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Focus report on the

New Silk Road, Belt and Road Initiative

Summary Report



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The grayed out chapters are included in the long version of the report.

To get the long version of the report, feel free to contact your local corporate account manager.

Executive Summary

China's initiative in 2013, the "New Silk Road" or "Belt and Road Initiative" (BRI) is a gigantic infrastructure programme to connect up China with Asia, Europe and Africa. After completion of the traffic routes, ports and special economic zones the BRI will form an almost global network of trade routes and transportation possibilities aimed at accelerating and increasing the exchange of goods and services.

The federal government's attitude to the BRI still appears undecided. While it can see the advantages of closer economic integration for Germany, it fears that China could exploit the initiative to create political divisions in Europe, especially as 15 EU countries are already members of the BRI.

Germany's Mittelstand companies have not been adequately informed about the BRI up to now, despite big media coverage of the project. And currently they are benefiting only to a limited extent from (construction) contracts awarded in connection with the project, according to a survey conducted by the Commerzbank among its clients. Experts therefore recommend finding local partners in China.

On the other hand, the already operational new Eurasian continental bridge is an attractive feature with a rail and road connection of nearly 11,000 kilometres from China through the states of the former Soviet Union and Eastern Europe to Germany. Transport times between China and Germany have shrunk to around two weeks. Growth markets all along the continental bridge are getting closer to each other, trade volume is growing and new value-added chains are emerging.

Germany's North and Baltic Sea ports hope for a further boost from inclusion in the "Maritime Silk Road", the sea route from Asia to Africa and through the Suez Canal to Europe. This will benefit Mittelstand companies with improved port infrastructure facilities and shorter transport times.

Mittelstand players wanting to do business anywhere along the BRI can avoid mistakes trading with the BRI countries or investing there with the help of experts. Structured advice is available from German bilateral chambers of commerce, state economic promotion institutes like the GTAI and the Commerzbank. They offer support, including an appraisal of foreign markets and their risks, both on market entry and in a later growth phase.

Introduction

Just over five years ago, in September 2013, on a visit to the Kazakh capital Astana, Chinese President, Xi Jinping, presented his plan for a "New Silk Road" to connect China with other Asian countries, as well as Europe and Africa by land and sea. Ever since then, the name of the project, based on the ancient Silk Road, has had a powerful appeal in the media, "it sounds exciting, not scary; more like an adventure with fame and fortune at the end of the road" is how one business magazine describes the fascination of the new Silk Road.¹ For China itself the importance of the project is so great that since the 19th Communist Party conference in 2017 it has been included in the statutes of the party.²

In Germany, many Mittelstand associations and the state economic promotion company "Germany Trade & Invest" (GTAI) emphasise the various opportunities the project offers German companies. But where and how Mittelstand companies stand to benefit from the "Belt and Road Initiative" (BRI), as the new Silk Road is referred to in official documents, remains vague up to now.

So this focus report is to analyse the opportunities for German Mittelstand companies if they engage in the BRI project. One focus of the analysis is on the corridor along the new Eurasian continental bridge, i.e. the rail and road connection from China through the states of the former Soviet Union and Eastern Europe to Germany. The second component is the Maritime Silk Road from China to Africa and via the Suez Canal to Europe.

It begins with a detailed introduction of the BRI project: size, financing and China's intentions. It is followed by an explanation of the role and attitude of Germany and the European Union towards the BRI. The following chapter analyses the opportunities created by the BRI project for German Mittelstand companies. The report differentiates between development and operating phases. This section is based on a Commerzbank survey among its Mittelstand clients – the first time Germany's Mittelstand players have been interviewed about their expectations of the BRI. The final chapter outlines how the Commerzbank can support Mittelstand companies all along the New Silk Road.



¹ Capital, Nr. 8, August 2017.

² <https://www.eu-china.net/aktuelles/detail/bri-ist-nun-in-der-verfassung-verankert/>.

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