

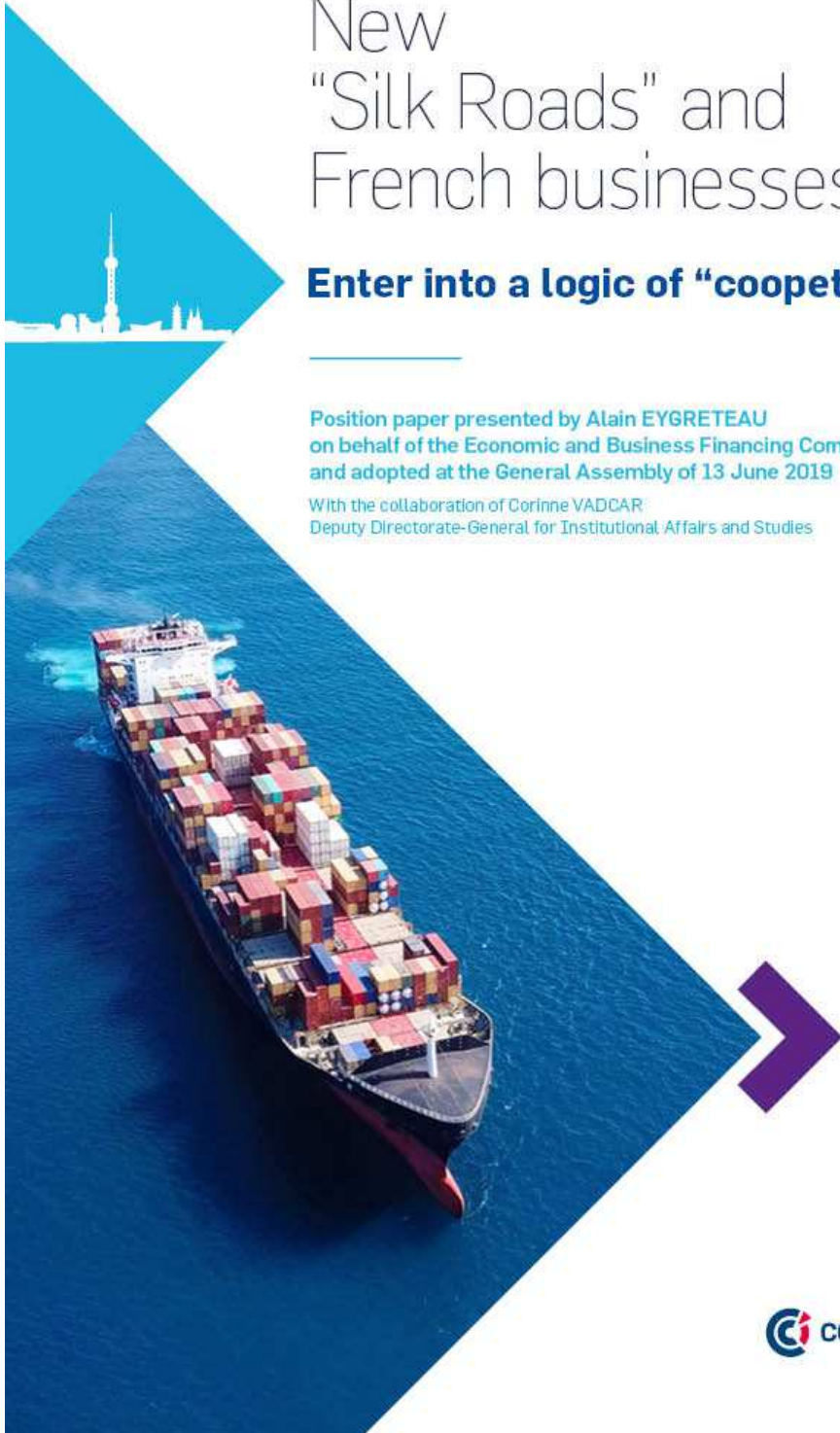


# New "Silk Roads" and French businesses

## **Enter into a logic of "coopetition"**

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*To explain this position paper, a CCIR study on "Economic Challenges and Opportunities of the new Silk Roads" is associated and [available online](#)*

[TRANSLATION FROM THE FRENCH PAPER PARTLY DONE THANKS TO DEEPL, AN ONLINE APPLICATION]

## Introduction

### Economic understanding of the new "Silk Roads"

In Chinese (一带一路 / 一带一路 or "Yidai yilu"), the reference to the new Silk Roads has remained unchanged since the beginning of the project, regardless of the various names that may have been given to it. It is translated as: one Belt, one Road, ("Une Ceinture, Une Route" in French), the belt being the railway axis ("Silk Road Economic Belt") comprising several railways, and the road being the maritime axis ("21<sup>st</sup> Century Maritime Silk Road").



Source : <https://www.fournisseur-energie.com>

### A. The economic objectives assigned to the new "Silk Roads"

China seems to have assigned two main objectives to these new "Silk Roads":

- 1) playing the role of a major center of the world economy and organise relations around this pole;
- 2) making Europe stronger because the need for a more sovereign Europe is vital in the face-to-face confrontation between China and the United States, notes François Candelon<sup>\*</sup>; the visit of the Chinese President, Xi Jinping, to Europe last March must also be understood in this way.

Of course, the Silk Roads have political ambitions that reflect domestic political considerations; they are spreading out at a time when contradictory forces are currently being observed in China: on the one hand, a somewhat easier access to the Chinese market; on the other hand, a certain closure to Western ideas.

In this context, "*the economic dimension of the Silk Roads seems to be implemented to establish China's soft power in a rather peaceful vision*", says Claude Revel<sup>\*</sup>. A peaceful vision does not mean that the Chinese do not have offensive interests; their willingness to be in standardisation bodies such as ISO or CENELEC is a perfect illustration of this offensive approach to promote and impose Chinese norms and standards or participate in their construction.

