BUSINESS SWEDEN

CHINA'S BELT & ROAD INITIATIVE

WHAT'S IN IT FOR SWEDISH COMPANIES?

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EXECUTIVE SUMMARY

China's Belt and Road Initiative (BRI) is likely to impact much of the global playing field for trade and investment during the coming decades.

Its impact so far is most evident in the areas of transportation and energy, with hundreds of ongoing projects or plans to build railways, highways, seaports and energy infrastructure across a wide range of countries. The BRI's total project value likely exceeds $500 billion and around 100 countries are now part of the initiative – a number that keeps growing.

The BRI is vast in its scale and ambition but often perceived as vague in its purpose and scope. There is no official list of projects or even a list of BRI countries, and the initiative keeps growing and changing shape. This makes it hard to navigate for individual companies. This report aims to help Swedish companies understand the BRI and its business implications.

The BRI's driving forces include trade and energy. China depends on exports to the US, the European Union, Japan and Korea, and seeks new markets in its immediate and extended neighbourhood. The US-China trade conflict has added further urgency to this ambition. At the same time, new pipelines and ports will help secure China's energy imports.

While denied by China, some countries claim that geopolitical ambitions underpin the BRI. Regardless, the initiative has already complicated the relationship between some BRI countries and their traditional allies such as the United States, the European Union, India and Australia.

The initiative will give rise to both business opportunities and logistical benefits for Swedish companies operating in BRI countries.

Most BRI project have been carried out by Chinese contractors, who now dominate global rankings with hundreds of thousands of employees and impressive international project portfolios. Swedish companies' business opportunities will mainly arise from partnerships with these companies, providing equipment and services to the main contractors of BRI projects.

This report concludes that Swedish companies' abilities to tap into these opportunities will depend on several internal factors – where coordination, communication, service and high-level commitment will be central to achieve success. The vast scale of China's global contractors presents unique challenges even to the biggest Swedish companies.

Furthermore, Swedish companies operating in Belt and Road countries are already experiencing some logistical benefits. Railways connecting China and Europe are already in operation, as well as new railways in Eastern Africa. Railways from China into South East Asia are under construction, and a growing network of highways built by China may spur the demand for premium-segment trucks and buses.

In the longer run, the BRI is likely to impact trade flows, international standards and BRI countries' digital landscapes. It may also lead to intensified competition for Swedish companies on global markets, as the initiative is likely to pave the way for more Chinese companies to explore foreign markets.

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INTRODUCTION

During a 2013 visit to Kazakhstan, China's President Xi Jinping proposed a Silk Road Economic Belt, stretching across the vast area from the Pacific Ocean to the Baltic Sea.

One month later, in a speech to Indonesia's parliament, the president laid out China's vision for a 21st Century Maritime Silk Road.

These two concepts – the Silk Road Economic Belt and the Maritime Silk Road – together became the Belt and Road Initiative (BRI).

Since then, the BRI has expanded far beyond Central Asia and South East Asia. Around 100 countries on all continents apart from North America have in some way endorsed or joined the initiative. There is no official list of BRI countries, only unofficial estimates based on public announcements ranging from 60 to more than 130 countries.

The initiative consists of a huge set of largely independent projects under the BRI banner – including railways, highways, seaports, dry ports, telecommunications, as well as power generation and transmission – worth hundreds of billions of USD.

There are no official data on the total amount of projects and their value. A commonly mentioned figure is that the BRI will lead to investments exceeding $1 trillion but the origin of this number is unclear.

One way to measure actual project activity is by looking at China's loan portfolio in BRI countries. Most key projects have been financed through government loans extended by China, totaling at least $500 billion, through state-owned financial institutions such as China Development Bank and The Export-Import Bank of China.

This number can be compared to the Asian Development Bank's assessment that the whole Asia Pacific region needs infrastructure investments exceeding $22.6 trillion through 2030.

The BRI is one of Xi Jinping's key initiatives since becoming president in 2013 and it is probably still in an early phase. President Xi has called the BRI a "project of the century" and it was added to the Communist Party's Constitution in 2017.

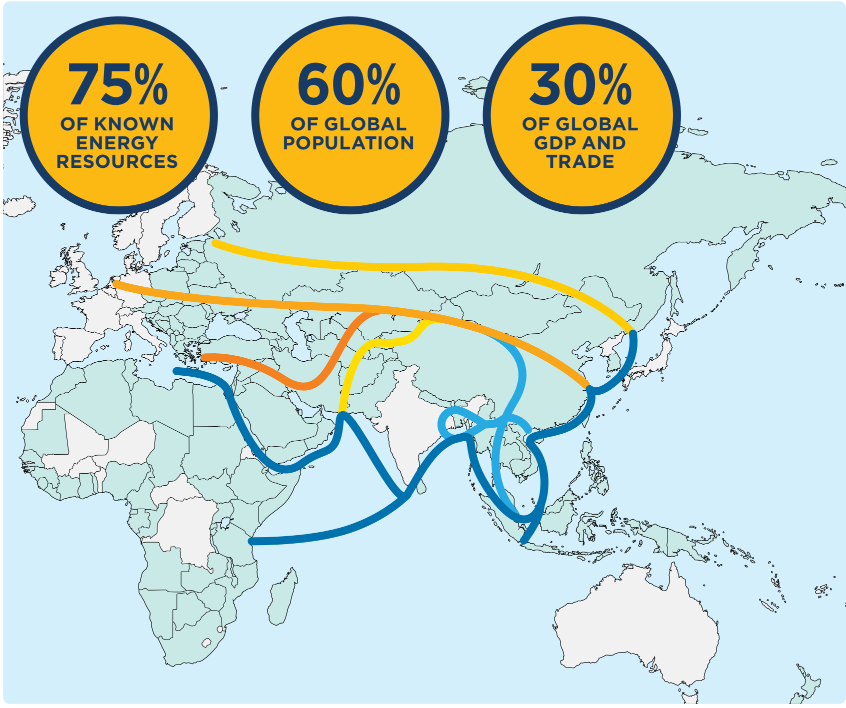
It is more than just a foreign policy concept or a development strategy. It has been described as a geo-economic vision for China's transformation into a global superpower, or even more loosely as "globalization with Chinese characteristics".

The initiative is both top-down and bottom-up. The biggest projects are often initiated at the top bilateral level, but most projects are neither centrally initiated nor managed. Several key projects were initiated before the launch of the BRI, but later brought in under the BRI umbrella. Most large projects have so far been delivered by Chinese state-owned contractors.

The initiative is open-ended and has not been clearly defined – neither conceptually nor geographically – and it keeps growing and changing shape. There is no central list of projects, nor any official definition or criteria for what constitutes a BRI project.

> **"President Xi has called the BRI a "project of the century" and it was added to the Communist Party's Constitution in 2017**

THE BELT AND ROAD AT A GLANCE



The *Silk Road Economic Belt* currently consists of six economic corridors, from South East Asia, South Asia, Central Asia to North Asia, focusing mainly on connectivity and energy. The *Maritime Silk Road* consists of a growing global network of seaports built, managed or owned by China, for instance in Myanmar, Cambodia, Pakistan and Greece. Some of these ports are in turn connected to the economic corridors that lead to China through new roads, railways and pipelines. These two geographical concepts do not cover all BRI activity, for instance in Africa and Latin America, where more and more countries are joining the initiative.

The level of involvement among participating countries varies widely. South Korea has endorsed the initiative but has not agreed on any concrete projects. At the other end of the extreme, Pakistan is deeply involved in the BRI with the flagship $62 billion *China Pakistan Economic Corridor*, which is transforming Pakistan's transportation and energy sectors. Smaller nations like Sri Lanka, Laos and several Pacific islands have already or will see significant impact by Chinese BRI-related projects. Several African nations are deeply involved, such as Djibouti, Ethiopia and Kenya; almost three quarters of all African countries have joined the initiative. Many Eastern and Central European countries have also endorsed and joined the initiative.

