



China's Belt & Road Initiative

What's in it for Swedish companies?

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Agenda

- **Introduction and background**
- Building and financing the Belt & Road
- Impact on and recommendations for Swedish companies



Exploring opportunities & challenges arising from BRI

Background & report focus

- Sweden is not a Belt & Road country, but many Swedish companies impacted directly & indirectly
- We focus on opportunities & implications for Swedish companies, with hands-on recommendations
- Special focus on how to work with the Chinese contractors that carry out most Belt & Road projects
- Based on interviews, field visits and desk research by Business Sweden across several BRI countries
- It is not an exhaustive description of the entire Belt and Road Initiative
 - Does not cover BRI-related activities in Sweden or its implications for the Swedish economy
 - The report and its recommendations do not represent official Swedish standpoints



Full report available as PDF & print copy

“The Belt & Road Initiative is a way for win-win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges.

The Chinese government advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit.

It promotes practical cooperation in all fields, and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.”

VISION AND ACTIONS ON JOINTLY BUILDING SILK ROAD ECONOMIC BELT AND 21ST-CENTURY MARITIME SILK ROAD, MARCH 2015

Getting to the essence of the BRI

The Belt & Road at a glance

Launched and guided from the top

- Initially launched by Xi Jinping in 2013 who has called it a “project of the century”
- Added to the Communist Party’s charter in 2017
- First high-level meeting (“Belt & Road Forum”) held in Beijing 2017 and next meeting planned for April 2019

Expanded bottom-up & now wide reaching

- Around 100 countries & multi-lateral organizations have in some way endorsed or joined the initiative
- Loosely defined and huge set of largely independent projects under the BRI banner
- Focus on connectivity – e.g. railways, highways, ports, power generation & transmission, and digital connectivity

Several challenges & concerns have been raised

- Financing – some BRI projects have made partner nations significantly indebted to China
- Political – while China denies geopolitical & security related objectives, many other nations have drawn other conclusions
- Sustainability – environmental concerns, lack of local employment and knowledge transfer have been high-lighted

The why, what & how of the Chinese communist party under Xi Jinping

BRI part of larger policy toolbox



What's in it for China?

BRI Driving Forces



Connectivity at the core

- Facilitate flow of goods across land borders to reduce maritime dependence
- Growing network of ports – for commercial or political reasons?



Growth in China and beyond

- Exports to China's 14 land neighbors lagging far behind exports to developed markets
- US trade war adds further urgency to find new export markets



Securing energy imports

- CNG pipelines crucial to replace coal and reduce air pollution
- Oil/gas pipelines in Myanmar and Russia reduce dependency on maritime imports



