

China's Energy Investment Through the Lens of the Belt and Road Initiative

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Key Points

Energy outward direct investment (ODI) has long been a key pillar of Chinese international economic relations and foreign policy. To a large degree, energy has formed the geographical and framework basis of China's Belt and Road Initiative (BRI). As the BRI evolves and expands, China's energy ODI continues to play a significant role within this initiative and, in turn, becomes increasingly affected by the BRI's wider objectives, priorities and challenges. This study explores the major drivers, issues and trends in Chinese energy ODI within the BRI framework.

The infrastructure investment gap in BRI regions is especially evident in certain energy sectors (e.g., coal) and countries (high-risk jurisdictions), where the lack of international financing options can leave Chinese development finance as the only acceptable alternative. These dynamics also impact the composition of China's energy investment portfolio.

The sectoral and fuel allocation of Chinese ODI and energy loans suggests that energy security is not the primary driver of these activities. The energy security strategy of China's ODI also seems to be shifting from securing foreign fuel resources to developing energy transportation corridors and diversifying import routes.

The specifics of China's domestic economic system, the various forms of government support, and flexible project assessment practices result in state-owned enterprises (SOEs) dominating Chinese energy ODI. While SOE-led investment could be the only viable option for the capital-intensive projects in high-risk BRI countries, increased deregulation of foreign investment and capital flows could promote more investment from the private sector.

The emphasis that Chinese SOEs place on macroeconomic and strategic goals in evaluating energy ODI can compromise project risk assessment and management, resulting in economically unsustainable investments and fiscal problems for recipient countries. The continuous expansion of the BRI, especially to countries with high levels of economic and political risk, will likely escalate this problem.

Summary

The Chinese government launched the Belt and Road Initiative (BRI) in 2013 as a vision to promote growth and cooperation among the economies of Asia and Europe. Over the five years since its inception, the BRI has expanded in both geographic and strategic scope. As of early 2019, 141 countries and 29 international organizations have joined the initiative, which has broadened from targeting infrastructure connectivity and logistics to wider goals of unimpeded trade, financial integration, policy coordination and people-to-people bonds. Thousands of BRI projects have already been approved, with a total investment potential of \$1.2-1.3 trillion by 2027 (IDSA 2019, Morgan Stanley 2018).

Such an ambitious enterprise can disrupt the existing architecture of international economic development and related institutions. The BRI, and the overall Chinese approach to outward direct investment (ODI), counter the established principles and values of the current global system, triggering some controversy across political, development and academic spheres. The most fundamental arguments concern Beijing's underlying motivations for the initiative.

To what extent is the BRI defined by China's geopolitical ambitions to expand influence and challenge the global status quo? Is the BRI driven by China's macroeconomic factors, such as domestic industrial overcapacity and regional economic imbalances? Such questions prompt further debate over the role of Chinese state-owned enterprises (SOEs). SOEs are often perceived to be steering Beijing's agenda and exploiting their competitive advantages gained through direct and implicit government subsidies. China has also been accused of 'debtbook diplomacy' that pulls some BRI participants into a 'debt trap.'

Energy investment accounts for over 40% of the total ODI to the original 65 BRI countries (BRI-65), is central to the BRI and is a focal point of such disputes. Beijing has long aimed to secure foreign fuel supplies and develop energy import corridors, and these goals have shaped the initiative from its outset. However, the widening ambitions of the BRI have led to greater diversification across sectors and increased emphasis on overseas investment into manufacturing and infrastructure projects. As a result, energy ODI is gradually losing its dominant role and, in turn, becomes increasingly driven by the broader BRI priorities. These priorities include developing regional financial markets and bilateral currency swaps, expanding China-led regional development finance institutions, internationalizing the renminbi (RMB), establishing new trade hubs, and rerouting global energy flows.

The recent sectoral and fuel type distribution of China's energy ODI and its government-backed energy loans also contradicts the traditional view of Chinese energy investment as a tool for enhancing its energy security through acquisition of foreign energy resources. Coal and power generation projects, which hardly contribute to China's domestic energy security, dominate the BRI and the overall portfolio of energy ODI. However, there are several projects in the energy transformation and transportation sectors that can improve energy security by diversifying energy import routes.

The prevalence of fossil fuels in China's energy ODI mix can be explained from the recipients' perspective. In countries such as Vietnam and Indonesia, coal remains one of the most affordable options to meet the rising demand for electricity. Because major (non-Chinese) international development institutions, including the World Bank, the United Nations Development Program and the Asian Development Bank have been increasingly

reluctant to support fossil fuel — especially coal — projects, Chinese institutions that operate under the BRI framework have had virtually no competition in this space. This has led to the disproportional share of such projects in China's total ODI and energy loan portfolios despite China's efforts to promote the 'green BRI' initiative.

Chinese investors and financial institutions face almost no competition in the many BRI countries with elevated fiscal, economic and/or political risks. While international development institutions and non-Chinese firms limit their footprints in such jurisdictions due to strict investment mandates and project finance practices, Chinese investors tend to look beyond short-term returns, taking into account macroeconomic impact, potential commercial synergies and other strategic considerations. This approach can result in the approval of financially unsound projects, exacerbating fiscal problems in countries such as Pakistan and Laos, where energy loans make up a significant percentage of the government's foreign debt. As the BRI expands to Africa and South America, the number of fiscally unstable BRI participants increases, potentially endangering the sustainability of China's overseas energy investment.

Chinese SOEs play key roles in the direct and indirect facilitation of energy ODI under the BRI framework. Direct financing of the energy projects is carried out by SOEs and private companies operating in the energy sector, as well as by state-owned, private and foreign funds and investment management companies. Indirect financing is primarily provided by China's state-owned policy and commercial banks, multilateral development banks and insurance companies.

The prevalence of Chinese SOEs in BRI energy projects results in large part from their dominance in the domestic economy. The firms can leverage their extensive networks in domestic industrial, financial and governmental circles to gain access to subsidized financing and insurance, and the most lucrative BRI investment projects. They therefore enjoy significant competitive advantages over other Chinese and foreign investors, especially for capital-intensive energy infrastructure projects and in the high-risk environments of some BRI economies.

However, even privately owned Chinese companies are reported to receive official guidance to participate in BRI projects. In return, they may receive assistance from SOEs, such as below-market financing or insurance rates. However, these companies still face significant administrative barriers, complex regulations and unfavorable taxation regimes in their foreign investment operations. Complex financial and contractual arrangements and even corporate restructuring impede their competitiveness and limit the scope of their potential involvement in the BRI.

The Belt and Road Initiative: Progress Amid Controversies

Overview of the Belt and Road Initiative

President Xi Jinping announced the Belt and Road Initiative (BRI) in 2013 as China's vision for promoting economic cooperation across the economies of Asia, Europe and Africa. The 'belt' and 'road' refer to what the Chinese government has termed the Silk Road Economic Belt, which links China by land to Central and South Asia and onward to Europe, and the New Maritime Silk Road, which connects China by sea to the nations of Southeast Asia, the Gulf countries, North Africa and Europe.

Five years since its inception, the BRI continues to extend in geographic and thematic reach. The number of countries listed as participants and partners has more than doubled from 65 in 2013 to over 130 as of the second quarter of 2019 (see Appendix 1 for a list of participating countries). In addition, more than 30 international organizations have signed cooperation agreements with China (Belt and Road Portal 2019a). The inclusion of countries from Africa, the South Pacific, and the Americas, which are located outside of the initial economic corridors, signals the open-ended nature of the initiative.

The BRI is also growing in terms of its targeted investment categories and overarching strategic goals. Initially, in 2013-14, China's leadership emphasized that the BRI aimed to improve infrastructural and logistical links with partner countries (Xinhua 2015a). In 2015, a plan co-developed by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce broadened the scope — and ambition — of the BRI to include policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds (State

Council 2015).