Key BRI projects may serve both commercial, strategic and political purposes.

Some of the most strategic infrastructure projects aim to stimulate the flow of goods and secure energy imports. New ports, roads and pipelines will reduce the dependence on shipping routes through Singapore, redirecting the flow of energy and goods to and from China. These projects are also meant to spur economic growth in China's neighborhood and create new markets amidst tension with the United States – China's biggest export market.

The BRI has accelerated the internationalization of Chinese enterprises, who are exporting Chinese know-how in infrastructure and energy. Chinese state-owned companies now dominate rankings of global contractors.

China denies that the BRI has any geopolitical or strategic dimensions, but the initiative is already changing the geopolitical landscape of many regions. Countries that are closely aligned with the BRI are experiencing new dynamics in their relationship with China. BRI-related projects have a direct impact on local economies through the projects and related financial flows, but also indirectly through increased trade and political contact with China. Some BRI projects have made partner nations significantly indebted to China.

By coincidence or not, China is growing its global sphere of influence through the BRI.

ABOUT THE REPORT

Even though Sweden is not a Belt and Road country, the initiative will impact most Swedish companies operating in BRI countries in several ways, directly and indirectly.

This report aims to help Swedish companies navigate the Belt and Road Initiative by exploring relevant business opportunities, highlighting risks and providing hands-on advice on how to approach specific opportunities and the contractors that carry out Belt and Road projects. The report is based on interviews, field visits and desk research.

China is Sweden's most important trading partner in Asia. Exports to China grew by 27 percent in 2017 to almost 60 billion SEK, or 4.5 percent of Sweden's total exports. China is on track to become a larger export market than the United States within 3–4 years.

Furthermore, when looking at the total sales of Swedish companies in China – a broader measure than exports – this figure now exceeds 350 billion SEK, i.e. around 10 percent of Swedish companies' global sales. Several big Swedish companies now have China as their most important market globally.

> “By coincidence or not, China is growing its global sphere of influence through the BRI.

But China is not only important for the sake of its domestic market. Chinese companies are becoming a force to reckon with on the global market, especially in Asia and Africa. Chinese companies are increasingly important for Swedish companies – either as customers, partners, investors or competitors – both inside and outside of China.

Interacting with Chinese companies outside of China – as partners or competitors – is a new phenomenon to many Swedish companies. The Belt and Road Initiative is accelerating these trends, adding further urgency to Swedish companies' need for a structured and strategic approach to China and Chinese companies – in China and outside of China.

SCOPE AND LIMITATIONS

The main focus of this report is on the opportunities and implications of the Belt and Road Initiative for Swedish companies operating in China and Belt and Road countries.

It is not an exhaustive description of the entire Belt and Road Initiative. The report 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.

WHAT'S IN IT FOR CHINA?

DRIVING FORCES BEHIND BELT AND ROAD INITIATIVE

Understanding the driving forces behind the Belt and Road Initiative may be helpful when approaching the BRI and identifying its implications for individual companies. China has only motivated the Belt and Road Initiative in general and diplomatic terms – highlighting "peace, development, win-win cooperation and mutual benefit". However, the domestic and international context in which the initiative was launched hints at some potential strategic considerations.

UNLEASHING GROWTH IN CHINA'S NEIGHBORHOOD

The Belt and Road Initiative will, if successful, help stimulate trade between China and other countries – especially with those in China's immediate and extended neighborhood.

China's top export markets today are the United States, the European Union, Japan and South Korea, together accounting for almost 40 percent of China's exports. Exports to China's closest neighbors are lagging far behind, despite a combined population of almost two billion people.

China shares its land border with more countries than any other nation. China's 14 land neighbors include countries like Russia, Kazakhstan, Afghanistan, Pakistan, India and Myanmar. Most of these countries are underdeveloped with a limited purchasing power. Only three of them make the list of China's top 15 export markets – Vietnam, India and Russia – and only seven make the top 50 list. Exports to Myanmar – population 53 million – are not much bigger than China's exports to Sweden, over 10,000 kilometers away. China's exports to the United States are almost twice the size of its exports to these 14 neighboring countries combined.

With its strong manufacturing industry China is well positioned to quickly benefit when economic growth takes off in these countries. This has already happened in some cases. China's exports to Pakistan have more than doubled since 2013 – helped by a free trade agreement and heavy investments in infrastructure and energy, often built by Chinese contractors.

Increased cross-border trade may also promote development in the relatively underdeveloped provinces in West China. This is especially important in the case of Xinjiang, where the Communist Party views economic growth as part of their toolbox to prevent religious extremism. Xinjiang borders Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan and India, and is a node for several key BRI projects – including the China-Pakistan Economic Corridor, China-Europe Railways, and gas pipelines leading to Central Asia.

CONNECTIVITY AT THE CORE

"We Chinese often say that if you want to get rich, build roads first. Africa has for many years received certain assistance from western countries but why couldn't it achieve faster development? One important reason is the underdevelopment of infrastructure."

Deputy Foreign Minister Le Yucheng to the Financial Times in September 2018

Hard infrastructure assets have so far dominated the Belt and Road Initiative, with roads, railways and ports that will help redirect and facilitate the flow of goods between China and the world.

Railway connections between China and Europe were non-existent ten years ago but are fully operational today. These railways now transport a small but fast-growing share of goods that are shipped between these two distant parts of the Eurasian supercontinent

A new network of roads and railways is under construction and negotiation in South East Asia. China is building Laos' first major railway line, as a first step of a long-term ambition to connect Kunming in China with a large network of South East Asian railways. Similarly, in Myanmar China has the ambition to build railways to a new deep-sea port.

"Railways now transport a small but fast-growing share of goods between Europe and China.

China has built – and is operating – Africa's first transnational electrified railway between Ethiopia and Djibouti, where the railway leads to a port built and run by a Chinese company, as well as Kenya's first standard-gauge railway between Mombasa and Nairobi.

China's global network of ports has grown steadily since the BRI was launched. COSCO and China Merchants Group – both state-owned – have spearheaded China's international port investments. COSCO operates and manages at least 274 berths at 35 ports worldwide and has major stakes in key ports such as Euromax (Netherlands), Pireaus (Greece) and Suez (Egypt). China Merchants Group has generally focused on emerging markets. The company owns or operates at least 40 ports in 22 countries, including Nigeria, Sri Lanka, Togo and Djibouti. In the field of port development, construction giant China Communications Construction Corporation and its subsidiary China Harbour Engineering Company has built more than 100 deep-water berths outside China.

SECURING ENERGY IMPORTS

Many of the BRI's connectivity projects specifically aim to facilitate China's energy imports. China is the world's biggest oil importer and around 90 percent of China's oil imports pass through the Strait of Malacca outside Singapore. The strait is 2.4km wide at its narrowest point and has a maximum depth of 25 meters – making it unnavigable for the ultra-large class of crude oil tankers. Apart from congestion issues, the region is also prone to risks of piracy and blockades. New ports and pipelines in China's neighborhood aim to reduce this dependency.

Apart from oil, China's demand for liquefied natural gas (LNG) is growing rapidly. LNG imports grew by 51 percent in 2017 – making it the world's second biggest LNG importer – driven by efforts to reduce coal use and air pollution. 57 percent of LNG supplies were imported in 2017, expected to grow to 75 percent by 2020 through increased imports.

In 2017, China and Myanmar finished construction of a dual oil and gas pipeline between the port of Kyaukpyu in Myanmar and South China. The oil pipeline has the capacity to send 22 million tons of oil – the equivalent of 7 percent of China's total oil imports in 2016 – and the gas pipeline 12 billion cubic meters. There are also plans to expand the port significantly, and to build roads and railways that go alongside the pipeline, from the deep sea port into China.

In Central Asia, with its significant gas reserves, a 7000 km pipeline from Turkmenistan to China has enabled increased LNG imports. In 2017, 38.7 billion cubic meters of gas were imported from Central Asia. China has also expressed interest to tap into the Turkmenistan–Afghanistan–Pakistan–India LNG pipeline.

