Integrating social considerations in infrastructure Investment

Principle 6: Strengthening infrastructure governance

Japan's strategic alignment with India

Japan's outreach to like-minded partners for infrastructure cooperation has been driven by its regional geopolitical outlook and economic interests. Japan has regarded India as a key partner capable of balancing the PRC's rise to global economic power and influence, including through the BRI. India and Japan in 2015 aligned their strategic vision for the Indo-Pacific 2025, by drawing on Indian General Gurpreet Khurana's 2007 strategic analysis 'Security of Sea Lines: Prospects for India–Japan Cooperation', on India's Act East policy aimed at balancing China and Russia against Japan and the US, and on Japan's Free and Open Indo-Pacific (FOIP) policy, which builds on Shinzo Abe's 2007 landmark speech on 'Confluence of the Two Seas' at the Indian Parliament.

India and Japan do not participate in the BRI and are thus best placed to spearhead initiatives aimed at shaping a sustainable alternative to it. India refused to join the BRI due to sovereignty issues with Pakistan along the BRI's flagship China-Pakistan Economic Corridor (CPEC) and the lack of a level playing field for its economic operators. The PRC found Japan's offer in 2017 to join the BRI on its own terms unacceptable. In 2017, India and Japan established the India-Japan Act East Forum to identify infrastructure and connectivity projects in India's North-eastern Region (NER). There, India has a disputed border with the PRC, which has repeatedly seen skirmishes. The NER is a vital bridge between India and south-east Asia and is the key target of India's Act East Policy. Japan has provided ODA and technology transfer for a series of infrastructure projects in India, such as the North East Road Network Connectivity Improvement Project, symbolising the growing level of trust between the two countries.

Box 2 – Japan's construction of the first high-speed train in India

The most high-profile project Japan's development aid agency JICA has committed to finance is the construction of India's first high-speed rail (HSR) connection linking Mumbai with Ahmedabad (508 km). This project relies on the Japanese E5 Shinkansen bullet train system technology, and Japanese contractors using materials including cement and steel imported from Japan. To implement the project, Japan offered India its largest-ever single ODA loan for a high-speed rail contract, of US$14.3 billion. The loan has an interest rate of 0.1 % and will be repaid over 50 years with a 15-year grace period to Japan; there has been no competitive process, making the project an essentially political and strategic one. The project is of a symbolic and standard-setting nature, as well as an important test case for Japan's strategy of quality infrastructure export. As of June 2021, the completion deadline of the contract signed in 2017 is likely to be prolonged from 2023 to 2028 inter alia owing to issues relating to the land acquisition for the project.

India and Japan's cooperation in third countries started in 2018 when they announced plans to build an LNG terminal and power plant in Sri Lanka and undertake projects in Bangladesh (the Ramgarh–Baraiyarhat Highway and the Jamuna Railway Bridge) and Myanmar, i.e. countries into which the PRC has rapidly been making inroads. Traditionally, India has considered these countries its own backyard.

The Japan-India Asia-Africa Growth Corridor

Beyond Asia, India and Japan have sought avenues for complementarities in their engagement in Africa and for providing a geopolitical alternative to the BRI in the face of the PRC's growing footprint in this continent and based on the understanding that competition with the PRC on the ground cannot be won in quantitative terms. The 2018 Infrastructure Consortium for Africa (ICA), for instance, recognises commitments of India (US$763 million), of Japan (US$517 million) and of the US (US$297 million), which lag by far behind those of the PRC (US$25.7 billion).

Japan and India's 2017 vision document on the Asia-Africa Growth Corridor (AAGC) was their first joint step towards promoting quality infrastructure in Africa and improving maritime links between Africa and Indo-Pacific countries through joint projects as well as institutional connectivity. The government-to-government dimension under the AAGC has, however, remained an abstract concept for which no concrete implementation plans exist. While both India and Japan have supported projects in Africa separately, their cooperation on Africa has remained focused on business-to-business cooperation under the Platform for Japan-India Business Cooperation in Asia-Africa between Japan's External Trade Organisation (JETRO) and the Confederation of Indian Industry (CII). Business cooperation mostly takes place in areas other than infrastructure. Synergies may be derived from both countries relying on private businesses for development cooperation.