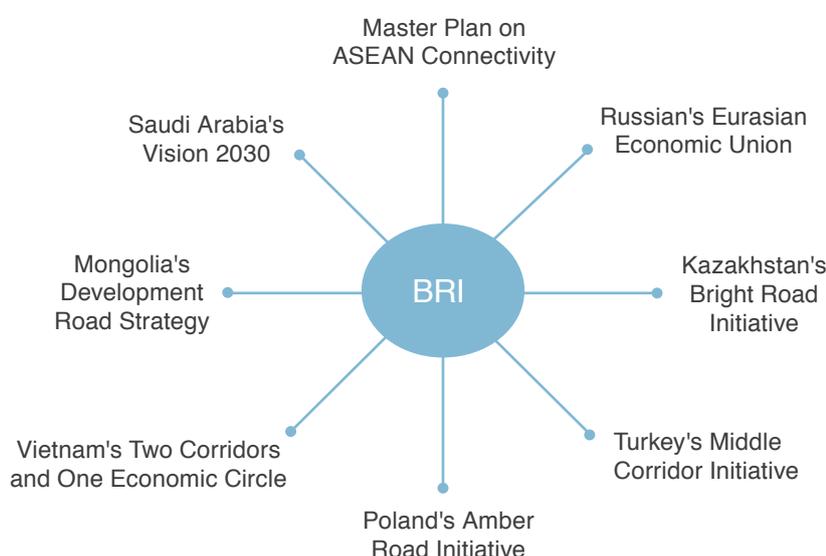
The ongoing expansion of partnerships, geographies and focus areas suggests that the BRI can be viewed as an open collaboration platform rather than a program with strict criteria or a fixed plan. The BRI has successfully integrated with regional and country-level development programs, such as the Master Plan on ASEAN Connectivity and Kazakhstan's Bright Road Initiative, an approach that is becoming increasingly central to its overarching goals (Figure 1).

This has not gone unnoticed by other global players, especially those wary of China's growing influence. For example, the United States (U.S.) consolidated its Overseas Private Investment Corporation and other development finance programs into a new International Development Finance Corporation in October 2018, in a bid to strengthen connectivity in Southeast Asia (OPIC 2018). The European Union (EU) Connectivity Strategy, published in September 2018, sets out a vision to better connect Europe and Asia through transport links, energy, digital networks and human connections (European Commission 2018).

The initiatives of the U.S. and the EU, unlike those shown in Figure 1, can be viewed as competitors to the BRI rather than partner programs. EU representatives have openly dismissed the possibility of joining the BRI as a bloc (EURACTIV 2019). Similarly, U.S. officials have criticized the BRI as "state-directed initiatives that come with many strings attached," claiming that it fails to promote local jobs and burdens poor states with "enormous levels of debt" (Gan and Delaney 2019).

The BRI has quickly become synonymous with China's outward investment strategy and broader foreign policy. Since October 2017, the Constitution of the Chinese Communist Party has included

Figure 1. Bridging BRI with other development strategies in partner countries.



Sources: KAPSARC; Belt and Road Portal (2019b).

mention of the BRI, highlighting Beijing's long-term commitment to the initiative. As of mid-2018, China had invested over \$70 billion into BRI-participating economies and established 82 overseas economic and trade cooperation zones, which have yielded over \$1 billion in tax revenues and created nearly 250,000 jobs (Zhao 2018). Several flagship projects have already been successfully completed under the BRI framework, including the port of Piraeus in Greece, the Sumsel-5 power station in Indonesia, railways in Ethiopia and Djibouti and roads in Cambodia.

However, the BRI has sparked a variety of reactions among governments, commentators and analysts. Several projects are deemed failures — including the Hambantota port development in Sri Lanka (Belt and Road News 2019) — or have been significantly delayed, such as the Myitsone hydropower project in Myanmar or the railway project in West Java, Indonesia. The BRI has also triggered broader debate over China's political influence, the role of its state-owned enterprises, and potential debt problems for recipient economies.

Geo-economics or geopolitics?

Development holds the master key to solving all. In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries and achieve economic integration and interconnected development and deliver benefits to all. We are ready to share practices of development with other countries, but we have no intention to interfere in other countries' internal affairs, export our own social system and model of development, or impose our own will on others. In pursuing the Belt and Road Initiative, we will not resort to outdated geopolitical maneuvering. What we hope to achieve is a new model of win-win cooperation. —Speech by President Xi Jinping (Xinhua 2017)

China's approach to international development echoes its own economic boom: investing heavily in infrastructure while expanding foreign trade and investment. Beijing focuses on tangible development projects and attaches no overtly economic or political terms, in contrast with the conventional approach taken by western economies and development institutions. This challenges the institutional architecture, central principles and underlying values of the established system (Renwick et al. 2018; Baltensperger and Dadush 2019; BDI 2019). Such foundational differences have led to debate over Beijing's motivations for the BRI and international development in general.

One view holds that the economic goals of the BRI are primarily a means to achieve greater geopolitical hegemony. The initiative is therefore driven by China's ambitions to break the existing U.S. alliance structure in the Asia-Pacific region and expand its global influence (Miller 2017; Tellis 2017; Mitchell 2018; U.S. Department of Defense 2018). By enhancing connectivity across Eurasia and beyond, China increases its ability to project economic and military power and reshape geopolitical dynamics.

An alternative perspective emphasizes the economic benefits to China of establishing such a network, stating that any geopolitical gains are of secondary importance (Djankov and Miner 2016; Cai 2017). The BRI is a logical result of China's economic context, particularly its excess industrial production capacity and imbalances between the coastal and interior provinces. The initiative aims to build strategic connections with BRI countries for joint development, rather than replacing or competing with established frameworks or the geopolitical status quo.

The third point of view argues that the BRI is meant to achieve both economic growth and increased political influence (Fukuyama 2016; Clarke 2017; Fulton 2017; Saalman and Dethlefsen 2017; Baruah 2018; Hillman 2018a; Hurley et al. 2018). The initiative helps China to consolidate its own political, economic and social model, which is marked by substantial state control and systemic competition with liberal market economies. By reshaping the international economic order and political balance through the BRI, China can entrench its model globally.

A debt trap for distressed economies?

Developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change. Currently this region has an estimated investment gap of \$819 billion annually in infrastructure.

Asian Development Bank (2017).

African infrastructure needs amount to \$130–170 billion a year, with a financing gap in the range \$68–\$108 billion.

African Development Bank (2018).

The BRI's economic and transformational goals call for significant investment in the infrastructure of recipient countries across many sectors including power, water, transport and communications. The initiative also aims to link local industries with the global market, improve trade logistics, and increase the knowledge and skills of local entrepreneurs.

The consortiums of banks and funds led by China have accumulated significant capital for BRI investment projects. Several new organizations have been established, adding to the existing Chinese institutions that were already financing overseas investments prior to the BRI, such as the China Development Bank and the Export-Import Bank of China. These new organizations include the Asian Infrastructure and Investment Bank, founded with \$50 billion of initial capital, the New Development Bank of BRICS (\$10 billion), the Silk Road Fund (\$40 billion) and 14 bilateral investment funds with partner countries that have already secured over \$100 billion in funding for BRI projects. Foreign direct investment (FDI) from China to the BRI partner economies reached a total of \$64.6 billion during 2014-2017 (CAITEC 2018).

The magnitude of BRI investment has split opinion. Estimates of the level of investment vary from \$1 trillion to \$8 trillion (Balding 2017; Hillman 2018b;

Morgan Stanley 2018) due to the continued expansion of the BRI's geographical scope and its blurred project timelines. In many cases, projects that had begun before the launch of the initiative were automatically included in BRI statistics.

Debt sustainability in recipient countries represents another area of controversy. This problem is exacerbated by the lack of transparency of projects, economic and political instability and corruption in some BRI-participating jurisdictions.

Some critics emphasize the risk of a 'debt trap' for some recipient countries that accept large BRI investments. China has been accused of using 'debtbook diplomacy' to advance its strategic goals in the region. This may explain why Beijing is willing to fund projects with questionable financial viability that profit-motivated companies would be unlikely to sponsor (Zhang and Miller 2017; Jan 2018; Parker and Chefitz 2018; Mundy and Hille 2019).

Other analysts conclude that the BRI is unlikely to cause a systemic debt problem, especially at the global level. Among the 68 Belt and Road countries, Hurley et al. (2018) identify only eight that might face a debt sustainability issue: Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Tajikistan and Pakistan. Moreover, the foreign debt in these

The state owned enterprise (SOE)-led financial system

In [the] last five years, the centrally administered SOEs had undertaken 3,116 projects under BRI, ranging from infrastructure construction to energy and industrial cooperation. They've played an active role in promoting coordinated development and cultural exchanges in recipient countries. The SOEs are also trying to localize their overseas operations. About 85% of employees (over 90% at some enterprises) working at these SOEs outside of China are local citizens.

