Dragoman Digest

China considers two new railway routes to bypass Russia

The future of the two railways depends on whether they can attract financing

With **Russia** preoccupied with its invasion of **Ukraine**, **China** is moving to consolidate its influence in Central Asia. China's Belt and Road Initiative (BRI) railway routes through Russia have been sidelined in favour of routes avoiding the country altogether. As of June, Western sanctions led to a significant drop in cargo traffic on Russian railways, especially on its outbound flows which fell nearly 16 percent year on year.

A trans-Kyrgyz line and the trans-Afghan line are two options being considered at this week's Shanghai Co-operation Organisation summit. The trans-Kyrgyz line would open a new route from China to **Europe** connecting **Turkmenistan**, **Iran, Kyrgyzstan** and **Turkey**, shortening the railway journey by eight days and reducing the risk of disruptions due to sanctions. Paramount Leader **Xi Jinping** reinforced China's support for the project on Thursday in his meeting with Kyrgystan President **Sadyr Zhaparov**. The trans-Afghan line would connect **Uzbekistan** to **Pakistan** via **Afghanistan**, bolstering Beijing's plans to turn Pakistan's Gwadar port into a shipping hub. It would also give China an export route for a long-stalled but potentially highly lucrative Mes Aynak copper deposit near Kabul for which it has a 30-year contract, while cutting travel time between Uzbekistan to Pakistan from 35 days to around four.

Doubts remain over the feasibility of China's plans. Plans for the trans-Kyrgyz route have been shelved several times before. While China, Kyrgyzstan and Uzbekistan have reportedly finally agreed on a route, the railway will cost an estimated US$4.1 billion. China has recently moved to downsize its direct Belt and Road financing as foreign borrowers struggle to repay loans. Nonetheless, the fact that China is openly canvassing routes bypassing Russia with limited apparent input from Moscow is testament to an increasingly asymmetrical relationship.

The Economist

China's offshore wind ambition faces headwinds amid shortage of turbine installation vessels

Shortages expected to be felt globally

A shortage of offshore wind turbine installation vessels in **China** appears to be deepening. In 2021, a mammoth 4 GW worth of projects failed to meet their construction deadline because of vessel shortages. This was equivalent to 20 percent of global offshore wind capacity additions that year. At nearly 17 GW, China accounted for 86 percent of global capacity additions in 2021. China aims to have a cumulative offshore wind capacity of 60 GW by 2025, up from around 26 GW today. This would represent approximately 2 percent of the 3,000 GW of generating capacity the country aims to install by 2025.

Supply constraints could jeopardise these targets. Very constraints have pushed up the cost of a commissioned vessel from around RMB 4 million (US$577,000) a month in 2020, to approximately RMB 18 million (US$2.6 million) a month in August. Some project developers have reported having to wait at least two years before a vessel is available. Shortages are particularly acute for turbines over 10 MW. Of China's 42 installation vessels, there is only one that can install a 10 MW+ turbine. Turbines of this size are often required for deep water wind farms.

Shortages in China have implications abroad. Chinese shipping group COSCO will deliver an installation vessel to the **UK** in the coming months to help build the world's largest offshore wind farm, Dogger Bank which has a planned installed capacity of 3.6 GW. Supply disruptions could threaten those plans.

Germany takes further steps to diversify away from China

Economy minister promises "no more naivety" in Berlin's trade dealings with Beijing

Next year, **Berlin** will publish a new '**China** strategy', implementing a slew of measures to make business with China less attractive and push a tougher line on Beijing. While the Ministry for Economic Affairs and Climate Action (MBWK) already screens Chinese investments in Germany, it is considering examining German investments in China under the revamped strategy. Measures may include scrapping or reducing investment and export guarantees. In an unprecedented move in May, Germany denied Volkswagen's request to renew risk insurance for the company's Chinese operations, citing human rights concerns. Germany also aims to reduce its dependence on Chinese raw materials, batteries, and semiconductors, though specific measures are yet to be announced. China has been Germany's largest trade partner for the past six years. Two-way trade volumes reached US$246 billion in 2021.

The new policy may be particularly difficult for Germany's automotive industry. China has become the most important market for German carmakers. In 2020, BMW sold 33 percent of its cars in China, Volkswagen sold 41 percent, and Mercedes-Benz sold 31 percent. In June this year, Volkswagen's CEO described China as its "second home market". Since 2019, German carmakers have also steadily manufactured more cars in China than domestically. With German carmakers heavily exposed to Beijing's market, it may be too late for the companies to effectively diversify.

Loopholes in Washington's technology export controls

Commercial concerns appear to be overriding security priorities

The **US** has long made clear its intention to curb **China**'s tech development through stringent export controls. However, last month a **US** Department of Commerce-led review of tech exports to China found that of the total US$125 billion exported to China in 2020, less than 0.5 percent of exports required a license. The department approved around 94 percent of applications that did require a license.

In recent months, the **Biden** Administration has relied on licensing requirements as a way of restricting US tech companies from exporting chipmaking equipment to Chinese factories. In August, the Department of Commerce sent letters to software company Nvidia Corp and semiconductor manufacturer Advanced Micro Devices instructing them to halt shipments of AI computing chips to China unless they obtain licenses. In July, similar letters were sent to semiconductor manufacturers KLA Corp, Lam Research, and Applied Materials. Prima facie, export controls are emerging as one of the Administration's favoured tools for containing China – alongside the reinvigoration of US industrial policy, as seen through the Chips Act. Whether the US chooses to enforce these measures will be a key indication of the degree to which security concerns have become ascendant over commercial priorities. Nonetheless, limiting exports to China may do little to inhibit China's broader technological growth if allies such as **Germany**, **South Korea** and **Japan** do not also impose controls.

EU follows US's lead in targeting forced labour

Brussel's proposed ban has a far lower burden of proof than Washington's

On Wednesday, the **EU** Commission proposed a ban on products made with forced labour amid allegations about working conditions in **China's** Xinjiang province. If approved, the ban will come into effect from next year. Member states will be required to fund and establish "competent authorities" responsible for enforcement. Full details of the scope of the ban are yet to be released, however goods such as clothes, timber, fish and cocoa are most likely to be affected.

While the EU's proposal bears some similarity to **Washington**'s *Uyghur Forced Labor Prevention Act* (UFLPA), it differs on a few counts. The US' act focuses specifically on the Xinjiang province, while the EU's proposal is not location-specific, and includes items made within the EU bloc. The burden of proof under the UFLPA is far higher. Washington's act assumes that all goods made within Xinjiang are the product of forced labour – unless proven otherwise by "clear and convincing evidence". The EU's proposal places the onus on national authorities to prove that forced labour was involved in making and processing the products for seizing a product.

The application of the EU's ban may yet have unintended consequences. After the UFLPA went into effect, some solar projects recorded a 30 to 40 percent cost increase as shipments of solar panels were detained. Whilst not being explicitly "anti-China," the proposal is evidently part of Brussels' bolder approach to Beijing, exemplified by the recent passage of a series of measures targeting unfair subsidies and procurement policies.