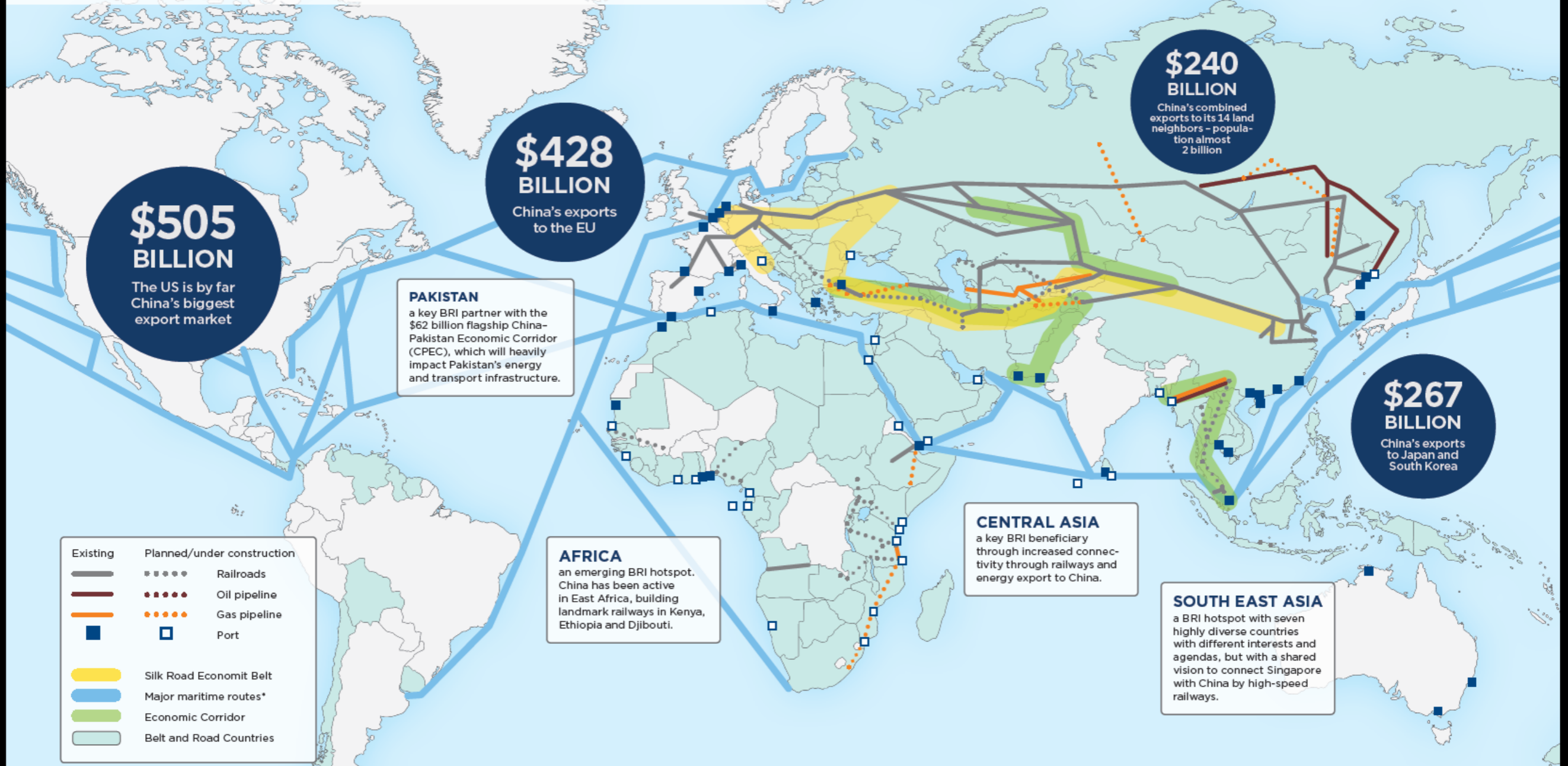
Geopolitical or not?

- “The BRI is neither a ‘Marshall Plan’, nor a geostrategic concept.” - FM Wang Yi
- Competition with traditional partners of BRI nations (e.g. US, India, Australia, Japan)

+ several other factors also contributing (overcapacity, using USD reserves, supporting SOE internationalization, “global superpower” role)

VISUALIZING THE BELT AND ROAD

BRI hotspots and projects, China's main export markets and the world's busiest shipping lanes.



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State-owned firms crucial in financing and building the Belt and Road



Capital

- Export credits and loans a critical factor
 - Chinese funding through SOEs enabler for BRI
 - Credits increasingly questioned, both internationally and within China – yet options are limited



Capability

- State-owned contractors key BRI enablers – and beneficiaries
 - Vast majority of BRI contracts awarded to SOEs
 - Private company involvement limited so far

Understanding and working with SOEs thus also critical for Swedish companies to participate in BRI related projects



“SOEs are the market backbones. They have their own plans and strategies for the Belt and Road, in addition to the country’s overall blueprint”

Xiao Yaqing, SASAC Chairman

Over \$500 billion in BRI loans from 5 state-owned banks



\$ 183 BILLION

China Development Bank's outstanding loans for Belt and Road Projects by end of 2017 - 55 percent of CDB's total outstanding foreign loans

\$ 118 BILLION

The Export-Import Bank of China's total outstanding loans in Belt and Road countries, by March 2018

\$ 225 BILLION

for 800 projects in outstanding BRI credits from China's three main state-owned banks (ICBC, BOC and CCB)















“Debt sustainability of Belt and Road (projects) is a complicated issue, but we will take care of it. China could optimize and diversify its Belt and Road debt financing with more foreign direct investment, public-private partnerships, and equity investment, as opposed to commercial loans that could be more expensive.”



Zou Jiayi
Deputy Finance Minister

WORLD'S TOP 4 CONTRACTORS ALL CHINESE

Size reflects both huge home market and growing international footprint

| COMPANY | MAIN SECTORS | WORLD RANKING BY TOTAL REVENUE* | TOTAL REVENUE \$BILLION | INTERNATIONAL FOOTPRINT** | CHANGE IN INTERNATIONAL FOOTPRINT 2012-2017 |
|--|-------------------------------------|---------------------------------|-------------------------|---|---|
|  China State Construction Engineering Corporation | CONSTRUCTION TRANSPORT | 1 | 145 |  High | ↑ |
|  China Railway Group | TRANSPORT | 2 | 132 |  High | ↑ |
|  China Railway Construction Corporation | TRANSPORT | 3 | 102 |  High | ↑ |
|  China Communication Construction Company | TRANSPORT | 4 | 75 |  High | ↑ |
|  Power Construction Corporation of China | POWER TRANSPORT CONSTRUCTION | 6 | 46 |  High | N/A |
|  Shanghai Construction Group | CONSTRUCTION TRANSPORT | 9 | 31 |  Low | ↘ |
|  Metallurgical Corporation of China | MINING TRANSPORT CONSTRUCTION | 10 | 30 |  Medium | ↗ |