From an economic point of view, the Silk Roads must also be understood as growth drivers for China<sup>1</sup>. From this perspective, Europe and France are of particular interest to China because they answer to its double quest for technologies and markets. To this end, China is making numerous acquisitions in Europe that now go beyond strategic sectors alone.

<sup>\*</sup> The mentioned persons are listed at the end of the document in the list of hearings.

<sup>1</sup> Bohman, V. and C. Lungwall (2018), "The Strategic Rationale for European Engagement in China's Belt and Road Initiative", Swedish Institute of International Affairs, Ulbrief, n° 6.

The study that the CCI Paris Ile-de-France carried out on "New Silk Roads: Challenges and Economic Opportunities" in order to clarify this position paper highlights specific objectives for each route:

- ▶ *the maritime route* aims to facilitate economic and commercial exchanges between Asia, Europe and Africa by reducing the cost and duration of transport because the current important thing is to be as close as possible to the customer and to create value starting from its needs/uses;
- ▶ *the railways* focus on the development of infrastructures and logistics services between Europe and the western Chinese provinces with container trains and a faster transport offer than the sea route and cheaper than the air travel;
- ▶ *the digital path* aims to install digital infrastructures to create or to densify flows and surpass existing networks in order to create a global digital market in which China could impose its own standards.

In concrete terms, these Silk Roads will make it possible to reduce delivery times between Asia and Europe, particularly via the railways, where gains in time are now significant: 20 days by rail for a 40-foot container carrying goods worth \$750,000 compared to 40 days by sea. Similarly, transportation costs are reduced from \$8,450 in 2006 to \$6,350 today by rail and \$2,740 in 2006 to \$2,410 by sea<sup>2</sup>.

## B. How can we ensure that the French economy and businesses benefit from it?

The Silk Roads project is representing a considerable financial "playing power" since the implementation of the Marshall Plan after the Second World War. However, France is in a double configuration with regard to this project: on the one hand, it is not directly in the "loop" of maritime and railway routes; on the other hand, it has not officially committed itself to this project.

- **France is not directly on the maritime and rail routes**

Unlike other European countries, France does not have a major logistics hub for these Routes, either by sea or by rail. But France will have a digital road terminal in Marseille. Thanks to the cable that an Orange subsidiary (OINIS) is bringing to the Phocian city, France will therefore be a terminal on one of the major digital Routes. This comes at a time when the Mediterranean Sea is regaining importance in the new geography of trade. In the field of air freight, it's also worth to note that Paris Airports are a major asset in Europe.

This absence of France on these maritime and rail routes raises problems with regard to transport needs between Asia and France. Admittedly, Lyon is now a rail terminal with a direct link to China, but it does not appear to be in a position to capture such significant freight volumes as the European hubs of Tilburg (Netherlands), Lodz (Poland) and Duisburg (Germany)<sup>3</sup>.

In the absence of a junction of the Silk Roads with French maritime hubs, French companies have to rent road or rail freight containers from one of these European hubs, more particularly Duisburg, and then to transport them empty to the terminal.

This is all the more damaging as a growing number of importers nowadays use the train<sup>4</sup> in order not to be out of supply - when they are working on a just-in-time basis - and to be more and more responsive to their customers.

Therefore, the Chinese Silk Road project firstly needs a transport answer: it involves setting up a direct rail line between France and China to encourage volumes in one direction or another. The accelerated construction of the Serqueux-Gisors railway line would be a solution in this way; it would also restore the competitiveness of the Seine Axis.

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<sup>2</sup> US Chamber of commerce (2006), *Land Transport Options between Europe and Asia: Commercial Feasibility Study*, Washington cité in : Zhang, X. and Schramm, H. J. (2018), *Eurasian Rail Freight in The One Belt One Road Era*, Cranfield University, Conference Paper, June.

<sup>3</sup> *There is an ecosystem from Rotterdam - Kaliningrad - Chengdu (and road between Chengdu and Poland via TIR) as well as an ecosystem from Duisburg transport by rail which lasts for six days (15 days by sea). SNCF is playing the card of the Dourges railway junction in the Hauts-de-France region.*

<sup>4</sup> *Air freight is growing rapidly.*

- **Europe and France have not adopted an official position**

For its part, the European Commission has proposed a strategy called "Connecting Europe & Asia" which aims to create synergies between the European Union (EU) and third countries, including China, in the fields of transport, energy and digital connectivity, based on international norms and standards<sup>5</sup>. But this is not strictly speaking an official position; the text does not refer to the Chinese project. The EU is also the second largest shareholder of the Asian Infrastructure Investment Bank (AIIB) with more than 20% of the capital and voting rights.

In the absence of a concerted EU response on these roads, China is working to break up Europe by seeking allies (Eastern Europe, Portugal, Italy)<sup>6</sup> or countries that resist US pressure. It is the European solidarity that is at stake through the response to the Chinese project.

However, the welcome to President Xi Jinping during his visit to Europe in March 2019, bringing together the German Chancellor, Angela Merkel, the President of the European Commission, Jean-Paul Juncker, and the French President, Emmanuel Macron, is a form of European response. This collegial welcome seems to have been greatly appreciated in Beijing.

Like many European countries, France has chosen not to officially join the Chinese project because there are real political reasons behind the project. It is only a member of the AIIB since 2016. This recessed or half-tone positioning is based on reasons that can be easily explained. However, this raises the question of support for projects' development by French companies.

In addition, China understands from this lack of positioning that France does not want to commit itself. There is a huge misunderstanding on both sides. This is a missed opportunity that raises the question of how to redefine the Franco-Chinese relationship in the future, considering the particular affinity between China and France for over 55 years.

- **Business to business cooperation is a "winning" business participation**

While France is not directly on the Silk routes, it is not totally excluded thanks to indirect participation.

On the one hand, it has indirect interactions with these Silk Roads, particularly in Africa given its historical economic and commercial presence. Similarly, there are increasing interactions, via the digital channel, with e-commerce, which contributes to the development of trade in goods and services between France and China.

On the other hand, French companies are in the "loop" of economic cooperation. The study carried out by the Paris Ile-de-France Chamber of Commerce and Industry for the purpose of this position paper highlights a whole series of collaborations between Chinese and French companies in different sectors.