The US response to the BRI

The Obama administration sought to deter allies and partners from joining the AIIB over concerns about the fate of international standards. It considered US leadership in the negotiations of an ambitious plurilateral trade agreement, the former Trans-Pacific Partnership agreement (TPP), signed in February 2016 and renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as part of the economic pillar of the US 'Pivot to Asia', as a valid approach to ensuring a strong US economic footprint in Asia. However, as of 2021, not only is the US not a CPTPP member but it has also witnessed the PRC overtaking it as a bigger trading partner of all Indo-Pacific countries except Bhutan by 2018, and the PRC applying for CPTPP accession in 2021.

As in Japan, development finance agencies in the US have a long track record of attracting private sector finance for overseas infrastructure development. Adhering to the US private sector-based model for fostering good governance and climate change goals, the Obama administration launched

- the **Power Africa** public-private partnership to spur Africa's electrification;
- **US-ASEAN Connect**, the US government's strategic framework for economic engagement with the Association of Southeast Asian Nations (ASEAN) and the ASEAN member states. One of its four pillars, Energy Connect, is geared to increasing the supply of grid-connected renewable energy;
- the **Global Procurement Initiative** (GPI) at the US Trade and Development Agency (USTDA), which seeks to link US companies to infrastructure projects in developing countries. The GPI provides developing countries with a toolkit for more open and transparent procurement practices, better methods to determine fair value for purchases, and assistance in selecting smarter and more sustainable infrastructure. As of October 2021, the GPI had 14 partner countries, including Romania, and counts the Australian and Japanese governments among its partners.

Under the Trump administration, the US approach to the BRI shifted from moderate scepticism, mainly relating to the risk of international standards being undermined, to strong opposition in an escalating US-China great power competition. The 2017 national security strategy spells out the US intention to design an alternative to the BRI by using regional cooperation in order 'to maintain transparent infrastructure financing practices' and to strengthen cooperation with allies on high-quality infrastructure. The Trump administration endeavoured to counter the BRI as part of the US free and open Indo-Pacific strategy, by facilitating high-quality infrastructure development and cost-effective connectivity projects. The PRC's efforts to set international standards and to export PRC-controlled digital technologies through the BRI led in the West to the emergence of the concept of

trusted connectivity. This concept became part of the Trump administration's initiatives focused on institutional capacity-building and on new initiatives in the digital sphere, among which:

- the modernisation of US development finance capabilities, which prompted Congress in 2018 to adopt the Better Utilization of Investments Leading to Development Act (the BUILD Act, S2463) which served as the basis for creating the **US International Development Finance Corporation** (US IDFC). To bolster the US development finance capacity, the US IDFC was equipped with a doubled contingent liability ceiling of US$60 billion, an amount that the PRC had pledged to Africa alone at the 2018 Forum on China-Africa Cooperation. The agency's mandate includes making equity investment and funding feasibility studies, which strengthens its ability to engage private sector partners in critical infrastructure projects overseas that the private sector might not otherwise finance on its own. It works across agencies to deploy loans, loan guarantees and political risk insurance for projects that adhere to high standards of transparency and sustainability. It also complements the work of the US Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC);
- the **Infrastructure Transaction and Assistance Network** (ITAN), as an inter-agency body to coordinate efforts to assess projects, direct development finance, and give technical assistance;
- the **Transaction Advisory Fund** (TAF) under ITAN, which is intended to fund targeted transaction advisory services to developing countries' governments. It supports partners in their assessment of the financial and environmental impacts of potential infrastructure projects. TAF services cover legal assistance to the negotiation of contracts, sustainability analysis, and proposal evaluation;
- the **Clean Network Alliance of Democracies** for digital networks and particularly for 5G networks. The Clean Network Alliance was initiated to counter the PRC's digital ambitions on national security grounds. According to the Trump administration, by January 2021, the US initiative had rallied 60 countries (all of the EU Member States except for Hungary, and 27 of the 30 NATO members) behind the initiative. Similar ideas were launched in parallel with other labels such as the Technology 10 alliance and the UK's D-10 club of democracies;
- the **Digital Connectivity and Cybersecurity Partnership**, aimed at promoting an open, interoperable, secure, and reliable Internet in emerging global markets through PPPs and technical assistance, among others.