Weng Jieming, Deputy Director, SASAC, at media briefing (SASAC 2018).

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countries was not necessarily induced by loans from the BRI institutes, but rather accumulated over several decades (Zhao 2018; Feng and Liang 2018; Askary and Ross 2018). As a latecomer to the global capital market, China has not yet made a significant impact on its partners' debt levels in percentage terms.

China's SOEs are central pillars of its domestic economy and lead the implementation of the BRI. These firms have a higher capacity for risk than private enterprises, due to their greater scale of operations and ability to leverage the network of SOEs and government institutions. Although SOEs might not always operate at the frontier of efficiency, they are crucial for large-scale infrastructure projects with long-term investment horizons in difficult environments.

Many BRI projects are high-risk with uncertain returns. Disputed elections, corruption, unclear land and property rights and other political and legal risks can threaten an investment's viability and financial performance. Funding risks also arise from the capital-intensive nature of infrastructure projects, long repayment schedules and macroeconomic challenges endemic to developing economies (Wijeratne et al. 2017).

Though the technological progress and increasing international competitiveness of leading Chinese companies cannot be attributed solely to state support, there is a growing concern that China's state-dominated economic system is incompatible with the liberal market paradigm (BDI 2019). Many critics allege that Chinese companies enjoy unfair advantages over competitors from other countries due to favorable financing conditions from the

state-affiliated banks and other direct and indirect subsidies (Hillman 2018a, BDI 2019).

One perspective on this issue is that Chinese SOEs, even if nominally independent, act in a coordinated manner at the behest of the central government. Their project assessments may include broader national objectives, such as increasing trade, improving access to raw materials and sustaining employment (Baltensperger and Dadush 2019). Chinese SOEs can present a unified front when dealing with a recipient country, bringing together many elements and stakeholders in a single deal.

Another view argues that cultural differences lead to the divergence of Chinese and Western approaches to infrastructure project development. The Western approach is transactional: projects are rigorously evaluated for their financial viability and value according to a risk-reward assessment. China's approach, on the other hand, is relational and follows the philosophy of 'support first, profit later.' Project assessments initially focus on their long-term macroeconomic benefits and their risks are addressed with partners throughout their development (Bennon 2017; Renwick et al. 2018).

In some cases this approach can negatively affect project sustainability. For example, high-profile railway developments in Malaysia and Indonesia were both rushed through the approval, financing and planning phases. The lack of thorough feasibility studies contributed to the Malaysian government's renegotiation of the East Coast Rail Link contract, and a two-year delay for Indonesia's Jakarta–Bandung High Speed Railway (Russel and Berger 2019).

The Drivers and Dynamics of China's Energy Investment

Direct investment in overseas energy projects has long been a priority for China. Since its inception, the BRI has increasingly shaped Chinese energy ODI through bilateral and multilateral collaboration with BRI countries that leverage the initiative's institutional and policy frameworks, funding sources and synergies with infrastructure and logistics development projects. On the other hand, the controversies and backlash associated with the BRI have also affected regional and global energy development.

As with other areas of BRI investment, there is a degree of ambiguity in defining energy projects as a part of the initiative. Explicit references by Chinese policymakers linking specific projects (mostly flagship infrastructure developments) to the BRI do not reflect its broader scope. It can be argued that any energy project that (i) has Chinese participation or funding, (ii) is undertaken in BRI-participating countries, and (iii) furthers BRI goals as defined by Chinese policy documents can be considered a part of the BRI.

Drivers of Chinese energy ODI before the BRI

China had already established strong energy cooperation ties with several prospective BRI participants long before the initiative was formally announced. In particular, Chinese energy ODI to the participating regions had been surging since the beginning of the 2000s due to a combination of domestic and global trends in energy markets and macroeconomics.

Since the turn of the century, China has achieved unprecedented economic growth. Fueled by surging exports, tight capital and exchange rate controls,

foreign exchange reserves rose exponentially, creating a capital surplus that could be partially allocated to foreign markets and investment projects. At the same time, the economic boom brought a sharp rise in domestic energy use and demand for energy imports. This directed a significant share of China's capital to the foreign energy sector — primarily to oil and gas upstream projects and midstream infrastructure — in an attempt to alleviate the country's energy security concerns by obtaining control over energy supply assets abroad.

This strategy received a further boost from China's 'going out' policy, which encouraged Chinese enterprises (primarily SOEs) to invest overseas and emphasized the resource acquisition component of its ODI. The global financial crisis of 2008-9 also contributed to increased allocation of Chinese capital to ODI due to the concerns about the performance of dollar-denominated assets — in particular U.S. government debt, which comprised a significant portion of Chinese foreign investments.

Several future BRI-participating countries emerged as priority destinations for Chinese energy ODI, due to either their resource endowments or locations. The countries along the Belt and Road possess over 50% of the remaining proven reserves of crude oil and over 70% of those of natural gas, and they are projected to dominate global exports of these commodities in the medium term. Some of the most resource-rich economies, including Russia and Kazakhstan, share a border with China, as do key transit countries (e.g., Myanmar).

Beijing places great importance on energy security and prefers to secure oil and gas supplies through bilateral deals rather than rely on global energy markets. This approach has led to several joint investment projects aimed at creating

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interconnected oil and gas channels that link to China's domestic energy market. The Chinese government also aims to develop alternative energy supply paths that avoid the Malacca straits. The Northwest channel (crude oil and natural gas pipelines from Central Asia), the Northeast channel (crude oil and planned gas pipelines from Russia),

the South channel (crude oil and gas pipelines through Myanmar) and the East channel (maritime oil and liquefied natural gas [LNG] import facilities) can be viewed as precursors of the BRI economic corridors (see Figure 2), most of which have been laid out along these energy import routes.

Figure 2. BRI economic corridors.



Notes:

1. The China-Mongolia-Russia economic corridor
2. The New Eurasian Land Bridge economic corridor
3. The China-Central Asia-West Asia economic corridor
4. The China-Pakistan economic corridor
5. The Bangladesh-China-India-Myanmar economic corridor
6. The China-Indochina Peninsula economic corridor

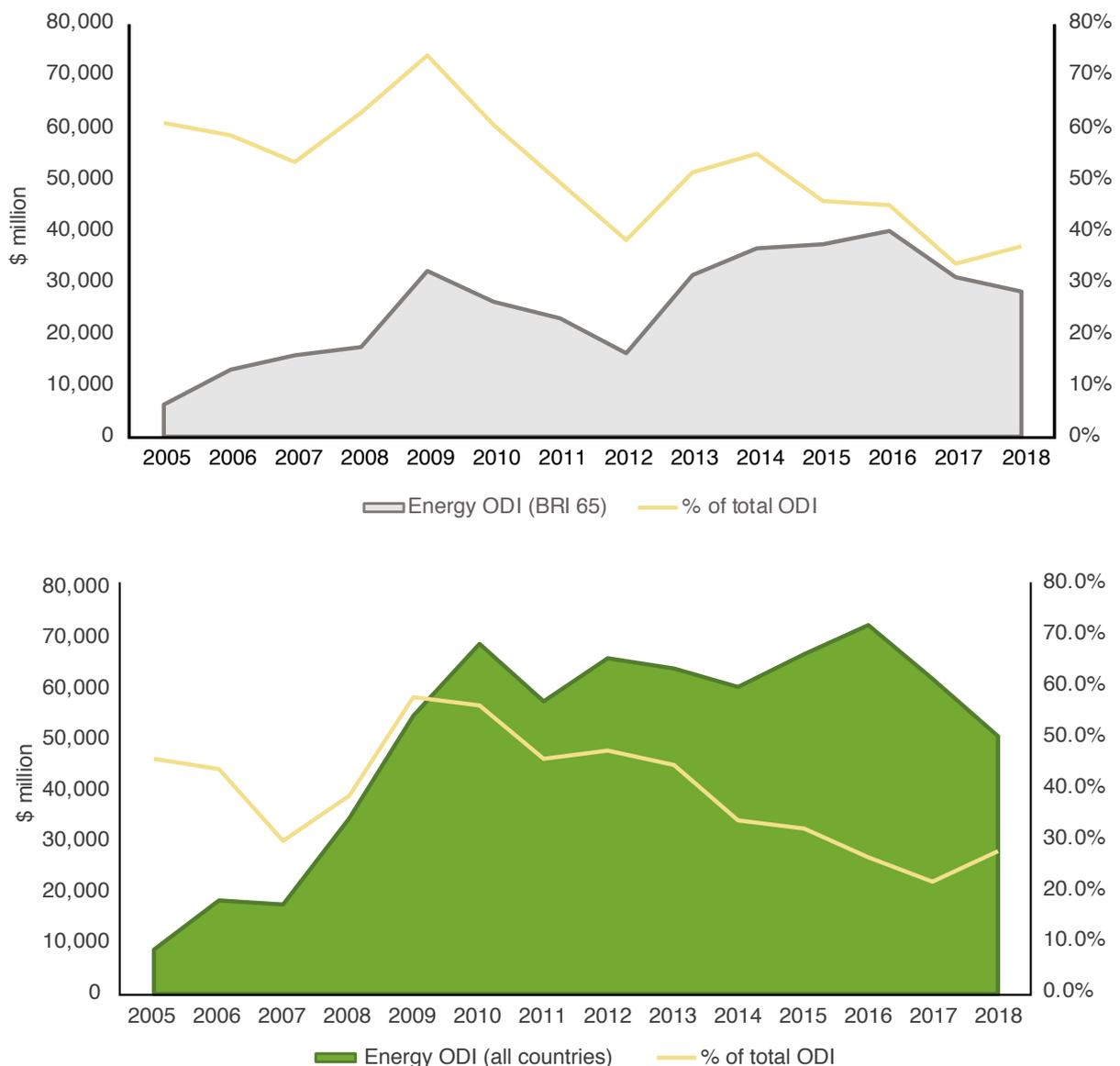
Sources: KAPSARC; Belt and Road Portal.