Russia is constructing a $55 billion gas pipeline from Siberia to northern China, the biggest energy project in Russia since the fall of the Soviet Union. The pipeline will be able to transport 38 billion cubic meters per year and complements two existing oil pipelines that have the capacity to transport 600,000 barrels of oil per day.

GEOPOLITICAL OR NOT?

"The Belt and Road Initiative is neither a "Marshall Plan", nor a geostrategic concept."

Wang Yi, State Councilor and Foreign Minister of China, August 2018

The Chinese government denies that the Belt and Road Initiative carries any geopolitical intentions, emphasizing that it aims to "build a community with a shared future for mankind together with other countries around the globe".

Another picture is painted by statements from government-affiliated commentators and academics. For instance, in a People's Daily op-ed in 2014, the Central Party School's dean of international strategic studies described how a Silk Road Economic Belt would benefit China and partner nations not only economically, but that it would also help "expand China's strategic space and create a secure and stable neighborhood" and that "solely relying on maritime routes for our trade of goods and energy imports carries certain security risk", while noting that growth in western China would help prevent extremism and terrorism.

Other countries have also drawn geopolitical conclusions. Many of the countries with heavy BRI involvement have strong traditional ties with other regional or global powers, such as Sri Lanka and Nepal with India, Pacific island nations like Vanuatu and Tonga with Australia, Pakistan and the Philippines with the United States and Eastern and Central European countries with the European Union. China's fast-growing footprint and influence in these countries has put pressure on those traditional ties.

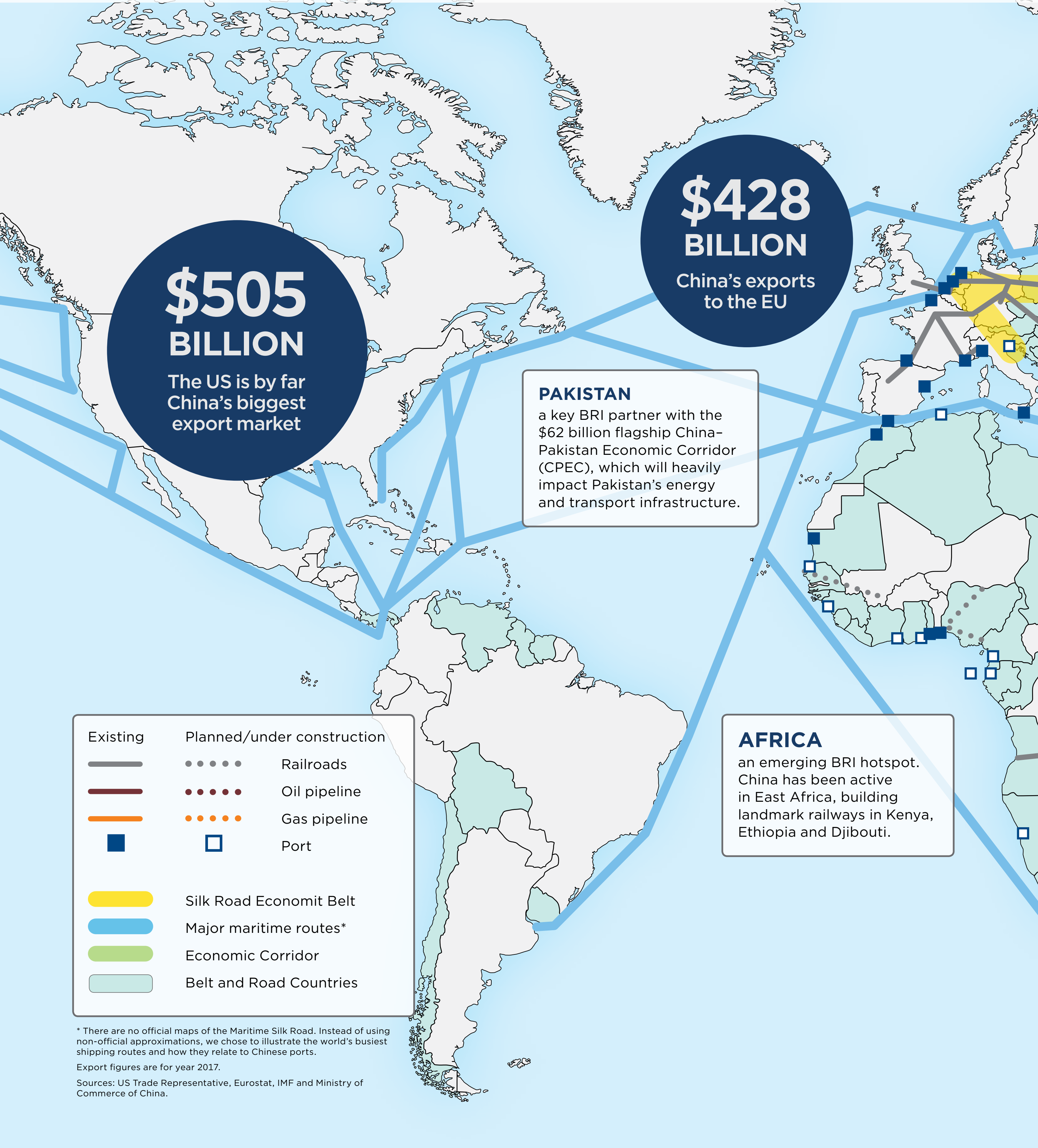
This dynamic is especially evident in the case of the United States. The BRI was launched one year after the Obama Administration announced the Pivot to Asia in 2012. The Pivot added fuel to Chinese suspicions that the US aims to contain China's rise, with military, diplomatic and commercial means.

These suspicions have likely been cemented during the Trump Administration, with the trade conflict making it clear to China that reliance on US trade carries significant risks. The Belt and Road Initiative may, if successful, help alleviate this dependence and strengthen China's relations with countries where the US is a strategic competitor – such as Pakistan and Kenya.

In other cases, the BRI has also contributed to competition of a more benevolent kind. In South East Asia, political leaders routinely negotiate infrastructure projects with both Japan and China, aiming to secure the best possible terms.