The growth in trade between China and Europe and the Chinese initiative of the new "Silk Roads" thus contribute to the development of new collaboration agreements between French and Chinese businesses in France, China and third countries. This concerns large companies such as technological start-up as well as many activities such as maritime, rail and air transport, digital, energy and space, tourism and e-commerce. Forms of cooperation range from standard agreements to strategic alliances, joint ventures and commercial contracts.

Following this study on business to business cooperation, the Paris Region CCI intends to highlight the interest of French companies' participation to these Roads. Beyond bilateral relations, the multilateral channel (European or international institutions) can also provide them with incentives for participation.

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<sup>5</sup> As part of this strategy, Brussels and Beijing decided to develop joint synergies at the April 2019 Europe-China Summit <https://www.consilium.europa.eu/media/39020/euchina-joint-statement-9april2019.pdf>

<sup>6</sup> Memorandum of Understanding between China and Italy: [https://www.corriere.it/economia/19\\_marzo\\_12/via-seta-testo-dell-intesa-l-italia-cina-versione-inglese-traduzione-italiano-9ea09020-44c2-11e9-b3b0-2162e8762643.shtml?refresh\\_ce-cp](https://www.corriere.it/economia/19_marzo_12/via-seta-testo-dell-intesa-l-italia-cina-versione-inglese-traduzione-italiano-9ea09020-44c2-11e9-b3b0-2162e8762643.shtml?refresh_ce-cp)

## I. The interest of entering into a "constructive" stance of cooptation

Faced with the Chinese project of new "Silk Roads", at least four stances can be observed by European countries.

If we consider that these Routes are a predefined history in which Europe would lose out, we will opt for the **fatalist attitude**. In fact, the majority of tenders – ranging from heavy industry to telecommunications – under the Silk Roads are pre-empted by Chinese companies.

If these Roads are perceived as a medium- or long-term risk for European and French interests, a **closed or even defensive attitude** will be chosen. It is true that the Silk Roads are carrying not only goods but also political ambitions.

If we believe that these Roads do not change the situation in any way and convey more promises than concrete achievements, we will opt for a **wait-and-see attitude**. Indeed, between the announced investments and those made by China in Central and Eastern Europe, for example, there is currently a significant gap.

If we understand from these Routes that they can be an opportunity for the French economy and businesses, we will opt for a conquering and **constructive attitude** (often respected by the Chinese). This proactive attitude would make it possible to move from being a receiver of proposals to a promoter of initiatives. It is also the best way to make concrete proposals and rebalance the rules of the game.

In this perspective, it is therefore necessary to combine partnership and competition, i.e. "to be in cooptation", recommends Claude Revel\*. By cooptation, we mean a strategic cooperation relationship between companies that are, at the same time, competitors<sup>7</sup>. This means fighting with the same tools as the Chinese, adopting the same pragmatism and being long-termist<sup>8</sup>.

**It is this cooptative stance that the Paris Ile-de-France Chamber of Commerce and Industry (CCI) recommends, subject to some conditions of use.**

### A. The possible uses of the new "Silk Roads"

From the moment we enter into a logic of cooptation in which China is both a strategic rival and an essential partner, we can then consider differently the Silk Roads.

- **A means of financing infrastructure development**

For Europe and France, it may be appropriate to see the Silk Roads as the means of a strategy. In a tribune preventing Europeans from a risk of protectionism towards China, Antonio Costa, Prime Minister of Portugal, highlighted the fact that the Silk Roads are a means of modernising infrastructure or developing digital infrastructure<sup>9</sup>.

In many areas, European countries no longer or not always have the financial means to support major infrastructure projects. Several European countries such as Portugal and Italy are criticised as being gateways for Chinese interests today. However, it should be noted that these are economies that were particularly affected by the 2008 crisis: in various sectors, insufficient public investment may have affected the competitiveness or attractiveness of some territories. In addition, the political will to support European sectors or ecosystems is sometimes insufficient.

Chinese investments may then provide answers in terms of financing. They make it possible to settle down or modernise infrastructures that will restore, where necessary, competitiveness of metropolitan areas, ports or territories if the companies who benefit from them have a roadmap that they skillfully negotiate with Chinese companies.

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<sup>7</sup> Brandenburger, A.M. and B. J. Nalebuff (1995), "The Right Game: Use Game Theory to Shape Strategy", *Harvard Business School Review*, July-August.

<sup>8</sup> This involves detecting opportunities while identifying threats, strengthening one's negotiating power in the face of certain risks or finding business models that combine competition and complementarity.

<sup>9</sup> "Portugal PM warns on EU protectionism over China investment", *Financial Times*, March 3, 2019.

- **A growth lever for the French economy and businesses**

The Silk Roads are also an opportunity to focus on the long run in terms of growth and innovation. They can have a ripple effect on the French economy<sup>10</sup> and be a means of "growing with" it.

For companies, these Routes can be a business accelerator. Of course, opportunities would exist, in part, without the Silk Roads, but the Chinese project makes it possible to install infrastructure in order to facilitate trade. It is this infrastructure that facilitates the access to third markets such as Southeast Asia or Africa. We cannot ignore the power of this lever since these business opportunities did not exist before.

In a logic of "coopetition", French companies can therefore participate in projects related to the Silk Roads with one or more objectives in mind, including<sup>11</sup>:

- ▶ the search for technological complementarities (sharing of development expenditures); cooperation can also help to maintain technological leadership;
- ▶ increased access to the partner's market or to third markets; cooperation can then lead to greater competitiveness in a highly competitive market, which is known to the Chinese<sup>12</sup>;
- ▶ the return on investment as the product life cycle shortens;
- ▶ the development of a global standardisation strategy.

The Chinese initiative increases the competitive advantage of Chinese firms in world markets as well as cooperation opportunities for their international partners when projects create complementarity and/or are likely to open up access to the Chinese market or new foreign markets.

