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The Global Gateway

In December 2021 the European Union unveiled the Global Gateway. The programme focuses on global physical infrastructure needs to promote smart, clean and secure links in digital, energy and transport sectors and to strengthen health, education and research. It aims to channel €300 billion until 2027 through a range of development instruments including grants, guarantees and loans. Global Gateway, more than other infrastructure development projects, aspires to be values driven. It has important principles attached that the EU wants to champion in the increasingly fierce global competition for soft power: democratic values, high standards of governance and transparency, and equal partnerships.

The political context

Global Gateway is a well thought-out and well-timed initiative. On 21 March 2022, the Council of the European Union, at a joint session of the Ministers of Defence and Foreign Affairs, adopted the Strategic Compass, the vision for the EU's role in security and defence. The underlying global threat analysis of the EEAS, the EU's diplomatic service that gives support to provide security for its citizens and protect Europe's values and interests, reads as follows: «Slowdown of globalisation, growing economic rivalry between global powers, climate change, competition for resources, instrumentalisation of irregular migration, and threats to the multilateral system»[1]. The Global Gateway initiative can be seen as a response to each of the above global threats.

Many commentators particularly emphasised the context of rising tensions between the «West» and the «East» and the G7's renewed closing of ranks last summer against geopolitical rivals China and Russia. Indeed, the revitalised transantlantic relationship supported joint commitments to increased IMF funds for the poorest countries, democratic values and the path to net-zero. Given all their shared values and geopolitical goals that led to the above commitments, one wonders if the Western democracies could not have taken a step beyond a mutually reinforcing their various initiatives towards an even more uniform approach.

Important elements of Global Gateway

For the successful implementation of Global Gateway, the EU can draw on existing and tested structures:

Team Europe: The Institute of New Structural Economics at Peking University together with Agence Française de Développement recently took the laudable initiative to map the world's development banks [2]. The astonishing number of well beyond 500 indicates not only the significant need for non-commercial financing services, but also significant overlap. In the context of its Capacity4dev platform for international cooperation and development, the Commission invited 17 European development finance institutions to join forces with 30 sovereigns (27 EU members plus Norway, Switzerland and the United Kingdom) to increase the effectiveness of development finance by reducing fragmentation. To date, there have been 150 Team Europe Initiatives and 76 Joint Programming countries. From a strategic point of view, the obvious question is how many separate institutions Europe needs and wants to have at all in order to be present in international development finance in the future, now that the EU is taking a more streamlined approach. Moreover, all EU members collectively have significant holdings and voting rights in various multilateral development banks outside Europe that cover regions falling in scope of Global Gateway. In this regard, it will be interesting to observe whether shareholder activities, including voting behaviour of EU members, will be strategic and coherent with the Global Gateway principles.

EIB Global: The European Investment Bank, as the lending institution of the EU, is the main non-sovereign member of Team Europe and a key partner of the Commission for the Global Gateway. While EIB

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Global was only established as a branch this year, the EIB already has some 30 offices around the world and has over the years made more than €70 billion of investments outside the EU.

Blending: Development finance is successful when it succeeds in mobilizing private funds. Since it relies heavily on this to achieve the targeted program volume, the Commission can build on a successful track record. The most prominent domestic example is the European Fund for Strategic Investments («Juncker Plan») which, in response to the eurozone crisis, channelled over €300 billion of private funds into European SMEs and high-growth companies and contributed to a very positive employment development in some countries severely affected by the crisis. Due to its success, the programme was extended and scaled up in 2021 under the name «InvestEU». A particularly relevant reference project for Global Gateway is certainly «Archipelagos – One Platform for Africa (ONE4A)», which was launched by the Commission as part of its EU External Investment Plan in 2019: Together with Team Europe member Cassa Depositi e Prestiti and African Development Bank, the program reduces the risk profile of SMEs in Northern and Sub-Saharan Africa to accelerate debt capital market access, generate sustainable growth, create jobs, strengthen domestic capital markets, and reduce migratory pressures.