VISUALIZING THE BELT AND ROAD

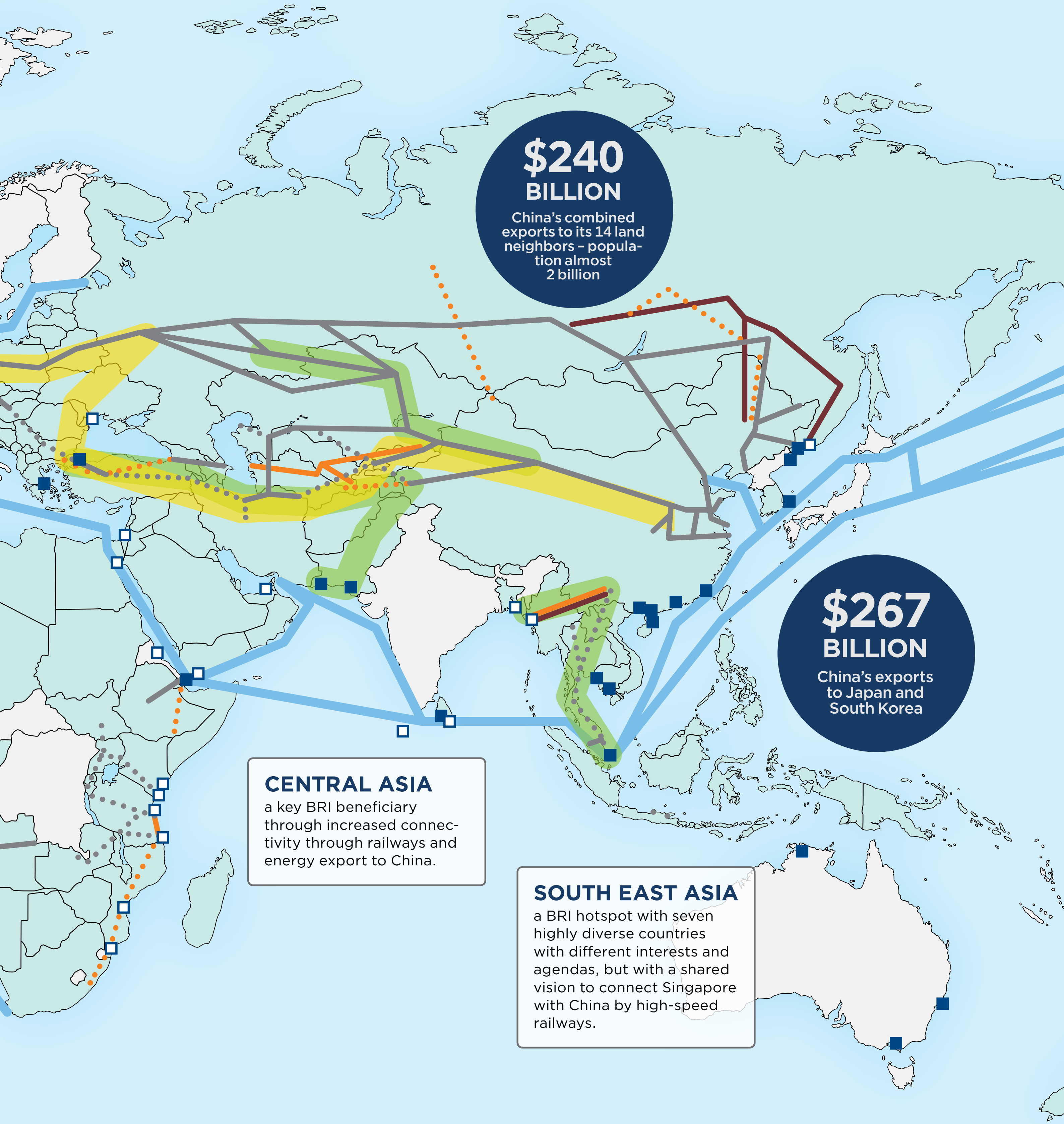
BRI hotspots and projects, China's main export markets and the world's busiest shipping lanes.



* There are no official maps of the Maritime Silk Road. Instead of using non-official approximations, we chose to illustrate the world's busiest shipping routes and how they relate to Chinese ports.

Export figures are for year 2017.

Sources: US Trade Representative, Eurostat, IMF and Ministry of Commerce of China.



CENTRAL ASIA
a key BRI beneficiary through increased connectivity through railways and energy export to China.

SOUTH EAST ASIA
a BRI hotspot with seven highly diverse countries with different interests and agendas, but with a shared vision to connect Singapore with China by high-speed railways.

BUILDING THE BELT AND ROAD

STATE-OWNED ENTERPRISES ARE KEY ENABLERS

"SOEs are the market backbones. They have their own plans and strategies for the Belt and Road drive, in addition to the country's overall blueprint for the initiative."
Xiao Yaqing, chairman of the State-Owned Assets Supervision and Administration Commission of the State Council, May 2017.

State-owned enterprises (SOEs), especially infrastructure and energy contractors, have so far played a key role in the Belt and Road Initiative. But these companies' global ambitions did not start with the BRI. Ever since China launched the "Go Out" Policy (走出去) in 1999, the government has actively strived to internationalize Chinese companies, especially SOEs. One year later, in 2000, the government launched the "Go West" policy (西部大开发) in order to boost economic growth in 12 inland provinces and regions in western China through massive infrastructure investments – mainly through SOEs.

The Go West policy, together with major nationwide investments in highways and high-speed railways, led to an infrastructure expansion at a massive scale and speed – resulting in the world's biggest networks of expressways and high-speed railways. This also paved the way for cities like Chongqing, Chengdu and Zhengzhou, rising from relative insignificance to become manufacturing and technology hubs.

This experience showed Chinese policymakers that credit-infused infrastructure investments can be effective in promoting growth and reducing regional inequality, providing a positive return on investments while fulfilling political goals of connectivity and national unity.

China's massive expansion of domestic infrastructure also paved the way for the rise of construction giants such as China State Construction Engineering Corporation (中建) and China Railway Group (中铁). In the field of power generation and transmission, China's domestic expansion of power infrastructure led to the rise of companies like Power China (中国电建) and Energy China (中国能建). Such state-owned companies now possess unique capabilities in fast-paced and large-scale infrastructure construction.

The Belt and Road Initiative resembles the Go Out and the Go West policies in many ways and can be seen as a continuation or combination of both policies. Many of the BRI's land-based infrastructure projects – such as the China–Europe Railway links and the China–Pakistan Economic Corridor – are closely connected to economic development in China's central and western provinces.

BRI projects have provided massive business opportunities to major state-owned contractors, contributing to the Go Out policy.

Most BRI projects are carried out by Chinese companies, either as turnkey contractors, or even as operators and/or owners under variations of build-operate-transfer models or public-private partnerships. According to the CSIS Reconnecting Asia database, 89 percent of BRI-related contracts have so far been awarded to Chinese contractors. This can be compared to infrastructure projects financed by multilateral development banks, of which Chinese companies have historically won 29 percent of contracts – compared to 41 percent won by local firms.

This translates into contracts worth hundreds of billions of USD. According to a New York Times survey, China has financed and built 203 bridges, roads and railways, 199 power plants and 41 pipelines outside of China over the past decade – paving the way for the global growth of Chinese contractors.

Another way of measuring the global expansion of Chinese contractors is looking at the combined loan portfolio of China's biggest banks in BRI countries, which now exceeds $500 billion. Since these loans often come with the condition that the

"BRI projects have provided massive business opportunities to state-owned contractors

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

majority of the project's value is sourced from China, loan portfolios can be used to measure the actual size of China's BRI project portfolio.

CONTRACTORS ENJOYING STRONG GLOBAL GROWTH

Since 2012, the year before the BRI was launched, the seven largest Chinese contractors have on average grown by 12 percent per year outside China. Ten years ago, Chinese contractors were largely absent from international rankings, but now occupy top positions.

As of 2017, the world's four largest contractors were all Chinese SOEs, all of them with a heavy transportation focus. Seven of the ten largest are Chinese. Six out of these seven belong to the so-called national or central SOEs – the 96 companies that are directly managed and supervised by the State Council through the State-owned Assets Supervision and Administration Commission, sometimes called "national champions".

The combined international revenue (i.e. outside China) of China's top seven contractors was almost $66 billion in 2017, compared to $25 billion in 2012. International revenue has also become increasingly important for the overall business: In 2013, the biggest Chinese contractors earned 13 percent of their revenue outside China, on average. By 2017, that number had grown to almost 24 percent, mostly driven by projects in Asia and Africa.

China Communication Construction Corporation (中国交建, CCCC) is the most internationally exposed Chinese contractor. It is present in around 140 countries world-wide and generates one third of its total revenue outside China. South East Asia and Africa are the company's most important markets. CCCC's core business includes designing and building ports, highways and bridges, and is one of the world's largest dredging companies. The subsidiary China Harbor Engineering Company has been instrumental in many of China's overseas port projects, including ports in Pakistan, Djibouti, Sri Lanka, Israel and Cameroon. CCCC also own a heavy machinery division, formerly known as ZPMC – one of the world's largest heavy-duty crane manufacturers.

China Railway Construction Corporation (中国铁建, CRCC) has the enjoyed the fastest growth outside China among the major contractors. The company's revenue outside China has on average grown by 27 percent year-on-year since 2012. CRCC's international milestones include the Istanbul–Ankara High-speed railway, the Mekka–Medina High Speed Rail in Saudi Arabia and the 756 km Djibouti–Ethiopia Railway – Africa's first fully electrified cross-border railway (through its subsidiary China Civil Engineering Construction Corporation). However, CRCC's domestic revenue still accounts for 93 percent of total revenue, thanks to the still-ongoing railway expansion in China.

Two contractors stand out in the field of power generation and transmission.