The Changing Role of Energy Investment Under the BRI

Energy has long played a central role in China's overseas investment. However, in recent years, its energy ODI has decreased in absolute terms and fallen as a portion of its overall ODI to under 40% for the BRI countries and below 30% globally (see Figure 3).

These structural shifts in ODI can be explained by China's increasing diversification across sectors and its emphasis on investment in manufacturing and infrastructure projects. This is particularly the case as China's energy security considerations give way to other BRI priorities, such as capacity transfer and the internationalization of Chinese industrial companies. As a result, the initial BRI 65 countries (BRI-65) represent a decreasing share of total Chinese ODI, sliding from 42% in 2013 to

Figure 3. Chinese energy ODI in the BRI countries, all countries, and their share of total Chinese ODI.



Source: American Enterprise Institute.

The Drivers and Dynamics of China's Energy Investment

32% in 2017, even though the BRI regions continued to attract over 50% of Chinese energy investment throughout this period.

The composition of energy and non-energy ODI differs greatly across BRI recipients. In Russia, the energy sector accounted for over 60% of Chinese ODI during 2014-2018 (see Figure 4), whereas across the other BRI regions energy investment generally varies between 27% (Africa) and 50% (GCC).

Since the announcement of the BRI in late 2013, BRI partner countries have seen a large increase in Chinese ODI inflows into energy and other industries. At its peak in 2016, annual flows of Chinese ODI exceeded corresponding 2013 benchmarks by 27% for the energy sector and by 44% in total. However, these indicators showed a declining trend in 2017-2018.

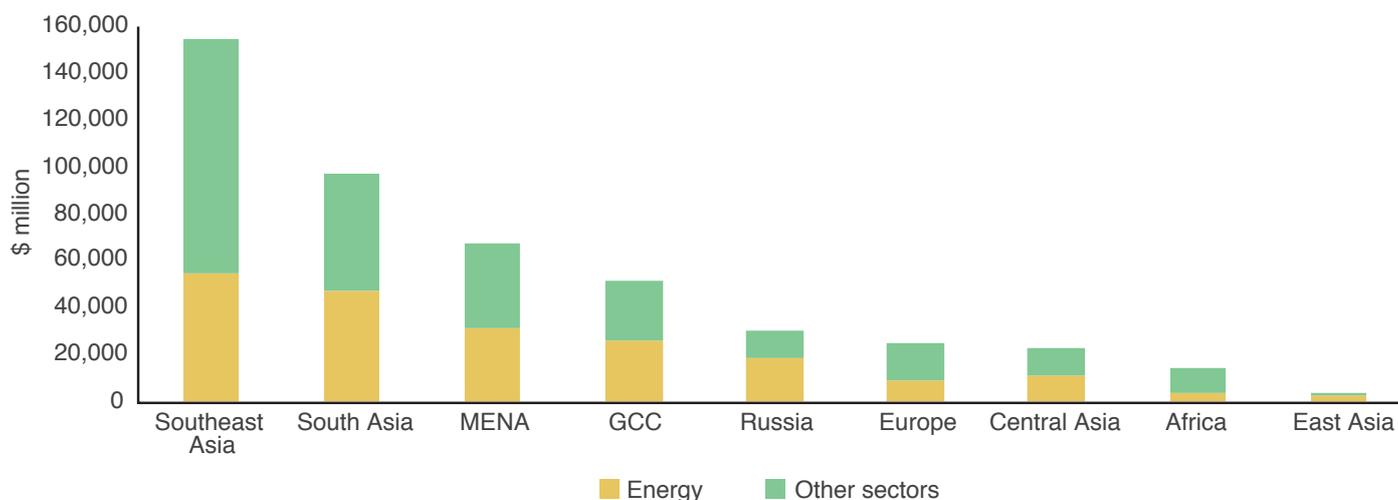
Even more pronounced are the swings in funding provided by Chinese state institutions. Figure 5 shows energy loans for BRI projects issued by the

two major government-owned policy banks — China Development Bank (CDB) and the Export-Import Bank of China (CEXIM), which are responsible for the vast majority of Chinese ODI loans.

Loan issuance by these institutions mirrors global macroeconomic trends and the swings in energy markets over the last two decades. In response to the financial crisis of 2008-9, which reduced the price of energy assets, made recipient countries more willing to accept Chinese investment terms and prompted China to cut the share of U.S. government debt in its portfolio, CDB and CEXIM flooded the future BRI-65 and other countries with energy loans. Although the subsequent economic recovery and a rebound in energy prices during 2010-2014 cooled China's appetite for energy ODI, a similar cycle repeated in 2014-2016.

China's second wave of energy ODI coincides with foundational shifts in its economy as the country reached the limits of its export-oriented growth model. Slower gross domestic product (GDP)

Figure 4. Chinese ODI to BRI countries by sector and region, 2014-2018.



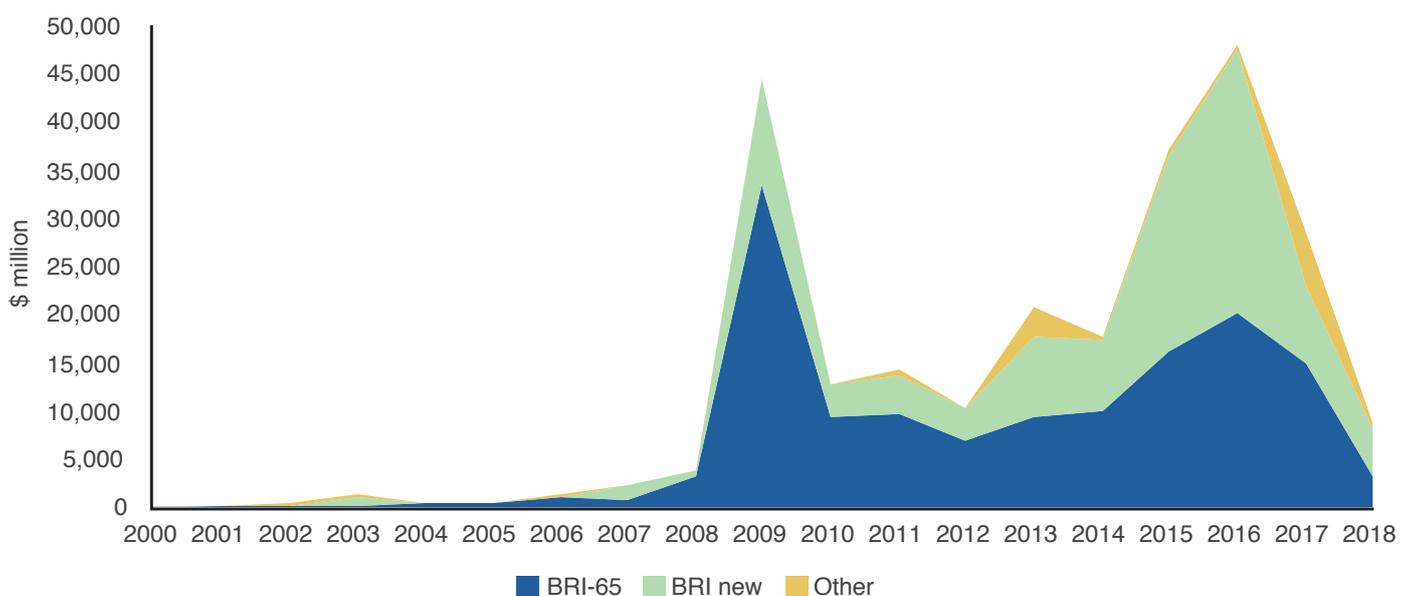
Source: American Enterprise Institute.
Note: GCC = Gulf Cooperation Council.