Development finance moving closer to the South

In multilateral development banking, there has been a gradual shift away from the dominance of OECD members towards are more balanced picture reflecting the evolution of global GDP distribution and political influence. At the World Bank, fast developing countries like China were able to increase their share and voting power over time, although not to an extent that fully satisfies them. The New Development Bank dates back to a BRICS summit 10 years ago, when its leaders envisaged a global alternative to Washington-based institutions in the hands of the Global South; The Latin American CAF, which is basically wholly owned by borrowers, has experienced particularly strong balance sheet growth over the last 20 years; In Asia, the AIIB with China as its main shareholder has quickly become a very important factor alongside the established multilateral ADB led by Japan/US. This general trend will have an impact on how project priorities and conditions are set over time.

In the field of international development aid, new donors from the Global South are playing an increasingly important role. These new donor countries usually do not follow international governance standards for development co-operation delevoped by the traditional Western donor countries under the umbrella of OECD and argue with the principle of non-interference. As a result, recipient countries are confronted with two very different groups of donors: one with a specific opinion on the use of funds and the governance related to it, and a second group with more discretion over which development projects to fund and how. Given the great importance of good governance for poverty reduction, it will be interesting to observe how DAC norms will fare in this global competition and how the principle of non-interference can be reconciled with the fight against corruption.

What does the trend that development finance is increasingly also determined by the South mean for the success of the EU's Global Gateway Programme, which is offered to the South to promote democratic values, high standards of governance and transparency? The question of what impact previous Western-led development interventions in recipient countries have had on corruption levels is beyond the scope of this paper. It should be noted that only a few years after the affirmations that "China firmly believes that Africa belongs to the African people" and the pledges to "treat each other as equals"[3] in promoting trade and investment programmes, various countries in the South are lamenting their sobering experience with debt colonialism. To the extent that countries receiving development funds themselves realise that projects cannot be sustainable if neither side implements good governance, the momentum for Global Gateway will surely be supportive.

The Chinese Road and Belt Initiative's multi- and unilateral financing sides

Media were quick to label Global Gateway as the European answer and alternative to China's signature investment programme launched in 2013. When analyzing the latter, one has to clearly distinguish two sides that are very different in nature:

- Asian Infrastructure Investment Bank (AIIB) was set up 6 years ago as the multilateral lending institution for the Road and Belt Initiative. More than 100 countries adhered since then which makes AIIB second only to the World Bank in terms of membership. Most EU members were quick to join as well and currently hold more than 18% of votes in the bank. AIIB is characterized by a strong commitment to the UN's sustainable development goals and high governance standards, transparent strategies, policies and directives. It froze lending to Russia already early March in response to its invasion in Ukraine. Various key positions were filled with former executives from Western development banks. Like other multilateral banks, it is open to co-operation with peers. The committed total financing since foundation amounts to $25 billion (as of end of March 2022).

- The Export-Import Bank of China and China Development Bank are two large development finance institutions. Their massive combined credit volume in Road and Belt target countries dwarfs that of AIIB. As sovereign public policy banks, their agenda is set by the government. Their lending practices abroad make full use of the imbalance of negociation power in their favour. A recent study discusses in detail far-reaching confidentiality, «No Paris Club», and unusually restrictive early termination including cross-default clauses found in their international financing contracts[4]. Especially stabilization clauses under which the borrowing country has to indemnify for the financial impact of higher environmental and social standards during the loan term make Chinese unilateral Road and Belt financing look at odds with increasingly ESG-aligned international development finance.

What do the contrasting Chinese unilateral and bilateral Road and Belt financing styles mean for Europe? As discussed earlier, target countries disappointed with the conduct of Chinese unilateral development financing should be pleased with the Global Gateway offerings. Moreover, Europe should push for the China-led AIIB to provide as much financing activity and more capital when needed, and support regular co-operation with the various development institutions in Team Europe.

Concluding thoughts

Global Gateway is first and foremost Europe's well needed long-term strategic frame around the world's largest share of development finance, delivered in parallel by a range of European sovereigns, national policy banks and multilateral institutions. This frame is provided at the right time, is in the best interest of Europe itself and fits well into the complex geopolitical landscape.

Considering that there are probably more target countries that are currently not really rule-governed, Team Europe members will need to think long-term and apply some healthy pragmatism. There is one particular and very successful member that knows a or two things about this: EBRD was founded 30 years ago with Western values in its by-laws and yet manages to combine its philosophy of doing business in countries committing to and applying the principles of multiparty democracy and pluralism with having Egypt and Turkey as its main borrowers. One of the latest new shareholders to join in January 2016, the same month when it co-founded AIIB: China!

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