Box 3 – Australia-Japan-US trilateral partnership and the Blue Dot Network initiative

In 2018, Australia, Japan, and the US announced a trilateral partnership for infrastructure investment in the Indo-Pacific as part of the broader alignment of their Indo-Pacific strategies. The partnership seeks to deliver on quality, transparency, debt sustainability and environmental and social safeguards and to galvanise private sector finance in an effort to pool forces to provide an alternative to the BRI. However, three years into the initiative, only one project is underway: an undersea fibre optic cable worth US$30 million connecting the Republic of Palau to an international cable in Guam to boost secure and reliable and low-cost internet connectivity in the region.

In 2019, the trilateral partnership launched the multi-stakeholder Blue Dot Network (BDN) initiative for sustainable infrastructure projects (dubbed the 'Michelin Star'), as a way to differentiate BDN projects from BRI ones. The BDN initiative seeks to operationalise the G20 PQII by establishing a voluntary private-sector-focused and government-supported certification scheme geared to attracting private investment. By April 2021, no projects had been certified, since the certification benchmarks for the BDN have yet to be announced. It remains to be seen whether the BDN will have the adequate resources to fulfil its mandate.

Under the Biden administration, US- and Australia- sponsored multi-stakeholder work on a trusted global certification framework BDN was revived under the auspices of the OECD. A recent OECD survey suggests that respondents from the private sector and civil society agree that the BDN certification framework could spur greater infrastructure investment in emerging markets, while also highlighting challenges faced by infrastructure investors, including poor governance, lack of transparency, environmental and social risks and weak legal and regulatory frameworks. In June 2021, the US State Department stressed that the idea behind the BDN is to certify projects as 'market-driven, transparent and sustainable' as a way to reassure investors rather than to match the PRC's funding of the BRI. In

October 2021, a second (recorded) OECD platform meeting was held, and the US announced the launch of a partnership with the OECD to reduce corruption risks in infrastructure investment. The US and Japan have developed their bilateral cooperation further, too (see Box 4), while the Quad (quadrilateral cooperation between Australia, India, Japan, and the US) decided in September 2021 to launch a Quad infrastructure coordination group to mutually reinforce and complement individual efforts. Moreover, the US is working on an economic framework for its relations with Indo-Pacific partners that includes infrastructure.

Box 4 – Japan-US infrastructure partnerships

In February 2020, the Trump administration and Japan signed a memorandum of understanding on Strengthening Energy and Infrastructure Finance and Market Building resulting in the Jawa 1 Gas-to-Power Project in Indonesia. In April 2021, the Biden administration and Japan initiated a US$4.5 billion Global Digital Connectivity Partnership to promote secure connectivity and a vibrant digital economy while building the cybersecurity capacity of US partners to address shared threats.

The EU response to the BRI

The EU–China 2020 Strategic Agenda for Cooperation, adopted in the year of the BRI's launch, does not mention the BRI but raises the idea of exploring models of infrastructure cooperation, including 'project bonds, project shareholding, joint contracting and co-financing', and coordination between the EU, the PRC and the EU Member States. The BRI is included in the EU's strategy papers on China of 2016 and 2019 with references to the challenges it creates.

The EU-China connectivity platform

The EU-China connectivity platform was created in 2015 with the aim to involve technical and political level representatives from both sides in exploring synergies between the EU's policies for cross-border connectivity and projects, notably under its Trans-European Transport Network (TEN-T), and the PRC's BRI as well as between respective sources of funding in the field of transport and other kinds of infrastructure. The EU has used this platform to engage the PRC on the EU's framework for cross-border infrastructure financing and on key EU principles such as sustainability, transparency, a level playing field for all economic operators involved, and the applicability of international standards for joint projects. The format has allowed exchanges on policy coordination and priority lists of planned transport infrastructure projects in the EU, in the PRC and across the Eurasian landmass, for which financing gaps may exist. In 2019, the terms of reference for a joint study on sustainable railway-based transport corridors between Europe and the PRC were agreed. According to DG Move's annual management plan 2021, the study's launch appears to have been delayed, and reviving the dormant EU-China Transport Dialogue is listed as a future deliverable.