growth and emerging overcapacity problems in major domestic industries added to the impetus to seek overseas investment opportunities. Beijing was increasingly willing to fund these opportunities as its foreign exchange reserves peaked in 2014 at \$4 trillion. Together with loosened capital controls and an incipient renminbi devaluation trend, these factors facilitated the 2014-2016 surge in Chinese ODI. Since 2017, the trend seems to be in reverse again, driven by tighter capital controls and recovering energy prices that lead to higher energy asset valuations.

In recent years, China's energy ODI loans have also become more diversified geographically. The countries that would become the BRI-65 in 2013 already accounted for the majority of government loan-backed energy ODI prior to the existence of the BRI. However, since the formal launch of the initiative, other countries — especially those that joined it in 2017-2018 — have captured a rising share of these loans (see Figure 5).

The distribution of Chinese government-backed energy ODI loans across fuel types and energy subsectors contravenes the notion that enhancing energy security through the acquisition of foreign energy resources is Beijing's primary goal for energy ODI. Coal has not been a priority fuel for China in terms of its energy security for many years; indeed, China has been trying to solve the problem of overcapacity in its domestic coal production and reduce the share of coal in its energy mix. However, coal projects absorbed the largest share of its ODI financing (see Figure 6). Coal remains one of the most affordable options to meet growing energy demand for several countries with abundant coal resources along the Belt and Road, including Vietnam and Indonesia. Other international development institutions, including the World Bank, the United Nations Development Program and the Asian Development Bank, have been increasingly reluctant to engage in coal-related projects, leaving little competition for Chinese financial institutions that operate under the BRI framework.

Figure 5. ODI energy loans by CDB and CEXIM banks.



Source: Boston University.

The Drivers and Dynamics of China’s Energy Investment

Since the launch of the BRI, the CDB and CEXIM have financed a number of large gas and LNG projects, including in the Russian Arctic, Pakistan and Malaysia. However, most of China’s oil investments, which mainly involve Chinese-Russian collaboration, were approved and financed prior to the BRI’s official launch.

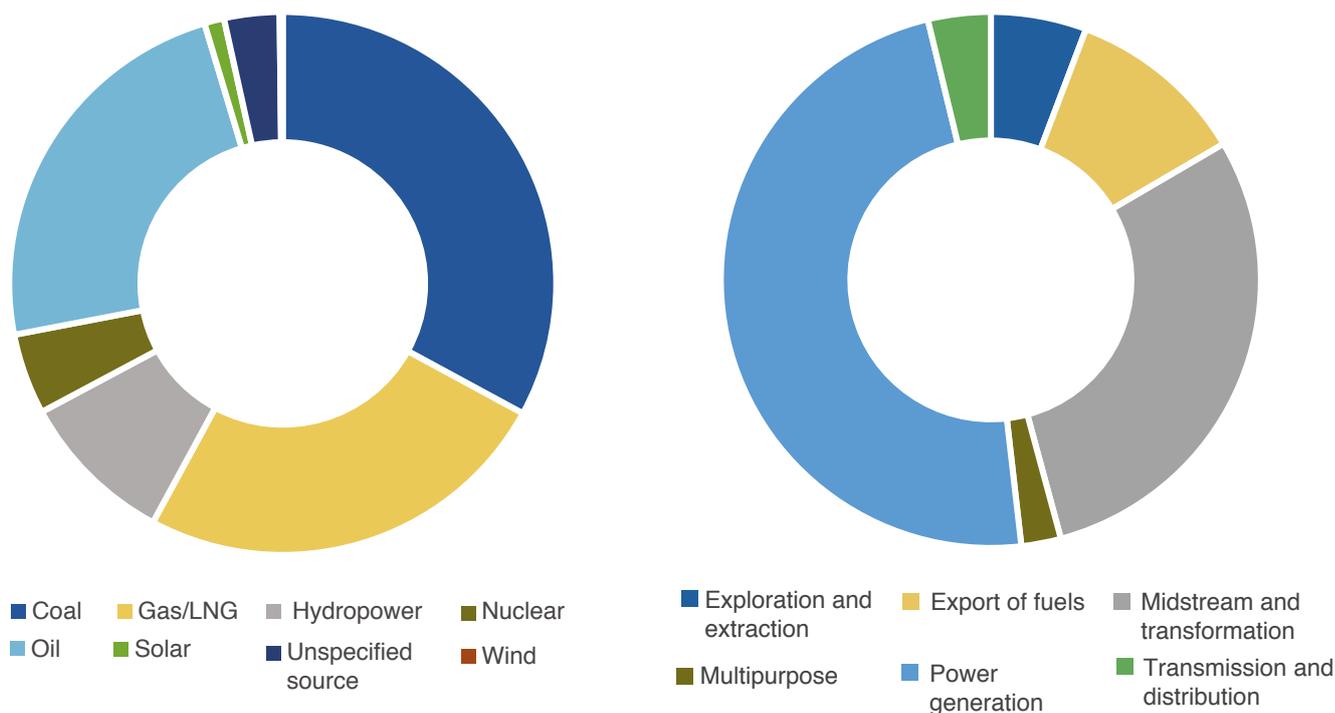
The BRI has been criticized for its heavy emphasis on fossil fuels in both energy and infrastructure projects, even as Beijing has been touting ambitions of a ‘global energy transition’ and ‘sustainable development’ in BRI rhetoric and relevant policy documents, including “The Guidance on Promoting Green Belt and Road” (2017), “Belt and Road Ecological and Environmental Cooperation Plan” (2017) and “Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” (2017). As a global leader in domestic investment in the renewable energy sector and total installed capacity

of wind and solar power, China appears well positioned to capture these markets in BRI countries.

However, China’s renewable energy industry enjoys competitive advantages in its domestic market from subsidies and tax incentives that do not easily transfer across its border. Several large-scale renewable energy projects have been launched within the BRI framework, including the \$1.5 billion investment in Quaid-e-Azam Solar Park in Pakistan and a \$332 million loan to Argentina for construction of the Cauchari Solar Park. However, renewable energy projects only comprise a small fraction of the total energy investment supported by the CDB and CEXIM (see Figure 6).

The sectoral breakdown of BRI energy projects supported by CDB and CEXIM loans also reveals a preference for energy infrastructure projects over those targeted at securing fuel supplies. The power generation sector makes up 48% of the

Figure 6. Energy loans by the CDB and CEXIM by fuel source and sector, 2000-2018.



Source: Boston University.

absorbed loans, significantly more than granted to the exploration and extraction sectors (6%) or fuel exports (12%). However, some oil and gas-related projects in the midstream and transformation sector do directly contribute to China's energy security agenda, including the Russia-China oil pipeline, the Arctic LNG plant and the Myanmar-China pipeline.

The upstream oil sector makes up a much more significant proportion of the CDB and CEXIM loans outside of the BRI-65 countries, dwarfing the financial support for coal and gas/LNG projects,

due to Chinese engagement in joint projects and its support of loans to Petrobras in Brazil, Sonangol in Angola and PDVSA in Venezuela. However, the power generation subsector, dominated by hydropower projects in Africa and Latin America, has also been one of the major recipients of Chinese energy loans.

Financing Mechanisms of Energy ODI Under the BRI Framework

The above analysis of China's energy ODI and allocation of government loan support to BRI projects shows that the country's energy investment strategies are increasingly defined by Beijing's wider geopolitical ambitions and global macroeconomic factors, rather than by energy/supply security. As the BRI continues to expand in strategic and geographic scope, it is essential to view Chinese energy ODI in the context of broader BRI priorities, and by extension, how bilateral and multilateral energy projects can support or connect the overarching goals of the initiative.