*Based on total global revenue

**Based on revenue outside home country

Source: enr, company websites, Business Sweden analysis

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The BRI will impact most Swedish companies operating in the region

Potential impact areas

Business opportunities

- Limited (or no) direct opportunities for Swedish companies to carry out BRI projects as main contractors
- Most opportunities will arise from working with Chinese contractors
- Swedish companies' ability to partner with contractors depend on a number of factors

Logistical possibilities

- Eurasian railways already in operation and utilized by some Swedish companies
- Railways and roads in South East Asia will change operational dynamics for Swedish companies
- New road networks may also stimulate demand for long-haul transport equipment

A new economic landscape

- Trade flows – free-trade agreements part of the BRI toolbox, changing supply chain conditions & competitive dynamics
- Competition – BRI help Chinese equipment providers to internationalize their business
- Standardization – internationalization of domestic standards through BRI cooperation
- Country risk – BRI projects have made some countries heavily indebted, affecting country risks
- Growth – BRI projects could boost growth in some countries

Approaching business opportunities will involve certain challenges

Common pitfalls/challenges



Sales capabilities

- SE companies' subsidiaries/distributors outside China often lack know-how and experience to engage Chinese customers
- SOE central procurement departments sometimes hard to access



Service capabilities

- Swedish companies generally structured to sell and service the product in the same market
- Contractors frequently buy product in China and ship it overseas, without notifying OEM



Internal coordination

- Coordination and communication within company key to ensure success in sales and service
- Especially challenging for companies with multiple brands & for those with distributors



“I don’t see a lot of benefit for our local entity when they purchase equipment in China and ship it – the aftermarket service is small business. For us it would be better if they buy locally.”

COUNTRY MANAGER OF A SWEDISH EQUIPMENT PROVIDER IN SOUTH EAST ASIA

“We see that sooner or later our organizational structure in the different countries have to adapt to the BRI, for instance by having more Chinese-language staff.”

REGIONAL MANAGER OF A SWEDISH EQUIPMENT PROVIDER IN ASIA

These challenges become evident when approaching huge and complex clients



- China Railway Group is a case in point
 - 42 subsidiaries of which 20 are involved in infrastructure construction
 - Internal competition and varying degree of centralized procurement
 - For instance, the Laos-China Railways are built by four different CREC companies, such as China Railway No. 8 Engineering Group



- China Communication Construction Company (CCCC) is another good example:
 - Present in 152 countries
 - Large part of overseas business done through two subsidiaries:
 - China Harbor Engineering Company (中国港湾) and China Road and Bridge Corp. (中国路桥)
 - Also big in equipment, with its own Heavy Machinery Division (formerly ZPMC), the world's second biggest crane maker

FINDING SUCCESS WITH GLOBAL CHINESE CONTRACTORS

MANAGEMENT AND OPERATIONAL LEVEL



DECIDE FOCUS

Identify and prioritize customers



COMMUNICATION: Tailor your value proposition emphasize global reach with local support



ENGAGEMENT: Multi-pronged business development with top-down, bottom-up, central and local engagement



SERVICE: Be prepared to serve Chinese customers anywhere with the right capabilities and processes world-wide



COORDINATION: Strengthen internal communication across your local subsidiaries and brands

BOARD AND MANAGEMENT LEVEL



STRATEGY: Continuously monitor implications of China's rise as global business power
Identify new competitors or partners as well as other opportunities and risks

NOT YOUR TYPICAL CLIENT

State-owned contractors are huge and must be approached across multiple dimensions

TOP-DOWN
High-level interaction between top management of both sides
MoUs & high-level agreements to signal trust throughout organization

CENTRAL PROCUREMENT
Develop strong relations with central procurement department, they matter even when purchasing is done locally



LOCAL SALES
Your subsidiaries world-wide should be ready to engage with Chinese clients, and know the local branches *before* they win major contracts

BOTTOM-UP
Educate front-line engineers, operators and technicians, making them trust your product, in and outside China

