

CEE businesses keen on 'green' Belt & Road Initiative opportunities, CMS survey finds



CEE businesses are increasingly interested in environmentally-friendly and sustainable sectors as areas for future Belt & Road Initiative (BRI) investments, while traditional trade-related sectors such as transportation and logistics remain popular.

According to a survey commissioned by international law firm CMS, almost equal proportions of CEE and Chinese respondents (49% and 48% respectively) see BRI opportunities in renewable energy, while about a third (32%) of CEE respondents plan to actively target such opportunities.

More than two-thirds (70%) of CEE participants, and 84% of Chinese respondents, believe it is important for BRI projects to be sustainable and eco-friendly, with many respondents agreeing that improvements to sustainability would make them more willing to participate in such projects.

This shift towards 'green investments' is mirrored by declining enthusiasm for BRI projects that may be seen as less green. While 24% of CEE respondents have previously targeted conventional power projects, only 9% say they will do so in future. Furthermore, only 8% plan to pursue oil & gas opportunities, compared with the 20% who have done so in the past.

'Traditional' BRI sectors are areas which continue to attract the most interest; nearly three-quarters (73%) of CEE businesses view roads projects as one of the sectors offering the most opportunity, followed by the logistics sector (65%).

"Romania is an attractive destination for investments in the "Belt & Road" initiative, especially due to the opportunities in the energy and mineral resources sector. However, so far we have attracted a relatively low level of Chinese investment. With the launch of the initiative, Romania signed agreements with China for projects worth 10 billion USD, including the construction of various power plants. Despite the fact that these projects have not yet been started, the future may bring new opportunities for BRI in Romania. The Romanian government is planning ambitious infrastructure projects - recently it signed a contract to build a ring road in Zalau with a Chinese company. Given the signals we receive from the market, Chinese investors have expressed interest in financing and building railway projects in Romania, large infrastructure projects, but also in the field of renewable energy. It remains to be seen what will be the effective implementation rate in the next period of such projects in Romania", said **Varinia Radu**, *CMS Romania Partner, coordinator of the Oil and Gas department in CEE and deputy coordinator of the Energy, Projects, Constructions department in CEE.*

"Our survey shows that the CEE market sees most BRI opportunities in roads, logistics, energy networks and

renewables,” said **Marcin Bejm**, *CMS partner and Head of Energy and Projects in Poland*. “While CEE as a region is developing rapidly and is thriving, there is still the need to draw in more infrastructure investment. BRI could be a way to fill the infrastructure gap in CEE. In order to attract international finance to BRI, any project will have to embrace principles of sustainability throughout its development and operation.”

Ex-CEE interest in CEE BRI projects

While just over a quarter (27%) of CEE participants expect to increase their involvement in BRI projects, conversely, more than two-thirds (68%) of Chinese respondents anticipate greater involvement in future.

Despite the divergent sentiment among CEE and Chinese respondents in enthusiasm for BRI, significant numbers of BRI participants elsewhere in the world have expressed an interest in CEE projects. Nearly half (49%) of those in the Middle East and North Africa want to explore opportunities in CEE and/or Russia.

CEE businesses confirm that the domestic market is the main territory for any BRI involvement. Almost all CEE respondents (97%) will continue to look to their own region for BRI projects, while 41% cite North Africa as one of the regions beyond their borders that offers the most opportunities for BRI.

“There is enormous potential in CEE for BRI. The region’s geographic location is very important for China’s BRI trade routes and Chinese interest in the region is on the rise. We are seeing active investment in CEE such as the Budapest-Belgrade Railway, and the Bar-Boljare highway in Montenegro,” said **Kostadin Sirleshtov**, *Managing Partner at CMS Sofia and CEE Head of Energy & Climate Change*.

COVID-19 expected to increase emphasis on Health Silk Road

The survey revealed a strong consensus that the coronavirus pandemic will lead to a greater interest in the Health Silk Road (HSR) – an overwhelming majority of 94% of CEE respondents say they expect this to happen. The HSR initiative was launched in 2017 by China and the World Health Organisation (WHO) to strengthen health coverage in BRI countries through Chinese cooperation and support.

“Much of HSR’s initial focus was on policies such as public health and strengthening people-to-people exchanges. However, in 2020, the pandemic has exposed the inadequacies of the health infrastructure in many BRI countries. China’s medical outreach in the spring of 2020 to 150 countries, including many CEE nations, created a generally positive impression and emphasised the potential benefits of Chinese healthcare projects,” said **Marcin Bejm**.

On high alert with legal and regulatory issues

Legal and regulatory issues are seen to pose the greatest risk in BRI projects for CEE organisations, as indicated by almost three quarters (72%) of survey participants. Project stability and political issues are other major concerns.

BRI projects in CEE countries do not currently enjoy special legal or tax treatment that would differentiate them from other infrastructure projects. Furthermore, no CEE country plans to introduce BRI specific regulations.

“Whatever the challenges posed, BRI project participants are advised to manage their risks through an effective risk mitigation plan with appropriate risk identification, management and mitigation measures,” said **Kostadin Sirleshtov**. “These range from robust due diligence and careful contract drafting and management, to neutral dispute resolution forums such as international arbitration. It is also crucial to appoint expert legal advisers who know how to navigate the complexities of bilateral and multilateral agreements.”

About the survey and CMS Belt & Road Initiative reports

In the first half of 2020, CMS and global research firm Acuris surveyed 500 senior executives to gauge their views on various aspects of the Belt and Road Initiative. Of the 500 respondents, 50 were either based in Central and Eastern Europe or predominantly working on BRI projects in the region and another 100 respondents were from Chinese entities. All respondents were either currently active or planning to participate in BRI projects. Their views were sought on a range of issues around BRI, including likely future involvement and obstacles they have encountered to date.

The survey results are being published in a series of six regionally-focused CMS Belt & Road Initiative reports. Reports on China and Asia Pacific were launched in September 2020 followed by CEE today, and reports covering the Middle East, Africa and Latin America will follow in the coming months.

The reports can be found at cms.law/bri