In parallel to the operation of the EU-China connectivity platform, EU Member States have defined their individual approach to the BRI in line with their respective infrastructure needs and geopolitical and geo-economic agendas in their bilateral or sub-regional (for example, the 16+1 cooperation format with the PRC) relations with the PRC. A large number of EU Member States have signed third-party agreements and memoranda of understanding with the PRC, which may not necessarily have contributed to EU cohesion and transparency. Yet, in 2018, 27 of (at the time) 28 EU ambassadors to the PRC signed a report noting that the BRI 'runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favour of subsidized Chinese companies'. The EU monitors PRC-led infrastructure projects in the EU Member States for their compliance with EU internal market legislation, including on public procurement. Such projects include the PRC-funded high-speed rail connection between Budapest (Hungary) and Belgrade (Serbia) and the EU-funded but PRC-built Peljesac bridge in Croatia. Recent public tenders for EU infrastructure projects show that Chinese companies use all their means to expand their foothold in EU-financed transport infrastructure projects that are part of the TEN-T programming in the EU-27. The BRI has an impact on the EU transport networks: Chinese investment in 'BRI ports', such as Antwerp and Piraeus, has redirected container throughput to them from ports without Chinese investment, such as (until recently) Hamburg, revealing the competitive dynamics and structural changes such investment can unleash.

The Europe-Asia connectivity strategy

In its 2018 Europe-Asia connectivity strategy, then widely seen as the EU response to the BRI, the EU stresses the need for 'sustainable, comprehensive and rules-based connectivity' as part of a distinct 'European way'. It spells out its principles for cross-border connectivity projects, among them transparency, economic, environmental, financial, fiscal and social sustainability, respect for international standards and a level playing field for economic operators. The strategy also highlights the EU's interest in concluding bilateral connectivity partnerships.

Japan. In 2019, the EU concluded its first bilateral connectivity partnership with Japan. The partnership has a broad geographical scope covering the Western Balkans – for which Japan presented an initiative in 2018 – eastern Europe, central Asia, the Indo-Pacific and Africa. To contribute to the funding of the EU-Japan partnership's implementation, the European Investment Bank (EIB) signed two memoranda of understanding: one with the Japan Bank for International Cooperation (JBIC) and another with Nippon Export and Investment Insurance (NEXI). However, two years into the cooperation, the 2021 EU-Japan Summit statement states that both sides 'continue to identify concrete projects'.

Box 5 – EU-Japan development cooperation on infrastructure projects in Africa

The EU and Japan contribute to the Programme for Infrastructure Development in Africa (PIDA) 2021-2030. They support road construction in Mozambique and Burkina Faso and projects in the West Africa Growth Ring Corridor Master Plan. In Uganda, Japan supports the improvement of power transmission and distribution capacity, while the EU co-finances the development of a hydroelectric facility and the construction of transmission lines in Bujagali.

India, and other potential partners in the Indo-Pacific. At the 2021 EU-India Summit, the EU signed a connectivity partnership with India. The EU is eager to pursue a similar partnership with ASEAN, with which it entered into a strategic partnership in 2020, and with Australia, Canada, South Korea and the US, as envisaged in the 2021 EU Indo-Pacific strategy, which puts particular emphasis on digital partnerships. The 2021 EU-US Summit statement commits the two sides to enhanced cooperation on sustainable connectivity and high-quality infrastructure but remains silent about a potential connectivity partnership.