This is shown by the study carried out by the Paris Ile-de-France Chamber of Commerce and Industry based on use cases of the Silk Roads by French businesses in four sectors.

Sectors	Company	Benefits from cooperation
TRANSPORTS-LOGISTICS	BOLLORÉ LOGISTICS  FORWARDIS BANSARD INTERNATIONAL	<ul style="list-style-type: none"> <li>▶ Competitive advantage in the Chinese freight market and complementarity between the two groups' capacities, hubs and logistics networks in the world</li> <li>▶ New solutions on Eurasian rail corridors</li> <li>▶ Rapid and sustainable development in the Chinese market and opening up to the markets of Southeast Asia</li> </ul>
DIGITAL INFRASTRUCTURES	OINIS (Orange subsidiary) TRAXENS  ACTILITY	<ul style="list-style-type: none"> <li>▶ New capacities in Asia and Africa for Orange and its customers and, in the long term, in Southern Africa</li> <li>▶ Further expansion into the global smart container market and development of a common standard</li> <li>▶ Unique opportunity to enter the Chinese IoT market, which is growing at 30% per year</li> </ul>
E-COMMERCE AND B2B PLATFORMS	WABEL	<ul style="list-style-type: none"> <li>▶ Activity driven by the growth of Chinese domestic consumption</li> </ul>
TOURISM	FAMOCO  EUROPASS	<ul style="list-style-type: none"> <li>▶ Development driven by the increasing use of payment by QR code in France; large-scale solutions in other areas for an increased competitive advantage</li> <li>▶ Prospects for signing partnerships with other cities (and institutions) with a Chinese tourist presence in order to become the local reference for Chinese tourists</li> </ul>

Source: Larçon, J. P. and C. Vadcar, "Economic Challenges and Opportunities of the new Silk Roads", CCI Paris Ile-de-France, Study, June 2019

<sup>10</sup> Dumond, J., M. Landrais and P. Offret (2018), « Les nouvelles routes de la Soie », Trésor-éco, n° 229, October.

<sup>11</sup> Pillot, X. (2015), Comprendre les stratégies de coopétition, Xerfi Canal, 27 Mai.

<sup>12</sup> Candelon, F. (2017), « Multinationales et entreprises chinoises : pour un nouveau mode de coopération », les Échos, 18 April.

- **An experimental laboratory for cooperation with China**

Finally, collaborating on projects related to the Silk Roads can be a unique opportunity to stay ahead of a 20-year perspective: that of a China that is currently redefining its growth model<sup>13</sup> and that will, in many areas, hold technological leadership. For example, China represents 20% of the world's electric car fleet and there is a good chance that the electric car revolution will come from China rather than the United States.

However, the logic of long-term collaboration is the one chosen by Chinese groups in their internationalisation. Moreover, *"for both political and economic reasons, China cannot successfully operate abroad along the new Silk Roads without very close cooperation with companies and local authorities"* notes Jean-Paul Larçon\*.

The Silk Roads can enable France and companies to exchange best practices and learn to work in advance with China, which will be an urgent necessity in 20 years' time. The Silk Roads can be an opportunity to prepare for it now.

In this perspective, Europe must also question itself on its own forces and levers<sup>14</sup>. The fragmentation of some European policies can be problematic in the face of China's power. At the same time, the subjects at the heart of employment and European competitiveness must be supported: automotive, Internet of Things and B2B, while others – less strategic – can be developed in collaboration with other powers such as China.

## **B. The prerequisites for a “coopetitive” stance**

- **Adapting to the fact that China is legitimately acting as a major power**

China cannot be blamed for acting today as a major power: *"States and companies will have to adapt to this new order"*, says Christophe Granier\*.

Thus, China is determined to impose standards: it is increasingly present in international standardisation bodies. Chinese President Xi Jinping considers Chinese standards to be good and wants them adopted by all. In this movement, it faces the barriers put in place by Europe. And the exercise in third countries is not as easy as one might think. China uses the size of its domestic market to build standards that it then tries to export to foreign markets, particularly when it takes an equity stake. For example, the acquisition of a stake in EDP, the Portuguese Electricity Company, by China State Grid, was an opportunity for China to express a choice of standard that is seen as a Trojan horse.

It also tries to use multilateralism to its advantage. Finally, it is setting up new international trade tribunals<sup>15</sup> in which *"Chinese rules will apply and this could put companies in difficulty"* Jeffrey Holt\* worries about.

China is now openly assuming its status of power. It is a matter of accepting this without naivety and above all of taking advantage of it and playing with it skillfully.

- **Understand China's projects in advance**

It is essential to identify the Chinese designs underlying these Routes. The latter represent a playing power that will have considerable impact, including for countries that are not part of it. They will change the competitive landscape. However, we do not naturally perceive where the Chinese want to conclude or we overestimate the geopolitical dimension.

It is therefore important to understand China's strategy in maritime, rail and digital hubs (ports, rail stations, airports, data centres) and to anticipate how it is applied in France. Some major groups are already identifying the logistical bases of Chinese companies on these Routes. The actions of Chinese groups must be decoded one by one. As always when it comes to China, it is imperative to look in detail. The "knowledge pipeline" that China produces with these projects also deserves to be explained to companies with the relevant language features. This is how the French economy and companies will be able to benefit from these projects.

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<sup>13</sup> Baverez, N. (2019), « *Pourquoi il faut aller dans la future nouvelle Chine* », *Les Échos*, 25 March.

<sup>14</sup> The Editorial Board, *"The EU should not slide into protectionism"*, *Financial Times*, April 8, 2019.

<sup>15</sup> *There are already State courts to settle disputes: in Shenzhen for disputes related to maritime networks and in Xian for disputes related to terrestrial networks. See: Perelman, R. (2018), « La pente régaliennne des Routes de la soie », *Lettre Confidentielle Asie-Futuribles*, n° 115, March.*



- **Dialogue with China to share proposals**

In this perspective, it is important to enter into a dialogue with China on the Silk Roads. A logic of power relations such as that observed by the United States would prove helpless and damaging. The confrontational approach cannot be the answer, at the risk of a deadlock. The closed approach could miss a project that will change the global situation. It is not a fight that must be initiated with China, but rather a dialogue.