Energy ODI can facilitate the financial integration priorities outlined in the National Development and Reform Commission's (NDRC's) policy document "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." These include developing the regional bond market, establishing bilateral currency swap facilities, ensuring a greater role for regional development financial institutions, and collaborating in the domains of financial risk management and mitigation (NDRC 2015). The financial cooperation targets promoted by the National Energy Administration (NEA) in the "Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" are more specific. The document emphasizes the development of all vehicles of energy investment, including mergers and acquisitions, public-private partnerships and 'industry plus finance' cooperation (NEA 2017). The expansion of Chinese energy investment in the BRI regions also promotes other strategic goals not explicitly mentioned in BRI policy documents: internationalization of the renminbi, expanding Chinese financial institutions, and reshaping global energy and commodity markets through the establishment of new trade hubs and rerouting of global energy trade flows.

The BRI regions have enormous potential for energy investment. According to estimates by the Asian Development Bank (ADB), developing countries in Asia will require \$11.7 trillion of investment (\$14.7 trillion adjusted for climate mitigation measures) in the power sector alone from 2016 to 2030 — amounting to over 2.5% of their GDP. The utilization of investment vehicles deployed under the BRI can help bridge this investment gap.

ODI and Chinese development finance are the two main channels for financing BRI projects (Dollar 2017). In addition to utilizing their own funds (in the case of private financial institutions and companies) and sourcing funds from capital markets, Chinese companies involved in the BRI, especially SOEs, obtain a large portion of funding from the Chinese government (Kong and Gallagher 2016). Chinese and international financial institutions can directly invest in BRI projects and provide indirect financial support (i.e., through loans and guarantees).

Indirect financing mechanisms

Two state-owned policy banks — the Export-Import Bank of China and the China Development Bank — play key roles in the indirect financing of BRI initiatives by providing loans and issuing credit guarantees. According to Gallagher and Irwin (2014), China issued outward foreign direct investment loans totaling over \$144 billion between 2002-2012, 88% of which came from CEXIM and the CDB.

South Asia and Russia have been the primary destinations for CEXIM and CDB energy loans among BRI-65 participants (see Table 1). The regional distribution of BRI policy loans to energy projects is different from that of China's energy ODI.

Government-backed financial support seems to be primarily required for investments in countries seen as being highly financially or politically risky, especially for capital-intensive projects. Conversely, in jurisdictions with well-functioning capital and financial markets, lower political risks and a strong presence of Chinese business, such as most Southeast Asian countries, energy financing is dominated by private capital without the support of Chinese government institutions.

Four state-owned commercial banks — the Bank of China (BOC), China Construction Bank (CCB), the Agricultural Bank of China (ABC) and the Industrial and Commercial Bank of China (ICBC) — also play large roles in financing BRI and energy projects in particular. Besides providing loans, they help participating firms issue corporate bonds overseas, a common fundraising approach for Chinese energy companies. Three Chinese national oil majors — China National Petroleum Corporation (CNPC),

China National Petroleum Corporation (SINOPEC), and China National Offshore Corporation (CNOOC) issued \$7.6 billion and \$9.5 billion of bonds in 2012 and 2013, respectively, while the State Grid Corporation (SGCC) issued a total of \$5.5 billion of bonds in 2013 (Kong and Gallagher 2016). These state-owned banks have also been actively forging partnerships with foreign state-owned financial entities. For example, the ICBC, CCB, and BOC signed memoranda of understanding with Investment Enterprise Singapore in 2016 to facilitate the participation of Singaporean companies in the BRI (Sejko 2016).

Multilateral development banks are also expected to contribute to the financing of BRI energy projects. Since the BRI announcement, two development banks (both headquartered in China) have been established. The AIIB was launched in 2015 with \$100 billion in capital; China holds 26.6% of voting rights, giving Beijing an effective veto power. The

Table 1. Energy ODI and CDB and CEXIM loans to the BRI-65 countries by region (2014-2018).

Region	Energy ODI, \$ million	CDB/CEXIM bank loans, \$ million	Loans/ODI, %
Africa	2,030		0.0%
Central Asia	6,030	2,851	47.3%
East Asia	2,000		0.0%
Europe	6,880	1,645	23.9%
Gulf Cooperation Council	26,010		0.0%
Middle East and North Africa	21,640	5,347	24.7%
Russia	15,760	15,700	99.6%
Southeast Asia	50,890	11,262	22.1%
South Asia	41,730	27,615	66.2%

Sources: American Enterprise Institute; Boston University.

New Development Bank (NDB), formerly referred to as the BRICS Development Bank, was created by a 2014 treaty among the five ‘BRICS’ countries — Brazil, Russia, India, China and South Africa — which hold equal shares and voting rights. The two development banks are not exclusively focused on financing BRI-related projects, and the AIIB includes member countries, such as Australia and Canada, which are not formal BRI participants. However, the banks have already developed a portfolio of projects in BRI-participating countries. In the energy domain, the NDB is primarily focused on renewable energy and energy conservation, while the AIIB has a broader energy portfolio ranging from power generation to natural gas infrastructure projects.

The AIIB and NDB also attract funding from, and develop collaboration with, other multinational development banks, such as the ADB, WB and European Bank for Reconstruction and Development (EBRD), among others. The AIIB has already approved funding for several joint projects, including a combined cycle gas turbine power plant in Myanmar (with the International Finance Corporation) and the Trans-Anatolian Natural Gas Pipeline project (with the WB), while the NDB has provided a loan to the Eurasian Development Bank (EDB) and the International Investment Bank to finance the Nord-Hydro project in Russia. Such partnerships can help source additional financing for BRI energy projects, spread financing risks, and enhance the global role of China in development financing for energy and other projects.

Chinese insurance companies play another important part in financing BRI projects. As of 2017, China’s insurers collectively managed assets of RMB 14.2 trillion, including RMB 2.3 trillion of bank deposits. The China Insurance Regulatory Commission (CIRC) has been encouraging insurance companies to mobilize their funds into

BRI-related areas such as bond investment (DBS 2017). The BRI engagement strategies of the insurance sector differ among the SOEs, private Chinese companies and foreign enterprises.

China’s state-owned insurance companies have been the most responsive to CIRC’s call, providing insurance coverage for BRI projects that private and international insurers perceive as too financially or politically risky. They also help finance some projects either directly (as shareholders) or indirectly (e.g., through bond investment). A variety of state-owned and private insurers, including the China Pacific Insurance Company (CPIC), the People’s Insurance Company of China (PICC), China Reinsurance (China RE) and Ping An Insurance have financed BRI projects through joint investments. For instance, CPIC has a joint BRI fund with the China Construction Bank.

Private insurance companies, on the other hand, seem to take a more calculated approach to their participation in the BRI, focusing on countries with stable political and economic environments, such as Singapore and other East Asian economies, or charging extra premiums at market rates in other cases.

Energy ODI and the fiscal health of recipient BRI economies

Debt sustainability is increasingly a concern for some BRI-participating countries. According to the Heritage Foundation (2019), the fiscal health scores of Pakistan, Laos, Sri Lanka, Tajikistan, Venezuela and Vietnam indicate potential macroeconomic instability and uncertainty. The additional debt burden accumulated from BRI projects could further deteriorate the financial stability of the recipient countries and jeopardize the project economics.

Some analysts argue that for the majority of participating countries, debt from BRI projects is insignificant relative to total government debt. Thus, the BRI is unlikely to fundamentally change the financial health of these countries and their wider regions. Moreover, often the government of a recipient country is not the only borrower, or is not involved at all. National energy companies and the private sector (sometimes including foreign investors) account for a significant proportion of BRI loans. Table 2 shows the share of CDB and CEXIM energy project loans obtained via government borrowing in 2014-2018, along with the fiscal health ratings and total foreign debt levels for selected ‘problematic’ BRI countries.

The indicators listed in Table 2 reflect different approaches to managing energy loans, and foreign debt in general, among BRI participants. Out of the initial BRI-65 countries, only Pakistan and Laos may risk significant fiscal consequences from BRI energy loans. These are the only two countries to meet three criteria: low fiscal health ratings, high rates of government borrowing, and energy loans that amount to a significant share of their foreign public debt. Sri Lanka and Tajikistan are in similar positions, except that energy loans comprise only a small percentage of their total debt, limiting their potential fiscal impact. Venezuela and Vietnam, on the other hand, structure their borrowing through government-owned or private companies. In these countries, energy loans do not directly impact the state of their public finances. However, Chinese investors and loan providers face an increased risk in all these countries.