European Parliament position

In its resolution of 21 January 2021 on connectivity and EU-Asia relations, Parliament called for a global EU connectivity strategy as an extension of the 2018 Europe-Asia connectivity strategy, in order to strengthen the EU's role as a geopolitical and geo-economic actor with a single narrative and to broaden partnerships with democracies across the world that share the EU's fundamental values in the digital field and the fields of health, security, green transition, transportation, and energy. Parliament recommended that a global strategy should include more emphasis on cooperation with India, Japan and South Korea. It furthermore recommended developing an Indo-Pacific strategy for the EU and proposed that Africa and the EU's neighbourhood should be designated as priority regions for connectivity projects.

Towards an EU global connectivity strategy – 'Global Gateway'

The Foreign Affairs Council conclusions of July 2021 mandated the HR/VP Josep Borrell and the European Commission to draft a communication on an EU global connectivity strategy by spring 2022. During her September 2021 State of the Union address, Commission President Ursula von der Leyen announced that the EU will redesign its model to connect to the world under a new connectivity strategy called Global Gateway. She stated: 'We will build Global Gateway partnerships with countries around the world. We want investments in quality infrastructure, connecting goods, people and services around the world. We will take a values-based approach, offering transparency and good governance to our partners. We want to create links and not dependencies! …We want to turn Global Gateway into a trusted brand around the world'. The Commission and High Representative adopted a joint communication on 1 December 2021, setting out plans to mobilise up to €300 billion, to 2027, in investment in 'sustainable and trusted connections' across the world, under the Global Gateway.

The G7 Build Back Better World initiative

After years of either disregarding or criticising the BRI, G7 members have engaged in a first collective effort to craft a viable global infrastructure initiative as an alternative to it. At their 2021 Summit, G7 members committed to joining forces for a value-driven, high quality and transparent infrastructure partnership referred to as the Build Back Better World (B3W) initiative. It echoes US President Joe Biden's 2020 'Build Back Better' campaign trail slogan and his administration's continued aim to align domestic and foreign policy action (see Box 6). It seeks to help narrow (rather than entirely fill) an infrastructure gap in low- and medium-income countries estimated at US$40+ trillion by 2035.

The B3W initiative seeks to distinguish itself from the state-driven BRI by leveraging public funds from G7 development finance and export credit agencies to unlock significant levels of private-sector capital (e.g. from pension funds) for infrastructure projects that are in line with values shared by the G7. Unlike the BRI, which has an open-ended agenda, the B3W is limited to four areas: climate, health and health security, digital technology, and gender equity and equality. From a US perspective, it would secure resilient global supply chains, spur economic growth and job creation through new export opportunities for US business, and build areas of US industrial strength and innovation.

Early reaction to B3W

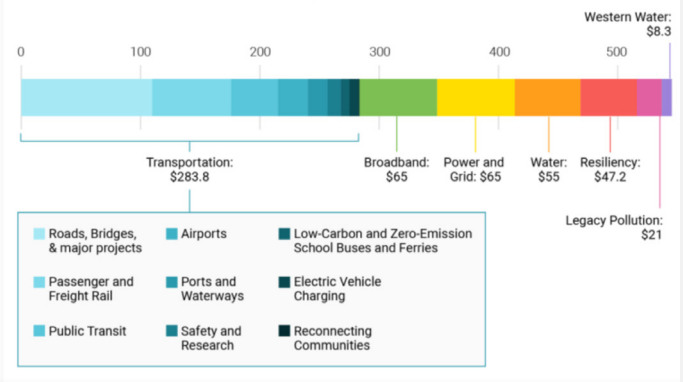
The Chair of the US House Foreign Affairs Committee, Gregory Meeks (D-New York), has welcomed the B3W initiative. He considers that mobilising capital is its 'primary challenge', that G7 members 'must develop new tools to spur market-driven investments' and that 'a common set of standards across the major multilateral institutions and development banks' is needed to ensure value-based infrastructure projects. Some experts have stressed the need for the US to deploy more substantial financial resources and leadership to tackle the inadequate US funding and financing