Energy China (中国能建) boasts the biggest number of overseas power contracts for any Chinese contractor and is responsible for one-third of China's power contracts from abroad, focusing especially on Pakistan, Bangladesh, Indonesia, the Philippines and Vietnam, but is also active in central and eastern Europe. It has received contracts worth around 300 billion yuan ($43.7 billion) from countries and regions participating in the Belt and Road

> "Ten years ago, Chinese contractors were largely absent from international rankings, but now occupy top positions

Yangshan Deep Sea Port in Shanghai. Photo: Wikipedia

Initiative from 2014. The company is building a $1.75 billion coal power plant in Vietnam. Its subsidiary Gezhouba Group has more than 40,000 employees alone, and is particularly active in South East Asia and Africa.

Another key player is Power Construction Corporation of China (中国电建), or PowerChina, which was formed through a merger of several SOEs in 2011. PowerChina's international revenue accounts for 26 percent of its total revenue.

In some cases, Chinese companies take on a larger role than being just contractors, also operating or managing infrastructure assets after completion. This has been the case in several African projects, such as the Djibouti–Ethiopia railway, which will be run by CREC and CCECC until 2023, and in Kenya where CCCC currently runs the Mombasa–Nairobi railway.

FINANCING THE BELT AND ROAD

In reports and official statements, BRI projects are often called "investments" which may be confused with equity investments into projects. Rather than equity investments, most big projects so far have mainly been financed through government loans extended by China to partner nations.

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)

Sources: CDB, Xinhua, Caixin

These credits have been made possible by China's $3 trillion foreign currency reserve. The two biggest financiers have been China's two "policy banks" – China Development Bank (CDB) and The Export-Import Bank of China (Exim Bank) – followed by three big state-owned conventional banks: Industrial and Commercial Bank of China, Bank of China and China Construction Bank.

These banks have been crucial enablers of the Belt and Road Initiative, financing the lion's share of projects. Together, these five financial institutions have $500 billion in outstanding BRI-related credit, exceeding by far the World Bank's loan portfolio.

There are no official and comprehensive data on the interest rates of these loans. A certain amount of loans have been made at concessionary rates (i.e. at subsidized or interest-free rates), but anecdotal evidence and third-party reports suggest that many, or even most, loans carry market-based interest rates – which may be expensive for countries with a poor credit rating.

Two China-based development banks, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank also play small but growing roles. By March 2017, the AIIB had provided loans totaling $1.7 billion to nine BRI projects.

BRI countries' increasing debt has become one of the more controversial aspects of the BRI.

The United States, under the Trump Administration, has been vocal in its criticism of some aspects of the BRI, calling it "debt-trap diplomacy." According to the Washington-based Center for Global Development, some BRI nations are approaching dangerous debt levels – some of which have openly questioned the BRI's credit-based nature.

In August 2018, Malaysia's newly elected prime minister tentatively cancelled three projects: the East Coast Rail Link and two gas pipelines. Construction had already started on the $20 billion rail link, the single biggest Belt and Road project, built by China Communications Construction Company and mainly financed by a loan from The Export-Import Bank of China.

Malaysia's actions led to similar discussions in some BRI nations such as Pakistan, where a new government is seemingly reevaluating some aspects of the China Pakistan Economic Corridor. In Myanmar the government is renegotiating and downsizing a $7.5 billion deep-sea port project – a cost equivalent to more than 10 percent of the country's GDP. Myanmar would have needed to take a $2–3 billion loan from China Exim Bank for its minority stake in the project.

Seemingly in response to this criticism, a Chinese vice-minister of finance has been quoted to say "The debt sustainability issue of Belt and Road (projects) is a complicated issue, but we will take care of it" adding that "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." Other official or semi-official statements, such as op-eds in People's Daily, have signaled an ambition to transition from quantity to quality in BRI projects.

The Silk Road Fund may be one way to transition to other ways of financing. The fund was set up in 2014 to fund BRI projects through capital investment into assets on a commercial basis, with a priority to BRI countries and projects. The Fund was set up by CDB, partly with funds from China's foreign currency reserve. By August 2018, the fund had invested $6.8 billion into 25 projects.

WHAT'S IN IT FOR SWEDISH COMPANIES?

The Belt and Road Initiative will affect most Swedish companies operating in BRI countries – either directly through business opportunities arising from BRI projects or logistical benefits from new transportation links, or indirectly through new macroeconomic and political dynamics in the wake of BRI countries' increased cooperation with China.

BUSINESS OPPORTUNITIES

The number of Belt and Road-related investments are large and growing, with the clear majority of contracts so far being awarded to Chinese contractors. But even if BRI projects were to become more open to foreign contractors, very few – if any – Swedish companies have the capacity or the interest to act as main contractor to build or operate infrastructure assets.

Instead, business opportunities for Swedish companies are mainly found in the business-to-business (B2B) segment, as suppliers and partners to Chinese contractors. Total revenue among the ten largest Chinese contractors exceeded $600 billion in 2017. Of this, overseas revenue was $72 billion, a share that is growing. Looking beyond the ten largest companies, the overseas revenue of all Chinese contractors with an international presence exceeds $114 billion. The majority of that revenue is generated in Belt and Road countries.

Part of that revenue is used for capital expenditure on equipment – such as mobile power plants, drills, compressors, excavators, compactors, cranes, loaders, trucks, and components for transport and energy systems, segments where Swedish companies are global leaders.

Chinese contractors' expenditure on equipment, technology and services is the main addressable market for Swedish companies within Belt and Road projects. The level of such expenditure may differ significantly between industries and project types. Our interviews show that contractors have a tendency to use new premium equipment for overseas projects, at least for projects deemed important.

CENTRALIZED VS DECENTRALIZED EQUIPMENT PROCUREMENT

Our site visits and interviews reveal a mixed picture of contractor procurement behavior – depending on the maturity of the local market, the specific sector, and the company in question.

When delivering projects in developing countries, Chinese contractors tend to bring with them wholesale project organizations – including engineers, workers and key material. Equipment is brought from China or elsewhere – depending on distance and costs.

In developed markets, contractors are more likely to find local partners and equipment providers. In many cases, the local branch office sets up a project organization. Equipment is often purchased by the local project organization using advance payments from the client. The central procurement department is sometimes consulted when procurement decisions are made at the local level.

Many contractors have central procurement organizations in China, either at group-level headquarters or the subsidiary's headquarters in China. Several of the biggest contractors are the result of mergers with different degrees of integration – and varying degrees of procurement centralization. In many cases there are signs of internal competition between subsidiaries.

China Railway Group (CREC 中国中铁) is a case in point with 42 subsidiaries. Of these, 20 subsidiaries are involved in infrastructure construction, most of them with overseas operations. For instance, the Laos–China Railway is built by four different CREC subsidiaries, such as China Railway No. 8 Engineering Group. Another major CREC subsidiary, China

> **Chinese contractors' expenditure on equipment, technology and services represent the main addressable market for Swedish companies within BRI projects.**

OVERSEAS REVENUE AND CAPITAL EXPENDITURE AMONG TOP FOUR INFRASTRUCTURE CONTRACTORS IN 2017

	Revenue outside China in 2017 (billion USD)	Revenue outside China as share of total revenue	Total capital expenditure, incl. in China (billion USD)
China Communication Construction Company	23	31 %	1.2
China State Construction Engineering Corporation	14	10 %	0.3
China Railway Construction Corporation	7	7 %	2.6
China Railway Group	6	5 %	1.4
Total	**50**		**5.4**

Source: ENR, annual reports

Railway Tunneling Group, has its own procurement system.

China Communications Construction Company (CCCC) conducts most of its overseas business through two major subsidiaries, China Harbor Engineering Company (中国港湾) and China Road and Bridge Corporation (中国路桥) – both with massive scale and likely a high degree of independence. On the machinery side, CCCC owns Shanghai Zhenhua (also called ZPMC) – one of the world's largest crane makers.