Chinese policymakers are aware of this problem, which will become even more pressing as more countries with shaky public finances in Africa (e.g., Cameroon, Zambia, and Zimbabwe) and Latin America (e.g., Argentina and Ecuador) join the

BRI. The recent “Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative” issued by China’s Ministry of Finance (2019) outlines risk assessment and management processes for financing BRI projects.

It should be noted that economies with problematic macroeconomic and/or political risk profiles are very limited in their development financing options. Major non-Chinese international development institutions, e.g., the WB, ADB or EBRD, have very strict formal project risk assessment procedures that limit their operations in such economies. International Monetary Fund loans, on the other hand, are usually bundled with economic policy conditions, some of which (e.g., austerity measures) may not be conducive to economic development (Dreher 2004; Stubbs et al. 2018). This often leaves China-led financing as the best or only option for such economies.

This thesis is illustrated by the case of Pakistan, as shown in Table 3. The two Chinese policy banks have captured the majority of Pakistan’s energy FDI financing since 2000. Moreover, coal-related projects have been exclusively financed by Chinese investors, apart from a few projects financed by the ADB and Islamic Development Bank. This echoes China’s wider dominance of foreign investment into Pakistan: in 2018, China accounted for 58% of total annual FDI into the country. For some developing BRI economies with poor fiscal health, this figure can exceed 85% in certain years, as in the case of Laos (CEIC 2019).

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Table 2. Recipients of the BRI energy project loans and their fiscal conditions.

BRI country	Total CDB and CEXIM loans (2014-2018), \$ million	CDB and CEXIM loans borrowed by governments (2014-2018), \$ million	% of loans borrowed by governments	Fiscal health rating	Total foreign government debt, \$ million
Angola	8,900	0	0%	58.2	
Argentina	5,542	5,542	100%	33	277,921
Bangladesh	3,745	1,203	32%	77.6	
Bolivia	1,000	0	0%	17.6	
Bosnia and Herzegovina	782	0	0%	17.6	
Brazil	28,150	0	0%	5.9	
Cambodia	100	100	100%	89.1	
Cameroon	142	142	100%	59.7	8,238
Dominican Republic	600	600	100%	89.9	
Ecuador	759	759	100%	32.1	44,822
Egypt	757	0	0%	0	
Ethiopia	333	250	75%	83.3	
Guinea	1,200	1,200	100%	87.2	
Indonesia	3,039	1,200	39%	88.1	
Iran	3,000	0	0%	89.5	
Jordan	1,590	0	0%	60.6	
Kenya	398	264	66%	13.8	27,030
Laos	1,776	1,207	68%	66.5	9,762
Malaysia	1,100	1,100	100%	82.4	
Morocco	300	0	0%	66.9	
Nepal	1,516	0	0%	98.5	
Nigeria	500	500	100%	68.2	
Pakistan	21,206	17,082	81%	49.2	95,108
Papua New Guinea	260	0	0%	75.2	
Russia	15,700	0	0%	86.6	
Serbia	863	608	70%	90.1	
Somalia	257	257	100%	N/A	
South Africa	4,500	0	0%	62.6	
South Sudan	1,900	1,900	100%	62.6	1,925
Sri Lanka	1,148	1,148	100%	30.4	52,310
Tajikistan	411	79	19%	60.3	2,274
Uganda	483	483	100%	68.6	7,163
United Kingdom	7,800	0	0%	68.6	
Uzbekistan	2,440	1,240	51%	98.7	
Venezuela	2,200	0	0%	17.6	
Vietnam	5,247	0	0%	40.7	
Zambia	1,741	1,741	100%	12.3	10,050
Zimbabwe	1,000	0	0%	23.7	
Total	132,384	38604	29%		

Sources: Boston University; The Heritage Foundation; CEIC; Trading Economics.

Table 3. Sources of financing for energy projects in Pakistan in 2000-2018.

Source	Energy FDI/loans, \$ million	Including coal, \$ million
World Bank	5,944.2	0
Asian Development Bank	10,877.9	750.6
European Investment Bank	282.5	0
International Finance Corporation	571.9	0
Islamic Development Bank	1,105.1	200.0
Agence Française de Développement	293.4	0
KfW Development Bank	233.6	0
USAID	187.7	0
Japan International Cooperation Agency	467.7	0
China Development Bank	10,370.0	4,270.0
Export-Import Bank of China	14,406.0	2,506.0

Sources: World Bank, Asian Development Bank, European Investment Bank, International Finance Corporation, Islamic Development Bank, Boston University, CEIC.

Direct financing of BRI projects

Direct financing of BRI investment projects, including those in the energy sector, is carried out through ODI by Chinese and foreign investors. These include Chinese SOEs and private companies, state-owned, private or foreign funds and investment management companies.

In late 2014, the Chinese government established the Silk Road Fund (SRF), a sovereign wealth fund with a mandate to finance BRI projects, with capital from the China Investment Corporation (CIC) and the State Administration of Foreign Exchange (SAFE) (Sejko 2016). The fund has directly invested a total of \$1.65 billion in BRI projects along the China-Pakistan Economic Corridor (Xinhua 2015b). Chinese state-owned investment management companies have also established funds that directly invest in the BRI. For example, CITIC launched a

dedicated \$113 billion fund in 2015 to finance over 300 projects in the BRI countries from Singapore to Turkmenistan (Reuters 2015).

The Chinese government is often reported to advise private Chinese firms to participate in policy-driven investment projects. In such cases, the companies usually commit to BRI-related investment, attempting to balance national interests with commercial benefits while ensuring compatibility with their expertise and existing portfolios. Thus, their investments tend to be more focused. For example, China Minsheng Investment Group (CMIG) and the Green Ecological Silk Road Investment Fund (established by private Chinese enterprises) limit their BRI exposure to solar energy and sustainable energy solutions.

Direct participation of foreign funds in BRI energy projects remains limited, mainly due to administrative barriers and competitive

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disadvantages compared to their Chinese counterparts. Portfolio investors can invest in the BRI through the Hong Kong and Shanghai stock markets as well as by purchasing U.S. dollar-denominated bonds. Potential direct investors, however, face greater difficulty because China is keen to retain control over BRI projects. Foreign funds lack key advantages enjoyed by Chinese government-backed investors, such as lower insurance rates and preferential access to the most lucrative projects. One of the few examples of a successfully implemented public-private partnership scheme with foreign investor participation is the construction of a thermal power plant in Port Qasim, Pakistan under the China–Pakistan Economic Corridor framework. Qatar’s Al-Mirqab Capital obtained a 49% share in the project through a partnership with the Chinese SOE Sinohydro Resources. This arrangement was facilitated by Sinosure, which covered a wide scope of project- and country-related risks. In most cases, however, the direct involvement of foreign firms in BRI energy projects is limited to subcontracting with Chinese lead investors.

Besides the political and financial risks inherent to some BRI-participating countries, potential investors from China and their foreign joint venture partners must also deal with China’s domestic regulations, which have caused Chinese companies participating in the BRI to develop specific corporate structures and project financing strategies. According to China’s Ministry of Commerce (2017), more than half of the country’s ODI goes to Hong Kong. The Cayman Islands and the British Virgin Islands also appear among the top destinations. These jurisdictions act as financial hubs from which Chinese companies engage in overseas financial activities. Chinese companies also tend to use their own international subsidiaries, rather than the parent companies in mainland China, as contractual entities with foreign

counterparts. For example, CMIG established CMI International, a subsidiary in Singapore, which implements the group’s BRI agenda.

Chinese parties in joint investment funds also tend to prefer incorporating in traditional offshore centers, e.g., Hong Kong in the case of the China-ASEAN Investment Cooperation Fund and Luxembourg for the China-Central and Eastern Europe Investment Cooperation Fund. ODI constitutes a primary financing mechanism for Chinese overseas investments — including those under the BRI framework. However, the top-down data, such as total ODI or capital outflows from mainland China, evidently does not provide an adequate representation of capital flows. The preferable approach would be to track BRI investments and their sources on the project basis.