Admittedly, *"a leading position of influence is sought by China through this instrument of the Silk Roads, but Europe can find many advantages there if it is united and sovereign both vis-à-vis China and the United States"*, says François Candelon\*. This raises strategic questions about Europe's place in the global economy. "Being dependent on other actors" or "seeing its place in the world reduced"..., Europe can work for another approach based on economic realism.

In its relationship with the United States or China, Europe has an interest to define itself **neither with** (the American objective is to undermine European competitiveness) **nor against** (consider Chinese or American proposals when they are constructive is absolutely decisive). It has an interest in taking advantage of the ambitions of both powers for its own interests. This is the stake of a concerted approach between Europe and China on common interests.

The model is to talk to China, to agree to consider its proposals, to discuss them in order to seek guarantees and to do so without arrogance because *"if Chinese can do without us, they do so without hesitation"*<sup>16</sup>. It also means identifying with them the common objectives on which to work together. In short, respect the Chinese vision but to benefit from collaboration.

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#### **SPEAK OPENLY TO EACH OTHER AND AVOID MISUNDERSTANDINGS**

Being in contact with China on the Silk Roads does not mean accepting projects as defined by the Chinese. On the contrary, we must say things, including what they do not like. Do not hesitate to raise with China the annoying issues (rebalancing trade for example) as long as you do not consider them as "enemies". It is also important to send a sufficiently high level of representation when engaging in dialogue with China.

It is also important to clear up a misunderstanding. China presents the Silk Roads as a "win-win" game. This expression should be understood as a game where both partners benefit, but not necessarily the same thing. By win-win, we mean "shared growth". China also presents these Silk Roads as an "inclusive" project, a term that can be confusing. It does not mean "reciprocal". As the Silk Roads are a project under construction, in motion, China is moving forward as opportunities emerge: to do so, it sends delegations in situ or identifies upstream projects in third countries. That is why China uses the term "inclusive" because it is open to all. A small grammar of these Routes can help to enlighten the following developments (See Appendix 1).

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<sup>16</sup> According to Bertrand Biard, co-President of Manifestory cited in: Pothain, V. (2019), « Chine, le rêve américain de l'événementiel ».

## II. The need to identify sectors and businesses in terms of opportunities

### A. Identifying sectors

The issue of business participation in Silk Road projects obviously raises the question of relevant sectors or segments.

The study carried out for the purpose of this position paper highlighted four sectors: transport & logistics, digital infrastructures, e-commerce & B2B platforms and tourism. As it appears, the rise of e-commerce between Asia and Europe is opening up cooperation between Chinese platforms and French companies with a relatively limited risk. French SMEs can work with Chinese platforms that want to develop in third markets such as Southeast Asia. "*There is a real potential for import flows thanks to the cross-border e-commerce channel, particularly in the France-China direction*", Armand Mazloumian\* points out.

Beyond these sectors, there are obviously other sectors for which the Chinese have real needs. Two areas appear to be quite illustrative: health and environment.

- **Possible synergies in health/medicine**

It is not so much in connected health that possible cooperation or market opportunities can be foreseen. Indeed, China is seeking to bring out its own national champions in this field. To do this, its aim is to buy technologies and to acquire companies, whereas it was yesterday more about technology transfers. As a result, there are many regulatory barriers – not to mention counterfeit products – that make it difficult or impossible to export connected health-related equipment to China<sup>17</sup>.

It is more the areas with European and French specific know-how that interest China: retirement residences and telemedicine. A French company like Orpéa, specialised in retirement homes, is thus finding opportunities in China. Orpéa economic model is based on the construction of retirement homes and the provision of services. "*In telemedicine, inspired by France, China wants to develop access to care and a facilitated prevention policy*" observes Patrice Cristofini\*.

- **Possible synergies in the environment**

The environment is another area to be targeted as part of the Silk Roads. Over the past two to three years, Chinese developments in the environmental area have been very rapid. Beijing has just implemented a "Blue Sky" policy aimed at switching coal-fired boilers to gas in two years and adapting wastewater treatment plants to Chinese capacities. Nevertheless, the fight against global warming poses a dilemma for China:

- ▶ either it goes forward alone but will be confronted to the limits of the exercise because the air has no borders;
- ▶ or it works with other countries for a win-win game.

It is the second option that seems to be the preferred one. Everything related to the environmental dimension ("China Green") is currently open. And synergies can emerge between French and Chinese companies.

- **Synergies in other areas**

There are also a number of opportunities in niche markets (product or service), or in specific sectors: smart city, smart grid, solution markets...

There are also business opportunities in sectors such as luxury or agri-food as well as in highly regulated sectors where China does not have the right labels or norms.

Finally, since the Chinese consumer has a real appetite for the experience, he expects more service. This opens the door to the services and solutions offered by French companies, e.g. markets in which China does not (yet) have an offer, as the service culture has not been developed.

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<sup>17</sup> In this sector, France is good in the software while China is good in the hardware.

## B. Identifying companies

Similarly, the participation of companies in Silk Road projects raises questions about the size and profile of the company.

**In large groups**, internal awareness has been relatively high for the past two years on Silk Road projects. However, it is not easy for them to make proposals on labelled projects (see Box Infra). China gives priority to its companies. Other factors are hindering any Chinese opening to major European groups: in the hard (construction, infrastructure), the Silk Roads are an opportunity to recycle Chinese overcapacities; in the soft, the Silk Roads are a showcase for Chinese technologies included in the 2025 Industrial Plan.

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### THE LABELLING OF "SILK ROADS" PROJECTS, A PROCESS THAT IS STILL HESITANT

- The labelling process is not "top down": companies are moving in the direction by using existing tools (Silk Road Fund, State Banks); the Asian Investment Bank (AAIB) is very little involved. Leading Chinese companies bring projects up to the level of companies and public authorities through the China Council for the Promotion of International Trade (CCIPT). The general secretariats of Embassies are the gateways to entry. There is also a Committee at government level.
- The labelling process is not yet fully structured: some projects are labelled after their launch; others are accepted although they do not correspond to the label (investment bank that is connecting all labelled -or not- projects).