NEW TRANSPORT NETWORKS

Supply chain implications

The Belt and Road Initiative will help expand and improve the transportation infrastructure of many BRI nations. This may benefit Swedish companies that operate in the region – either through quicker transit times, lower logistical costs, opportunities to reach new markets or new supply chain possibilities. Bigger networks of paved roads, especially international highways, may also stimulate the demand for premium trucks and intercity buses.

Most of the BRI's key infrastructure projects are located along six economic corridors:

- The New Eurasia Land Bridge Economic Corridor
- China–Pakistan Economic Corridor
- China–Indochina Peninsula Economic Corridor
- Bangladesh–China–India–Myanmar Economic Corridor
- The China–Mongolia–Russia Economic Corridor
- China–Central Asia–West Asia Economic Corridor

Some corridors have reached quite far in terms of completion, while others are still at the negotiating or planning stages. Their relevance for Swedish companies also varies strongly. The following section covers economic corridors of higher relevance.

THE NEW EURASIAN LAND BRIDGE

Railways between China and Europe

Ten years ago, there were no railway connections between China and Europe. Today, at least 56 Chinese cities and 49 European cities in 15 countries are connected by railways – including major cities like Chongqing, Chengdu, Zhengzhou and Duisburg, Hamburg and Warsaw.

The 12,000km voyage takes at least 14 days, which is around 20 days shorter than for sea freight. More than 6000 trains made the voyage in 2018 – almost double the amount in 2017.

Cost levels are considerably lower than for air freight – but in general higher than for sea freight. A survey among freight operators found that China–Europe railways are now seen as more reliable in terms of punctuality and security than sea freight.

For companies with production sites in western China, rail transport is an option to avoid land transport to China's Pacific ports, reducing lead times and emissions. This has been spearheaded by electronics companies like HP and Foxconn, both with large manufacturing operations in China's central and western provinces.

Volvo Cars have shipped more than 11 thousand S90 cars from its north China Daqing factory by railways to Belgium. Each train carries 120 cars and makes the 10,887km trip in 18 days, 28 days less than sea transit, reducing CO_2 emissions by one-third. The first freight train from Sweden to China was launched in September 2018, from Insjön in Dalarna to Ganzhou in Jiangxi Province, carrying 900 tons of timber across 14,000km in 19 days.

Demand is still slightly uneven, with China-bound trains from Europe generally carrying less freight, although the gap is narrowing. The railways still depend on government subsidies – mainly

> More than 6000 trains made the 12,000km voyage in 2018

from provincial governments in central and western China. Despite subsidies, freight costs are still prohibitive for some industries. Russian sanctions are also a limiting factor: Russia prohibits the import and transit of European food, making it impossible to use railways for European food exports to China.

Swedish companies' manufacturing operations are mainly in eastern China, and railways have therefore so far been of limited significance. Moreover, many Swedish companies produce in China for the local and regional market, rather than for exports to Europe. For time-sensitive and high-value shipments railway transport may be an attractive option for both directions. The reduction of emissions is another factor that favors rail transit – at least when replacing air freight. If Russia's food sanctions are lifted, the Swedish food industry may benefit from railways – not only for export to China but also to Japan, where long shipment times and strict shelf-life restrictions have been a limiting factor for Swedish food exports.

Road transport is also emerging as an option to railways. The first Eurasian truck transit was made in November 2018, from the China–Kazakhstan border to Poland in 13 days, reportedly at half the cost of air transport, and with considerable door-to-door time savings compared to rail transport. Regular operations are expected to start early 2019. If this trend continues this may benefit Swedish truck makers, who are competitive from a lifecycle and fuel-economy perspective.

CHINA–PAKISTAN ECONOMIC CORRIDOR

The $62 billion flagship project

Pakistan is a traditional ally of China and a close BRI partner. The $62 billion China–Pakistan Economic Corridor (CPEC) will have a significant impact on Pakistan's transportation and energy infrastructure, and is financed through a combination of loans, investments and grants. By some estimates, the value of the CPEC project portfolio exceeds all FDI to Pakistan since 1970.

Energy projects make up almost half of the CPEC budget, including eight coal power plants, three hydropower stations, seven wind farms and one solar park – all meant to address Pakistan's long-standing power shortage issues. CPEC also includes major projects to upgrade and expand Pakistan's road and railway networks. China has built a deep-sea port in Gwadar, to be connected by railways and roads with the rest of the country.

Given the significance of CPEC to Pakistan, the project will directly or indirectly affect all Swedish companies operating in Pakistan. CPEC will help improve electricity supply and grid stability. Improved roads and railways will reduce logistics cost. Improved roads to China may provide opportunities for high-end long-haul trucks suitable for high-altitude conditions. However, BRI-related expenditure may add further pressure to Pakistan's fiscal stability.

CHINA–INDOCHINA PENINSULA ECONOMIC CORRIDOR

The dream of railways from China to Singapore

South East Asia is a key Belt and Road region, both for commercial and strategic reasons. The region includes some of the biggest BRI infrastructure projects – mainly railways and ports. The region differs from other BRI regions with its diversity – from Myanmar in the northwest to Singapore in the south. It is also the only BRI region where China has encountered significant competition from Japan and South Korea, who are major investors in the region and active in infrastructure construction.

China has chosen a bilateral approach when dealing with this diverse group of countries. This approach has yielded good results in Laos, where the Laos–China Railway will revolutionize Laos' transport system. The railway is under construction and expected to be completed by 2021. The line will connect Kunming in China with Laos' capital Vientiane and reduce the travel time from 13–16 hours to 3.5 hours. It is expected to carry six million passengers and two million tons of goods in its first year of operation.

The Laos–China railway line may eventually connect with Thailand, also a BRI country. Thailand's long-term plan is to build a nationwide high-speed rail network that extends to Malaysia, where a high-speed railway network is planned and will eventually connect with Singapore – realizing the overall goal of railways between Singapore and Kunming in China – a vision that all concerned countries share.

It remains to be seen if Japanese or Chinese contractors will be selected to construct the Thailand–Malaysia and Malaysia–Singapore high-speed railway lines. The Kuala Lumpur–Singapore stretch will in the best-case scenario be completed by 2031.

Swedish companies operating in the region will benefit from improved connectivity and lower transport costs. In the short or medium term, these effects will mostly be noticeable in Laos, where the new railway may be a game-changer – especially for companies shipping goods to China, such as forestry products.

> **"Given the significance of CPEC to Pakistan, the project will directly or indirectly affect all Swedish companies operating in Pakistan.**

LIMITED PROGRESS AND RELEVANCE IN OTHER BRI CORRIDORS

Two of the remaining corridors – one connecting Russia, Mongolia and China, another connecting China with India through Bangladesh and Myanmar – have not yet made significant progress. If successful, the Mongolian corridor has the potential to boost the country's struggling mining industry, which may benefit Swedish transport and mining equipment companies. The India–China corridor is yet to be embraced by India and has not made any significant progress. In the medium term, it may help improve connectivity between China, Myanmar and Bangladesh. If the corridor results in a better network of highways between the countries it may benefit Swedish truck and bus providers.

The final corridor, which connects China with Turkey through the southern parts of Central Asia, is mainly focused on railway connectivity, but has not reached the same maturity as its northern neighbor and is of limited relevance to Swedish companies.

A NEW ECONOMIC LANDSCAPE ALONG THE BELT AND ROAD

Indirect impact on Swedish companies

In many of the participating countries, the Belt and Road Initiative is having an impact beyond the transport and energy sectors. For countries that are deeply involved, the BRI may impact the macroeconomic environment, trade flows, standards and competition – areas that are relevant for Swedish companies operating in these countries.

COMPETITION

BRI-related business opportunities for equipment and service suppliers are available not only to foreign companies, but also to Chinese competitors. Participating in BRI projects as suppliers to Chinese contractors may be the first step for Chinese suppliers to internationalize their business, giving them reference projects and overseas experience. Therefore, increased Chinese project activity in BRI countries may increase the long-term foothold of Chinese competitors.

