

Necessary Regulatory Framework for Investments of German/European SME Economy Along the New Silk Road

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China's One Belt, One Road (OBOR) initiative can unquestionably be described as the greatest global investment program ever, so far. Projects worth \$900 billion which are now under construction, as well as other planned projects with a volume of close to \$4 trillion, leave no doubt as to how serious China's intention is, to become the leading economic power on Earth.

Of course, one can discuss whether China intends to pursue hegemonic goals, or whether it is only seeking to give an unprecedented dynamic to global development for the benefit of many. What is sure, is that China is not just giving anything away, and, yes, China, too, is acting primarily in its own interest.

The longstanding stable growth of the Chinese economy has led to a change in the role and the self-conception of China's economic and foreign policy. A closer look shows that the shift from the role of a workbench to a leading technological power is not surprising.

Although initial successes in terms of know-how transfer to high technology qualifications were still based in the early days on joint ventures or partly also on the unauthorized adaptation of intellectual property of western companies, since the middle of the 1980s, China has consistently and outstandingly invested in training, research and technology. Tens of thousands of students have been sent to prestigious universities around the world and, after successful studies, have



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been given good positions in their own economy.

Together with massive support for industry and a successful monetary and financial policy, this strategy has paid off. China's massive foreign exchange reserves have not only allowed it to become the largest creditor of the United States, but also to become the foundation of an unstoppable, highly expansive international economic policy. The greatest manifestation of that currently is the OBOR initiative.

From the perspective of our association, One Belt One Road is the strategic gateway to a new, more just world economic order. But it is also an opportunity and an offer for the German economy to bring to bear its enormous capabilities and its excellent reputation. Unfortunately, this point of view is scarcely to be found in German and EU politics. Instead, the skeptics dominate. With a strange mixture of arguments, they claim the authority to interpret and assess Chinese intentions and omissions. This attitude has led to much irritation in Asian countries, in Russia and certain EU member countries, such as Hungary, Greece and the Czech Republic, just to name a few.

Germany a Tolerated Onlooker?

The premises of German foreign and economic policy are based more on ideal and moral values, such as human rights and more democracy. In other words, Germany's interests, as the strongest exporting nation in the world, come last. That leads to a decoupling of political speed from economic speed. Germany thus runs the risk within a short time of jeopardizing its position as a leading economic nation and being reduced to playing the role of a tolerated onlooker. This unilateral orientation to values and to the West has not produced

any sensible results in the recent past.

To take just one example, Germany and the EU approved the extension of sanctions against Russia. Russia has enough options on its own or in partnerships to handle these sanctions. But the alternatives of the German economy, on the contrary, are clear. Trade of goods and services with Russia has noticeably decreased. Even if we ignore that, the problem remains of the difficult rebuilding of trust between the EU and Russia.

The point I want to make is the following: The game of economic policy forces is now very dynamic and requires a constant adjustment of one's own doctrine and foreign trade objectives, for example. These demands, however, require a government that has a clear view of necessities. In addition, these demands require a government that is able to formulate policies clearly and precisely, and if necessary, with a vision. Unfortunately, these skills have been steadily declining in Germany since 1983.

Dealing with problems so detailed that they do not belong in the Bundestag, has led to a loss in credibility of Germany's major parties. If we translate this situation and its results onto the challenges that face us in Europe, doubts will quickly arise as to whether and how German policy will manage to address the OBOR project on an equal footing. What's more, how should German small and medium-sized business (SMEs) have confidence that the necessary regulatory framework will be found, or perhaps created, with the help and active support of the countries along the Silk Road. In the economies along the traditional Silk Road alone, there is an enormous demand, for example, for infrastructure projects, energy projects, the development of medium-sized industrial clusters, training projects, health projects, etc.

The opportunities for the German economy are enormous. We in the BVDSI, in the many conversations we have with the ambassadors of these countries, have all found that the desire for German participation in the framework of China's OBOR investments is constantly growing. It is driven by confidence in German technology, in German management methods, in our cooperative business culture and innovative ability.

SMEs' Need to Navigate Safe Waters on OBOR

But to come back to the core challenges for the German Mittelstand economy. As you probably know, Germany has a very strong medium-sized economy, which is also largely made up of family businesses.

This strong nucleus of the German economy has produced an enormous amount of "hidden champions" in almost all branches of the world market. This middle-sized economy is the secret of our country's export success and its innovation and investment capabilities. The major DAX [Frankfurt Stock Exchange Index] companies are not the ones that absolutely need political support. They are well represented everywhere and can assert their interests all by themselves.

No, it is the medium-sized family businesses that need political support. These family-owned companies need to navigate, from a regulatory standpoint, in relatively safe waters. That includes bi- or multinational agreements on the protection of investments and the protection of intellectual property. This includes clear, understandable measures against corruption and state arbitrariness. It also includes guarantees for the free movement of goods and capital. Last but not least, regulations must be established to guarantee safety in terms of claims settlement and compensation. Special export and project financing is another area of support services that must be put in place for OBOR.

Fortunately, there are already examples of the creation of an important regulatory framework. Kazakhstan has created an impressive legal landscape, which corresponds in many areas to German legislation. Russia has created extensive guarantee packages and arbitration boards with which the German businessmen active in Russia feel to a great extent comfortable.

However, there remains a lot to do, especially in the areas of corruption and arbitrariness of public authorities. The EU and Germany have vast experience in developing, contracting and codifying such regulations and procedures. They come from the accession agreements to the EU as well as from bilateral agreements. So it's not because of a lack of know-how that the necessary political dynamic is not yet recognizable. Here, a new spirit is urgently needed.

In all agreements to be made with the countries of the Silk Road, in all dignified interests of the parties, one thing must be clear for Germany and for the EU: it is not about demarcation or confrontation with the OBOR initiative. Only a cooperative approach ensures perspectives. It's about participation, prosperity and partnership.

Germany has the duty, both internally and externally, to take up new global initiatives. Otherwise, we will lose our opportunity in Europe to participate in shaping a new world economic order.