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*Sources: Asia Centre and CNECCF*

In addition, China is targeting most European business sectors with the aim of winning over mature large groups. In telecommunications, China seemed, until the blacklisting of Huawei by the United States, to have taken some advantage in 5G and all related industrial applications. The same can be said for the rail sector, where China is targeting Alstom and Siemens' markets.

For large European groups, it is increasingly difficult, compared to the past, to compete. *"It is difficult to develop an industrial road map in Europe at the same pace as China"* says Antoine Garibal\*. The example of telecommunications is interesting from this point of view. *"The leadership developed by Chinese players over the past 15 years suggests that history will repeat itself in three sectors: nuclear, automotive, through electric cars, and aeronautics in the long term"*, adds Antoine Garibal\*. As all these industries will be influenced by 5G in which China is developing its leadership, the impact will be all the greater. Large companies are therefore forced to adapt their strategy, invest more in innovation or forge new alliances. This is the case of Alstom in Kazakhstan or Suez in Bangladesh and Sri Lanka<sup>18</sup>.

**In SMEs and mid-sized enterprises**, the fear – still justified – of forced technology transfers makes it difficult to foresee participation in Silk Road projects. In addition, the window of opportunity is very narrow for them, between the hard targeted by the subcontractors and the soft targeted by the start-up.

**In start-up**, the business prospect via the Silk Roads seems more obvious. Below €50 million, the Chinese do not buy start-up unless these are companies with new/niche technologies. For start-up, there is thus a leverage effect in the Silk Roads to develop their activities, provided that they take the necessary precautions.

**More than size, having experience in China or with the Chinese in Europe/third countries appears to be decisive for participating in projects related to the Silk Roads.**

Three types of companies that work or can potentially work on these Silk Roads can be identified, according to a typology outlined by Sybille Dubois-Fontaine Turner\*:

- *"hidden" companies*: most often large groups or companies that position themselves as subcontractors; they may also be SMEs or mid-cap companies that belong to consortia; this is particularly the case in the transport or the energy sector;
- *"proactive" companies*: they have not yet been contacted or are not participating but, by monitoring for longer-term action, they will be able to seize an opportunity or propose collaboration at the appropriate time; this is the case for some companies quoted in the Paris Region CCI study; in sectors such as e-commerce or digital infrastructures, thanks to networks or significant Chinese experience, they have been able to find areas of successful collaboration;

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<sup>18</sup> Davesne, S. (2018), « Les entreprises françaises veulent monter à bord des grands projets d'infrastructures chinoises », *L'Usine Nouvelle*, 3 December.

- *"contactless" companies*: in particular, SMEs which - thanks to a network yet to be built - could above all identify the good partners and move on to the status of "proactive" companies; many SMEs or start-up could, in fact, enter into a logic of complementarity with the Chinese offer on projects related to the Silk Roads but need to be informed about the opportunities.

For a company that does not have a partner in China – with the exception of the entrepreneur, who speaks Chinese, has lived in China or is open to a partnership with a Chinese company – the prospects are fewer.

On the contrary, companies that have a partnership with China will then be able to benefit from the Silk Roads. In any case, this is done through the Chinese partner in terms of information, networking, etc. Therefore, a company has to be very reactive to get involved in Silk Road projects.

### III. Conditions for competition with China on the Silk Roads

#### A. Creating the framework conditions

- **Working together on norms and standards (including CSR)**

In terms of standards and regulations, European countries such as France or Portugal have an influence on China. France is legally appreciated by China. In the digital field, the fact that France very early enacted the Data Protection Act is a source of inspiration.

In this context, the working perspective with the Chinese on technical standards but also on certain CSR and ethical standards is not unrealistic. Building common standards can be a winning game for both parties. There are probably some standards that could, on an experimental basis, be developed jointly.

In addition, the normative influence of Europe and France is strong in third countries, in Africa for example; standards are still largely aligned on the major European players. We can see it in the electricity sector, with the alignment of North African countries on major European players such as Électricité de France (EDF); in this respect, past experience is like a barrier that acts as a competitive advantage for European companies.

At last, it could be useful to work with China on "standardised" tenders for the Silk Roads. This would allow foreign companies, particularly French ones, to be selected upstream under the same conditions as Chinese companies.

- **Working with third countries through technical links**

In third countries and more particularly in Africa, competition has been extremely fierce in the last five to ten years in all sectors of activity (energy system, mining, basic materials, civil construction, banks, etc.). Major tenders are launched with Chinese competitors who are 20 or 30% cheaper. It is then difficult to resist when Chinese capital is present.

Moreover, *"no one has ever invested in Africa to match the stakes"*, observes Jean-Luc Vuillemin\*. China is doing so, which creates real opportunities on this continent that has real needs. In a way, *"the new Silk Roads are starting in Africa"*, notes Antoine Garibal\*. The Chinese provide free or low-interest financing, open credit lines, which represent short-term gains for local economies. However, the Chinese do not integrate local ecosystems and local populations do not necessarily benefit from their investments. Similarly, there is no inspection on the quality of infrastructure by the Chinese.

However, China seems to be in favour of tripartite agreements in Africa. For financing reasons, French businesses cannot always develop alone.

In addition, France has a very strong link of expertise in Africa on which it can capitalise in its relationship with China. We observe that the "French-style" energy model is still predominant, particularly in West Africa. There is scope for building projects on the technical links that have been created over time between Europe and third countries (notably through cooperation mechanisms). French companies can thus be present on project management assistance.

*"The preferential relations of French, British or Portuguese companies with the French, English or Portuguese speaking world are a very useful lever for Chinese companies"*, says Fernanda Ilhéu\*. At the same time, Chinese investments in infrastructure are opening up new opportunities for European companies in third countries. There

are already six Sino-French partnership projects in third markets signed in 2016<sup>19</sup>. It was decided, during President Xi Jinping's visit to France in March 2019, to give them a new impetus.