STANDARDS

The Chinese Government and Chinese companies are increasingly shaping standards as they become strong forces in BRI countries. China is active in international standardization organizations and aims to internationalize its domestic standards. This is especially evident in the railway sector, where wholesale Chinese railway systems are brought to local markets – such as the Djibouti–Addis Ababa railway, which that was "constructed with Chinese technology and equipment according to China standard". This is likely to happen in more industries. As a result, Swedish companies will increasingly need to consider China's national standards also outside China. This is especially important for companies whose products are part of infrastructure assets, such as onboard railway equipment or energy-related equipment, but less so for equipment that is used only during the construction phase.

FREE-TRADE AGREEMENTS

One of the BRI's explicit goals is to safeguard "unimpeded trade" and bilateral free-trade agreements are often part of the toolbox when China engages with BRI partners. China is negotiating at least 14 free-trade agreements and conducting feasibility studies for eight additional potential FTAs. The majority of these are with Belt and Road countries.

These agreements may have a significant impact on the underlying economics of Swedish companies' supply chains by reducing the cost of trade between China and the country in question. This may make sourcing from other countries than China – such as Sweden – less favorable than before and strengthen the position of competitors that produce in China.

MACROECONOMIC BENEFITS AND RISKS

In smaller countries like Laos, BRI-related infrastructure construction is having a noticeable impact on economic growth. Among larger countries, Pakistan stands out with the $62 billion China–Pakistan Economic Corridor, which according to official statements is adding more than one percent GDP growth per year.

However, countries with large BRI project portfolios have also experienced sharply increasing debt levels. According to third-party reports, the default risk of countries like Kenya, Djibouti, Laos and Pakistan has increased due to BRI-related lending – in turn increasing the overall risk of operating in those countries. For further reading, please refer to Business Sweden and the Embassy of Sweden's report of the Belt and Road Initiative from a Sustainability Perspective.[1]

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The BRI may help strengthen the global foothold of Chinese equipment suppliers and lead to intensified competition.

THE DIGITAL SILK ROAD

The Digital Silk Road – the BRI's cyberspace leg – has so far played a relatively small role but its importance will grow. Countries with deep BRI involvement are likely to experience a larger Chinese influence on their digitalization and digital infrastructure. In Papua New Guinea, China is building the country's fiber backbone, vastly expanding local Internet coverage; Similar projects are found in Pakistan. The BRI pay also pave the way for the international expansion of Chinese telecom operators. In South East Asia, Chinese e-commerce players, such as Alibaba–owned Lazada, will continue to expand – paving the way for Chinese models for e-commerce.

[1] The full report is available here: https://bit.ly/2UjOd02

RECOMMENDATIONS

The global footprint of Chinese infrastructure and energy contractors has accelerated sharply over the past decade, partly fueled by the Belt and Road Initiative. The biggest contractors are present in over 100 countries and have extensive international project portfolios, including complex multi-billion USD infrastructure projects.

UNTAPPED POTENTIAL

As a result, some of these companies have become increasingly important clients to Swedish companies not just in China, but also outside China. However, our interviews suggest that the level of cooperation between Swedish equipment suppliers and Chinese contractors has not reached its full potential – both in terms of the amount of equipment sold by Swedish companies and their ability to deliver service worldwide to Chinese clients.

Engaging with Chinese clients outside China is a relatively new phenomenon for Swedish companies. Based on interviews and research, this chapter outlines challenges and recommendations for Swedish companies when seeking cooperation with Chinese contractors. The biggest Swedish companies all have different approaches to these clients, but we have identified the following common challenges:

Service capabilities: Global service networks are generally a key strength for Swedish companies, but most companies are structured to sell and service the product in the same market. Chinese infrastructure contractors sometimes purchase equipment in China and bring it overseas. This information may not always reach the Swedish supplier, leading to various challenges when delivering service in the field.

Sales capabilities: Contractors sometimes choose to buy locally, i.e. where the project is executed, from the local Swedish subsidiary or distributor. This simplifies the service process but may complicate the sales process. The first challenge is information and relationships – the Swedish supplier's subsidiary may not be aware of the the Chinese contractor's

> **Engaging with Chinese clients outside China is a relatively new phenomenon for Swedish companies.**

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 subsidiares 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

local presence in the market. The second challenge is that of capabilities – the Swedish companies' local representatives may lack the capabilities, toolkits or language skills to efficiently communicate with Chinese contractors.

General coordination: In both the above cases, internal communication and coordination are key. Our interviews show that company-wide coordination across different brands and subsidiaries is often lacking when it comes to engagement with current and prospective global Chinese clients.

RECOMMENDATIONS

To address these challenges and achieve the maximum potential of the cooperation with Chinese contractors, we have developed a set of recommendations to Swedish industry-oriented B2B companies. These recommendations are divided into the following areas. They focus on the relationship with global Chinese contractors but are applicable to other types of global Chinese companies.

These actions should be taken at different levels – some at board and/or management level, while others are more relevant for the operational and/or management level.

COMMUNICATION

Tailor your value proposition

Swedish companies rightly emphasize their technology leadership in their value propositions, but there are additional factors to highlight to Chinese clients, accounting for their global presence, the possibility that products are used overseas and the complexity of the client's operations.

The Service Factor: In our interviews, Chinese contractors highlight the importance of service that is delivered seamlessly with a global reach and local speed. Speed is key to these companies – they often proudly mention their reputation for swift project delivery, at "China speed". As a result, they are often under considerable time pressure when delivering projects. This, in turn, also means that equipment suppliers need to be swift in service and spare part delivery to the field. Swedish companies need to emphasize and deliver on a promise of speed – keeping up with the clients' speed of delivery (more on service below).

The Endurance Factor: Chinese contractors often deliver complex projects in distant markets under difficult circumstances that may differ considerably from project delivery in China. Swedish high-quality equipment is well suited for such environments, with long track records of project delivery in tough environments across the world. While this factor may be important for projects in China, it is likely even more important when it comes to overseas projects.

The Sustainability & Safety Factor: The sustainability of Belt and Road Initiative projects is increasingly discussed, and Chinese contractors will be under growing pressure to deliver according to global sustainability and safety standards. Swedish companies' abilities to provide support in this respect may become increasingly attractive to the client.

Community engagement is one of the issues that have received most attention. Chinese contractors are under pressure to alter the image of bringing everything from China to deliver projects – workers, food, material – without benefiting the local economy and its communities. Proving its value to local communities will likely become vital for the legitimacy and success of the whole Belt and Road Initiative.

Swedish companies have valuable experience in this regard. Finding ways to cooperate on CSR in general, and community engagement in specific, may be of special interest to Belt and Road-related clients. However, Chinese companies' typical image of CSR – revolving more around charity rather than adapting business models and involving communities – may differ from Swedish companies' approach. Therefore, finding common ground for cooperation may require dialogue and time.

ENGAGEMENT

Multi-pronged business development

China's biggest contractors have hundreds of thousands of employees, a global presence and a large number of subsidiaries – sometimes operating with a high degree of independence.

Approaching and engaging with such customers can be challenging even for the biggest Swedish companies. Finding success requires a coordinated and multi-dimensional approach, which requires internal commitment.

We have identified four dimensions that can play important roles in the business development in relation to large-scale Chinese contractors, or four angles from which the client can be approached – in a coordinated manner.

"We target these companies both locally and in China. We have a long partnership in China but also put a strong presence in the local countries and work a lot with the end-users there. You need to know the end-user otherwise they are likely to buy Korean, Japanese, Chinese. The local backend support should be there to support the customer with the aftersales service and moving into further innovation."
Country manager of a Swedish infrastructure equipment provider

> **Finding success requires a co-ordinated and multi-dimensional approach, which requires internal commitment.**

NOT YOUR TYPICAL CLIENT

Top-down: For larger Swedish companies, using top management to access contractors' top executives (both at group and subsidiary levels) may be useful for several reasons.