Box 6 – The US domestic Build Back Better agenda

The B3W initiative is derived from the Biden administration's ambitious domestic Build Back Better agenda. In March 2021, President Joe Biden proposed a US$2.0 trillion American Jobs Plan with a large infrastructure component as a 'once-in-a-generation investment in America'. The plan had three objectives: to create millions of good-paying jobs for middle-class workers, to rebuild US infrastructure, and to position the US to 'out-compete' the PRC. An American Society of Civil Engineers 2021 report emphasises a funding gap of US$2.5 trillion to cover total US infrastructure needs between 2020 and 2029 to the tune of US$5.9 trillion. Among its G20 peers, the US currently ranks 18th with a projected public and private infrastructure investment as a share of GDP of 1.5% for 2016-2040, lagging far behind the PRC, which ranks first with 5.1%.

In April 2021, the Infrastructure Investment and Jobs Act (H.R. 3684 (117)) was introduced into the House of Representatives by Representative Peter DeFazio (D-Oregon). It was passed (221 to 201) in July. In August, the Senate adopted its bipartisan amendment by a vote of 69-30. After difficult negotiations between Democratic centrists and progressives, the House passed the reconciled bill on 5 November, roughly along party lines (228 to 206), with 6 Democrats voting against and 13 Republicans in favour. On 15 November, President Biden signed the bill into law. The bill will bolster US firms' competitive edge vis-à-vis Chinese firms in infrastructure construction. In the past decade, EU and US firms withdrew from overseas infrastructure construction for economic and security reasons, leaving a vacuum which the PRC has readily filled. Today, the biggest construction companies in the world are SOEs from the PRC. In 2006, the global ranking was still led by EU and US firms. The bill provides US$1.2 trillion in total spending, including an estimated amount of US$550 billion in new physical and digital infrastructure (see Figure 2). It includes the deployment of a network of charging stations for electric vehicles (EVs), in support of the President Biden's commitment to reduce economy-wide emissions by 50% by 2030.

Figure 2 – New infrastructure spending, US$ billion



Source: America has an infrastructure bill, Brookings, 2021.

approaches, as recognised by the Biden administration. They regret that the B3W slogan is not catchy enough to secure successful branding for the initiative, and fear that the latter may struggle to gain buy-in from all stakeholders involved. Critics have highlighted that the B3W initiative, unlike the BRI, which presents a state-led one-stop shop where economic operators readily comply with the top-down instructions of an authoritarian regime, is likely to require burdensome and lengthy multilateral coordination among a multitude of government agencies, multilateral institutions and business entities, making the B3W procedures more time-consuming and bureaucratic than the BRI. They argue that future financial outlays from G7 members under the B3W initiative may be difficult to explain to domestic audiences as G7 members themselves face an urgent need to upgrade their crumbling infrastructure at home. Some experts have therefore offered cautionary tales about the high expectations linked to the B3W initiative.

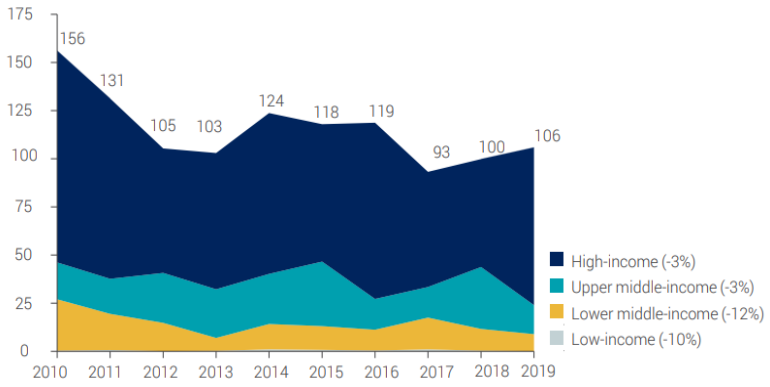
Outlook

The current landscape of international infrastructure development initiatives supported by the G7 members is relatively fragmented and characterised by overlapping collaborative initiatives that add to traditional bilateral government efforts and the multilateral endeavours led by international financial institutions. Despite the huge potential of untapped private sector funds, notably in the US, there appear to be major challenges facing a joint alternative to the BRI:

First, challenges linked to the coordination of the political messaging and branding to make the B3W initiative a collective effort. Although G7 members share serious concerns about the BRI, they differ in their geo-economic interests, economic reliance on the PRC and geopolitical ambitions. It is uncertain whether all of them will fully embrace the B3W and the BDN as collective brands, since these are associated with a more or less confrontational China policy of two different US administrations. The same logic may undergird the hesitation of non-G7 democracies interested in joining the B3W to do so. Potential recipient countries seeking to avoid antagonising the PRC may for the same reason be reluctant to host B3W projects. The EU announcement of Global Gateway appears to suggest that the EU is interested in creating its own brand and boosting its strategic autonomy. There may thus be a risk that the EU and the US brands stand in the way of collective G7 efforts and that distinct initiatives led by individual G7 members could result in a continuation of a fragmented landscape of value-based quality infrastructure and connectivity partnerships that fail to scale up.

Second, difficulties in creating an enabling environment for attracting ample supply of long-term finance, notably from pension and insurance funds, to low-income countries and sectors such as social, telecom, and water infrastructure, from which private investors often shy away owing to unpredictable political, regulatory and economic risks. Australian, Canadian and UK pension funds tend to allocate a much higher percentage of their assets to infrastructure than their US counterparts, suggesting that there is indeed untapped potential in the US. Financial incentives and risk mitigation tools have been designed to shift private investors' calculus of the risks/rewards ratio involved in investments in infrastructure projects and thus to crowd in more private sector funds. However, although the G20 has pursued a risk mitigation policy based on system-wide insurance and diversification of risk, and project

Figure 3 – Private primary market transactions by country income group (2010–2019) in US$ bn



Source: Infrastructure Monitor 2020, G20 Infrastructure Hub, 2020.

preparation to establish infrastructure as an asset class, so far these efforts do not appear to have reversed a long-standing trend in the investment focus of private investors. For instance, the G20 Global Infrastructure Hub's first Infrastructure Monitor 2020 report shows that, over the past decade, efforts to mobilise private (equity and debt-financed) infrastructure investment remained far below expectations, notably for low-income countries (see Figure 3). The regional breakdown for that period exposes a huge gap between large private investment flows to the Asia-Pacific and minimal flows to sub-Saharan Africa. Europe witnessed a sharp decline in private infrastructure investment, which contrasts with a minor decrease in North America. The sector breakdown reveals a remarkable shift of private infrastructure investment from non-renewable to renewable power, but a dramatic drop in private investment in social infrastructure, including healthcare, and a moderate decrease in investment in transport infrastructure. Experts believe that existing risk-mitigation policies and tools have not radically changed the cost-benefit calculus for private sector infrastructure partners due to under-performing project pipelines, poor data availability and a range of subsisting risks.

Third, challenges involving the creation of bankable quality infrastructure projects and their implementation. The determination and alignment at national level of shared quality criteria, a common set of contracts, procurement processes, innovative incentives and risk-mitigation tools and metrics for monitoring and evaluation of projects with multilateral partners require an institutional ecosystem that supports cooperation and coordination processes across multiple stakeholders and speeds up the often slow pace of project development. According to experts, the existing examples of bi- or trilateral infrastructure initiatives of G7 members seem to show that such an ecosystem has not been built up. Recent Australia-Japan-US and EU-Japan partnerships have been slow to shift from the abstract conceptual stage to a pipeline of bankable projects that will attract more private lenders or investors and to the implementation of projects required for making the Western narrative of proposing a genuine alternative to the BRI more tangible and credible.

FURTHER READING

Brian Deese on the vision behind the G7's Build Back Better World initiative, recorded virtual event, Peterson Institute for International Economics (PIIE), October 2021.

Build Back Better World: Meeting the Global Infrastructure Challenge, recorded virtual event, Center for strategic & International Studies (CSIS), June 2021.

Infrastructure Monitor 2020, G20 Infrastructure Hub, 2020.

Trusted Connectivity: Securing digital infrastructure in an era of strategic competition with China, Atlantic Council, recorded virtual event, June 2021.

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