It may be relevant to work upstream with multilateral financiers such as the African Development Bank (AfDB) or the World Bank in order to operate a "*form of triangulation*", says Claude Revel\*.

- **Developing a common vision in research**

Dimensions that are not - or cannot - be monetised also deserve special attention. These aspects are rarely mentioned<sup>20</sup>. Whether it is a question of scientific, cultural or other issues, there is scope for imagining or deepening cooperation. China now has extraordinary innovation capabilities such as the XLab (equivalent to the American MIT). The issues of scientific excellence can be the subject of common approaches. This is already the case with space. French excellence in quantum computation – competing with the United States – is another possible field.

The opening of R&D centres in China by major French companies can also be a way of adapting the offer to the needs of the "Silk Roads" markets. Finally, it is interesting to note that the French Tech hubs in Hong Kong and Shenzhen were merged in April 2019 to bring together the innovation efforts of French businesses operating in China.

- **Bringing companies together around the "Silk Roads" projects**

However, there is a prerequisite for French companies to take advantage of the Silk Roads. The creation of an ecosystem where companies of all sizes would be welcomed would federate the approaches around the Chinese project. "*Chinese companies and their French partners need networking structures to support their collaboration on major projects*", notes Jean-Paul Larçon\*.

The question is how to set up a sustainable model (linkages, feedback, networking, etc.). The creation of a proactive network is to be preferred. All the involved players can work and create this global project. It can be seen that the ways and means can be multiple as well as the stakeholders (Appendix 2).

To get information, there are many platforms on these Silk Roads – in Chinese and in English – but significant compilation work is needed. It may be relevant to go through industries to get a better sector-based approach. By playing so, it is also possible for large groups to involve SMEs.

However, it is essential to develop one approach per project and to experiment, firstly, two to three projects.

## **B. Guiding companies towards strategic edges**

- **Providing solutions and know-how which are difficult to replicate and transfer**

With China, it is not so much a product or technology approach that is needed; it is above all a solution approach. Many solutions can be provided by French businesses in China and third countries: on the one hand, there are no political barriers to their implementation; on the other hand, they are currently particularly requested by China.

The Chinese want the best everywhere; this potentially gives access to companies with very specific know-how. "*The difficulty, however, is to contribute without losing know-how or value*", notes Jean-François di Meglio\*. This is the challenge of non-replicable and non-transferable solutions and know-how. In this context, it is important to pay close attention to intellectual and industrial property elements. The partnership approach must also be legally locked, especially since the responsibilities and risks taken by the European partner can be very high.

- **Seeking to create value on one or two segment(s) instead of a global approach**

Similarly, it is better to focus on one or two segments to create value than to seek to be in a winning game throughout all the chain, clearly defining the objectives of each party. Such are the segments that will allow us to create complementarity with Chinese players.

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<sup>19</sup> 1/China Datang Corp. & EDF 2/TUS Holding CO Ltd et Engie (Asia) 3/Shanghai SUS Environment Co. Ltd, Quadran International, CIC Capital Corp., Bpifrance International Capital (third markets) 4/China Merchants Group, China Africa Development Fund, Bolloré Group (Nigeria) 5/CCCC et CMA-CGM (Nigeria) et 6/ China Harbour Engineering Company et Bolloré Group (East Timor).

<sup>20</sup> France has a CNRS office in China.

On this point, three lessons emerge from the use cases analysed by the Paris Region CCI in its study on the challenges and opportunities of the new Silk Roads:

- 1) by pragmatism, the Chinese have an interest in leaving value segments to third parties; this is essential to a sustainable relationship but also in a political context where their investments are not welcome everywhere in Europe;
- 2) the Chinese have a strategic and patrimonial vision that their European and French counterparts do not necessarily have;
- 3) it is essential to leave your model outside the Chinese value scheme; "*with the Chinese, you must understand the interest of your partner: you must not try to fit your model into their value scheme*", observes Jean-Luc Vuillemin\*.

**For all these reasons, a segmented and targeted approach is often preferable to a global one.**

- **Developing your bargaining power**

The major French groups have a negotiating power that they can put into action on projects related to the Silk Roads. Some of them are able to force Chinese groups to work collaboratively with local players in third countries. In addition, while Chinese State-owned enterprises (SOE) enjoy government support and a size advantage, they have not yet captured a significant share of international markets, particularly in developed countries.

Moreover, French companies must not remain confined to cooperation with China alone. "*Even if they have a deep respect for the know-how they do not master, [the Chinese] are in a learning process at the end of which the foreign company is not dedicated to remain*"<sup>21</sup>. Therefore, it is important to diversify its cooperation with non-Chinese companies and to stand on its own to develop business.

- **Finding business models that work on Silk Road projects**

For a company, the most important thing in participating in Silk Road projects is not so much to find financing as to find the business model that works and will be sustainable.

This search for winning business models involves answering several questions: how to take advantage of the new roads built by China? How to support China's international strategy? And, on the other hand, how can your own international strategy be supported? What are the solutions that can be built together? How to approach Chinese players? Is there a local solution?

Companies must, in fact, find business models that combine competition and partnership. This implies "*a co-creation of value whose model must be found*" notes Léon Laulusa\*. The exercise is far from simple: "*it is not uncommon for a cooperator to end up covering up for itself in order to capture the value created by all stakeholders*"<sup>22</sup>.

In terms of management, there is a whole set of implications (intercultural negotiation for example) to best manage this co-competition, especially since European management practices are not well understood by Chinese companies.

From this perspective, companies, including SMEs, must give themselves a sufficiently long time horizon and develop stress tests in relation to a set of risks inherent to a co-competitive approach.

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In conclusion, it is on the basis of economic realism that the Paris Region Chamber of Commerce and Industry recommends a co-competitive rationale within the framework of the Silk Roads. However, "committing" does not mean "validating"<sup>23</sup> because these Roads are not only an economic project; they also have a strong (geo)political dimension. But cooperation between French and Chinese companies is an opportunity to participate constructively and even to develop a long-term strategic vision for the French and European economies.