Top management interaction can be used to establish regular channels of communication with lower-level (but important) decision makers, who may otherwise be hard to access. Formal agreements such as MoUs can useful to that end, and as a way to signal trust and build brand awareness inside the client organization.

Regular high-level meetings may also be a way to gain insights and early intelligence on potential future projects to alert local sales teams. Such meetings may also provide opportunities to gain feedback on service delivery.

Bottom-up: Purchasing decisions are often made by the local project organization or branch office. Decisions are made by local management in consultation with on-site engineers. Front-line staff may therefore play an important role in purchasing decisions, and their familiarity with, and level of trust in the product can play a pivotal role.

Building trust and familiarity can be done in several ways and may vary between product category and industry. It can be cultivated in a structured manner, through technical trainings and workshops or in more creative ways such as operator competitions or challenges. While operators may not be consulted during procurements processes, they work closely with on-site engineers, and their role should therefore not be underestimated. Cultivating brand awareness among operators and engineers will and should be a long-term effort.

Central vs. local: The purchasing behavior of these companies can differ considerably, sometimes even internally between subsidiaries. This presents a challenge for the business development of Swedish companies.

Central procurement departments – either at group or subsidiary level – play an important role for several reasons. The first, and most obvious one, being that they sometimes are the purchaser. The second is that they are often consulted by project organizations in the field when they are making the purchasing decisions. Third, central procurement departments are sometimes key liaisons when it comes to service issues.

Therefore, having strong links between the clients' procurement department and your service organization, or at least strong internal links between the key account manager and the service organization, may prove crucial in ensuring rapid service delivery and to ensure an image of swift service (more on this topic below, under "service"). Accessing central procurement departments may be a challenge for small- and medium-sized Swedish companies.

Local procurement – i.e. done by the local branch office or project organization – may lead to other challenges and opportunities. The first challenge concerns information. Local branch offices will scout for local equipment suppliers before they win contracts. But if they are not aware of Swedish companies' local presence, they not be considered as candidates if sourcing equipment locally – unless the central procurement department recommends them and makes introductions. This may be prevented by strong ties with the central procurement department. The solution may be as simple as providing the client with up-to-date lists of your global network of sales representatives and distributors.

Another way to prevent information asymmetry in the field is to encourage your global team of subsidiaries or distributors (and provide necessary support) to actively find local branch offices of Chinese contractors.

Regardless of the method or place of procurement, it is important that someone in the company has the full picture, and spreads this picture internally, ensuring that the client gets full attention.

If coordinated properly, these four angles may help accumulate business intelligence that can in turn be used to adjust the approach – especially in terms of the level of engagement. For some clients, the group level may be irrelevant or too hard to reach, leading to the conclusion that all efforts should be spent on the subsidiary level.

SERVICE

Keeping up with "China Speed" with the right processes and capabilities

Global service networks are a key selling point for Swedish companies. However, Chinese contractors differ from industry peers from other countries in a few important regards, which Swedish companies should consider when structuring their service offering.

Chinese contractors are under huge time pressure when delivering projects; they often highlight "China speed" as one of their main selling points. To avoid delays and ensure good project delivery, they often chose new premium equipment for important overseas projects. And if equipment does break down, they will expect swift service delivery.

Another factor is trust and personal relations. In interviews, some contractors highlight the importance of trust and relationships in both the service and sales process, such as this one:

"We buy a lot of products from them [a Swedish equipment provider]. Not necessarily because their product stands out, but because we in the field know that our colleagues at the procurement department at HQ in China have a tight relationship with their subsidiary in China. When something goes wrong with the equipment, they know who to call and the problem will be fixed quickly. And when we need their products in a new market, they are easy to access."

Local manager of a Chinese contractor in the railway sector

Furthermore, Chinese contractors sometimes purchase equipment in China – including foreign equipment – and bring it overseas. One Swedish company assessed that they sell almost as much of a certain product to Africa through China of they do locally in Africa through subsidiaries and distributors. The seller is not always told where the product is taken, making it hard to have spare parts and service technicians readily available. Close relations with the procurement department at headquarters will be necessary to obtain that information.

The above points mostly concern the relationship between the client and the China organization of the Swedish company.

As for the global service network of Swedish companies outside China, there are certain steps that can be taken to improve the service provided to Chinese clients, such as:

- Internal trainings and best-practice sharing for service staff on the specific needs of Chinese clients
- Developing specific toolkits to improve communication with the client's front-line engineers and operators (who may not speak English)
- Ensuring that hotlines and other means of communication are adapted to Chinese clients' needs, e.g. considering to have Chinese-language staff available in all time zones
- KPI:s and processes to ensure that the subsidiaries outside China that only service (but not sell) the product are as motivated to serve the client, even though they may not expect add-on sales at the local market unit:

"I don't see a lot of benefit for our local entity when they purchase equipment in China and ship it overseas – the aftermarket service is small business. For us it would be better if they buy locally. However, aftermarket service is a big competitive advantage for us, compared to Chinese competitors."

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

> "
> **Contractors highlight the importance of trust and relationships in both the service and sales process.**

COORDINATION

Strengthening internal communication and cooperation

Establishing, maintaining and deepening the relations with global Chinese contractors requires a high degree of internal communication and coordination, most likely more coordination than for other global customers.

The ideal mechanisms for internal communication and coordination will differ between different Swedish companies, depending on organizational structure, the level of decentralization, the involvement of distributors and whether the group consists of multiple brands.

Regardless of set-up, a few factors are worth taking into consideration when approaching global Chinese clients.

Information on the client's upcoming projects will be difficult to obtain or will often come with late notice. Therefore, the speed of internal communication may become essential to mobilize internally to meet the client's needs – and will require a combination of formal and informal networks, but all with the purpose to lower the internal barriers of communication, involving both sales and service departments. These networks should help spread awareness of previous deliveries, the client's upcoming projects, and best-practice sharing. The China organization will play a key role in this network. For larger organization, a Belt and Road node or liaison person can be considered. This may be more complicated for corporate groups with multiple brands, but the potential gains are the same.

"There is no project plan or list [when it comes to BRI]. We are only aware of the things our local organisation in China has been able to find out through relationships. There is no overall picture. Projects pop up like mushrooms"

Regional manager of Swedish equipment provider

CONCLUSION

The Belt and Road Initiative is likely only at an early stage. It will be one of the driving forces behind China's transformation into a global business power. For Swedish companies, this may both lead to opportunities for partnerships as well as intensified competition on global markets. Both call for a higher level of attention toward China.

The BRI's huge scale and ever-changing nature sometimes makes it difficult for the individual company to follow. There is no central list of projects and they continue to appear with short notice in new regions and countries. However, the key role that the largest Chinese contractors play in the initiative creates a useful interface to the BRI for Swedish companies. Those who have strong relations with the major contractors are likely to gain early information on potential projects and have a greater chance to be selected as partners for individual projects – reducing the need to follow the BRI's development first-hand.

However, interacting with Chinese clients outside of China is a new phenomenon to many Swedish companies. As shown in the previous section, certain internal measures can pave the way for closer and better relations with Chinese clients outside their home market. This, however, requires awareness, commitment and involvement of both top management and large parts of the global organizations of Swedish companies.

The BRI will also lead to a new competitive landscape in many regions, paving the way for a new generation of fast-moving Chinese equipment providers who are eager to establish an international footprint. It is well known that Chinese companies are increasingly competitive in medium- or even premium-range segments on China's domestic market. So far, however, most Swedish companies have not faced considerable competition from China on global markets – competing mostly with Western, Korean and Japanese brands. This will change, and may change quickly, and is in some cases already happening.

The rapid maturing and internationalization of Chinese industry will lead to both opportunities and challenges for Swedish companies, on both China's domestic market and on global markets. The Belt and Road Initiative is accelerating this process, adding further urgency to Swedish companies' need for a structured and strategic approach to China and Chinese companies. This applies to a wide range of Swedish companies, although the ideal response will depend on the size, structure and sector of the individual company.

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