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<sup>21</sup> According to Bertrand Biard, co-President of Manifestory cited in: Pothain, V. (2019), « Chine, le rêve américain de l'événementiel ».

<sup>22</sup> Pillot, J. (2015), *op. cit.*

<sup>23</sup> Okano-Heijmans, M. and T. Kamo, "Engaging but not endorsing Policy Brief China's Belt and Road Initiative", Clingendael Institute, Policy Brief, May.

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## Appendix 1

### Some decoding keys of the new “Silk Roads”

#### At the political level

- ▶ The Chinese take pride in things they can't do on their own to show that they are open
- ▶ China's concern for its image is leading it today to more multilateralism, cooperation and relative openness

#### At the economic level

- ▶ The Silk Roads are a competition between Chinese actors: may the best man win!
- ▶ China's strategy is to ensure that Chinese actors compete with each other
- ▶ Chinese perception of its fundamentals is less certain today than in the past
- ▶ The Chinese sometimes have simple requests that do not justify companies' fears

#### At the technological level

- ▶ The share of Chinese technological advance is often more dreamed than effective; however, there are real areas of progress such as AI or 5G
- ▶ The Chinese also need help in a few industries

#### At the financial level

- ▶ Having deep pockets does not mean that China easily finances projects
- ▶ The financing part is not so attractive; moreover, funding is becoming scarce for projects related to the new Silk Roads
- ▶ Many projects are greenfield projects (new investments) for which there are financing problems
- ▶ China does not have a financing program but has a foreign acquisition program: it is interested in companies with more than €50 million (except technological niches)
- ▶ When the Chinese acquire European companies, it is to open up the Chinese market to them; they do not proceed to post-merger integration

#### At the commercial level

- ▶ The Silk Roads is above all about trade and financing infrastructure
- ▶ The Silk Roads are an East-West movement that will serve to conquer the markets of the West

#### At the technical level

- ▶ Today, the new Silk Roads are a registered trademark, marking the transition from a dark side to a more official side
- ▶ The Chinese Silk Roads organisation is more modest than it seems, but the local desks of the Silk Road Fund are important

*Source: based on the hearings conducted as part of this position paper by the Paris Region Chamber of Commerce and Industry*



## Appendix 2

### An ecosystem of businesses around the new "Silk Roads"

#### First role: Monitoring

- ▶ collecting information (including tenders, activities of Chinese State Owned Enterprises (SOE) that are entering foreign markets), analysing them and enriching them
- ▶ detecting opportunities through subsidiaries (including those of large groups in China)
- ▶ building a database and disseminating it quickly to communicate
- ▶ taking advantage of China's knowledge pipeline (looking in great detail)

#### Second role: Competitive intelligence

- ▶ identifying the companies that will be able to work on the Silk Roads
- ▶ identifying countries that are attractive to the Chinese and delimiting the countries of interaction
- ▶ mapping the projects in which French companies are involved
- ▶ collecting the project at its root through different channels
- ▶ referencing the Business Development teams in France and Europe (European project coordinators who act as a link between European markets and Chinese companies)
- ▶ developing different approaches according to sector-based activities
- ▶ bringing French companies from other markets, beyond France and China

#### Third role: Networking

- ▶ making French and Chinese companies compete in a market or sector
- ▶ taking advantage of inter-State cooperation
- ▶ playing in the supply chain to sectoralise responses
- ▶ drawing channels of penetration into projects related to the Silk Roads
- ▶ having direct links with Chinese companies for the concrete implementation

#### Fourth role: Support (in partnership with existing structures)\*

- ▶ providing solutions to companies (with regard to the know-how they possess)
- ▶ providing useful tools in financial, human, commercial, legal and other terms
- ▶ disseminating, in terms of training, the best practices in terms of business and helping to decode the negotiation keys (See Business Confucius Institute - ESCP Europe)<sup>24</sup>
- ▶ developing labels for training but also for business

#### Fifth role: Cross-fertilisation

- ▶ cross-fertilising (students, researchers, companies) following the example of the Ensam, Mines consortium

#### Sixth role: Labelling \*\*

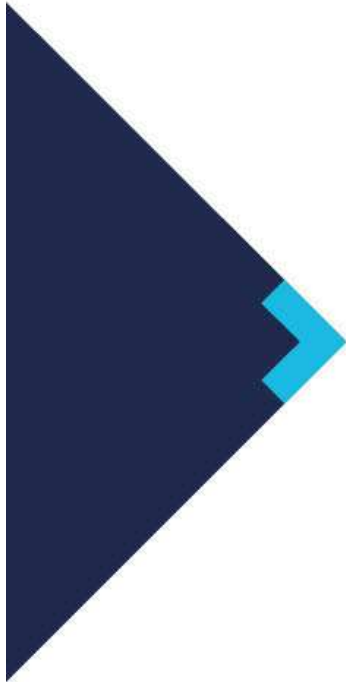
- ▶ labelling projects in a few predefined sectors

\* This is all the more important as trade negotiations with the Chinese are a difficult art

\*\* The Seine-Normandy Axis could be an example of labelling

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<sup>24</sup> ESCP has signed, with Beijing Foreign Studies University (BFSU), an agreement for the creation of a business-oriented European Confucius Institute (Business Confucius Institute). The Institute was inaugurated in May 2019 on the Paris campus and will then be deployed on other European campuses. There are currently 11 Business Confucius Institutes in the world. It is a new model of Institute that works on the economic and commercial dimension, beyond the cultural dimension. ESCP Europe received a \$150,000 grant for the installation. The annual operating budget is between \$150,000 and \$300,000 (for at least five years). The ESCP Europe's presence in a large part of Europe has encouraged the idea of setting up this economic observatory of French businesses by China and Chinese businesses in France and Europe. The Confucius Institute of ESCP Europe aims to become a true cultural, economic and social platform between France, Europe and China.



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