There are four major reasons why Chinese investors structure overseas investments in the above ways:

Tax advantages: The taxation regime in preferred overseas jurisdictions is less burdensome and simpler than in mainland China. The overall level of corporate income tax in Hong Kong is 16.5%, compared with 25% in mainland China (KPMG 2019). Other offshore hubs have even lower corporate tax or none at all (e.g., the Caymans or British Virgin Islands).

Better regulation and supervision: For Chinese companies involved in ODI, investing through overseas jurisdictions can significantly reduce regulatory burdens. Despite prioritizing the BRI, Beijing has not yet eased the approval procedures for mainland firms to invest abroad. Moreover, the ODI of mainland companies is subject to frequent reviews and heavy reporting requirements from the China Banking Regulatory Commission, SAFE, People’s Bank of China and other authorities.

Cross-border mobility of capital: China imposes strict regulations on outbound currency transfers. This adds long and costly procedures to outbound direct investments made by parent companies in China. In contrast, overseas companies can obtain financing from Chinese financial institutions more easily. Thus, most Chinese companies tend to apply for credit financing and reinvest returns using their overseas subsidiaries.

Confidence in law and arbitration: Foreign partners prefer other jurisdictions, such as Hong Kong or Singapore, over mainland China for contractual relations and joint ventures. These jurisdictions offer well-established law and arbitration systems and greater judicial transparency than China, especially when dealing with Chinese SOEs and other powerful Chinese firms.

Aiming to improve China's commercial dispute resolution, in 2018 Beijing established two special courts for international commercial cases and BRI-related disputes. Located in Xi'an and Shenzhen, these courts are supported by mediation centers with international expert committees and a think tank. The rules and procedures for BRI-related disputes were developed together with Singapore's International Mediation Centre and the China Council for the Promotion of International Trade. Although several high-profile cases have already been accepted, it remains to be seen whether these courts become trusted jurisdictions for either Chinese or international firms.

Conclusions

The BRI has evolved significantly in the five years since its launch, with some of the most significant changes occurring around energy investments. Prior to the BRI, and at its inception, China's energy ODI was primarily driven by energy supply and security considerations. However, energy has become an integral part of the broader goals of the initiative.

BRI energy investments must be viewed within China's wider geopolitical and economic context. The domestic economy (e.g., excess capacity transfer and the development of lagging provinces), financial issues (e.g., revamping the regional financial markets, the internationalization of the renminbi and the expansion of Chinese financial institutions), and strategic geopolitical aims (redefining the current structure of the global energy and commodity markets and enhancing China's 'soft power'), will shape BRI investment and financing decisions and what constitutes success.

This approach should also inform the analysis of controversies surrounding the BRI, especially those related to the role of SOEs, financing mechanisms, and project approval and execution processes.

However, many of these concerns are exacerbated by significant investment gaps in some BRI countries that stem from their economic and political problems. Often, high-risk environments and the capital-intensive nature of the energy infrastructure projects make SOE and/or government support a necessity, leaving no competition for Chinese investors. The same has been true for coal-related projects, due to the reluctance of global development finance institutions to provide funding, leading to the disproportionate share of such projects in the portfolios of China-led financing institutions.

The problems highlighted in this study can cause failures in project execution and negative fiscal consequences for BRI participants. However, high levels of macroeconomic, fiscal and/or political risk in such countries, coupled with strict conditions of non-Chinese financing, can leave them with limited alternatives to fund their development projects. Under these circumstances, China-backed development financing could be the only acceptable option for some BRI economies to bridge their investment gaps.

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Notes

Notes

Appendix 1: Countries participating in the BRI

Initially, 65 countries were identified as participants of the BRI; we refer to this group as ‘BRI-65.’ Countries that joined the initiative later are grouped under the label ‘BRI-new.’ As of the beginning of 2019, the official Belt and Road Portal listed 137 participating countries. However, a number of countries not yet listed on the portal, including Argentina, Brazil and Belgium, have already been actively engaged in projects under the BRI framework despite signing no formal memoranda. We include such countries in the ‘BRI-new’ grouping.

Table A1. Countries participating in the BRI.

Country	BRI group	Country	BRI group
Afghanistan	BRI-65	Cuba	BRI-new
Albania	BRI-65	Cyprus	BRI-new
Algeria	BRI-new	Czech Republic	BRI-65
Angola	BRI-new	Djibouti	BRI-new
Antigua and Barbuda	BRI-new	Dominica	BRI-new
Argentina	BRI-new	Dominican Republic	BRI-new
Armenia	BRI-65	Ecuador	BRI-new
Austria	BRI-new	Egypt	BRI-65
Azerbaijan	BRI-65	Equatorial Guinea	BRI-new
Bahrain	BRI-65	Estonia	BRI-65
Barbados	BRI-new	Ethiopia	BRI-new
Bangladesh	BRI-65	Fiji	BRI-new
Belarus	BRI-65	Gabon	BRI-new
Belgium	BRI-new	The Gambia	BRI-new
Bhutan	BRI-65	Georgia	BRI-65
Bolivia	BRI-new	Ghana	BRI-new
Bosnia and Herzegovina	BRI-65	Greece	BRI-new
Brazil	BRI-new	Grenada	BRI-new
Brunei	BRI-65	Guinea	BRI-new
Bulgaria	BRI-65	Guyana	BRI-new
Burundi	BRI-new	Hungary	BRI-65
Cambodia	BRI-65	India	BRI-65
Cameroon	BRI-new	Indonesia	BRI-65
Cape Verde	BRI-new	Iran	BRI-65
Chad	BRI-new	Iraq	BRI-65
Chile	BRI-new	Israel	BRI-65
China		Italy	BRI-new
Congo	BRI-new	Jamaica	BRI-new
Croatia	BRI-65	Jordan	BRI-65
Cook Islands	BRI-new	Kazakhstan	BRI-65
Costa Rica	BRI-new	Kenya	BRI-new
Cote D'Ivoire	BRI-new	Kuwait	BRI-65

Sources: Belt and Road Portal; KAPSARC.

Appendix 1: Countries participating in the BRI

Table A1. Countries participating in the BRI.

Country	BRI group	Country	BRI group
Kyrgyzstan	BRI-65	Samoa	BRI-new
Laos	BRI-65	Saudi Arabia	BRI-65
Latvia	BRI-65	Senegal	BRI-new
Lebanon	BRI-65	Serbia	BRI-new
Liberia	BRI-new	Seychelles	BRI-65
Libya	BRI-new	Sierra Leone	BRI-new
Lithuania	BRI-65	Singapore	BRI-65
Luxemburg	BRI-new	Slovakia	BRI-65
Macedonia	BRI-65	Slovenia	BRI-65
Madagascar	BRI-new	Somalia	BRI-new
Malaysia	BRI-65	South Africa	BRI-new
Maldives	BRI-65	South Korea	BRI-new
Malta	BRI-new	South Sudan	BRI-new
Mauritania	BRI-new	Sri Lanka	BRI-65
Micronesia	BRI-new	Sudan	BRI-new
Moldova	BRI-65	Suriname	BRI-new
Mongolia	BRI-65	Switzerland	BRI-new
Montenegro	BRI-65	Syria	BRI-65
Morocco	BRI-new	Tajikistan	BRI-65
Mozambique	BRI-new	Tanzania	BRI-new
Myanmar	BRI-65	Thailand	BRI-65
Namibia	BRI-new	Timor-Leste	BRI-65
Nepal	BRI-65	Togo	BRI-new
New Zealand	BRI-new	Tonga	BRI-new
Nigeria	BRI-new	Trinidad and Tobago	BRI-new
Niue	BRI-new	Tunisia	BRI-new
Oman	BRI-65	Turkey	BRI-65
Pakistan	BRI-65	Turkmenistan	BRI-65
Palestine	BRI-65	Uganda	BRI-new
Panama	BRI-new	Ukraine	BRI-65
Papua New Guinea	BRI-new	United Arab Emirates	BRI-65
Peru	BRI-new	Uruguay	BRI-new
Philippines	BRI-65	Uzbekistan	BRI-65
Poland	BRI-65	Vanuatu	BRI-new
Portugal	BRI-65	Venezuela	BRI-new
Qatar	BRI-65	Vietnam	BRI-65
Romania	BRI-65	Yemen	BRI-65
Russia	BRI-65	Zambia	BRI-new
Rwanda	BRI-new	Zimbabwe	BRI-new
Salvador	BRI-new		

Sources: Belt and Road Portal; KAPSARC.

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About the Project

This research project will assess the implications of China's Belt and Road Initiative (BRI) for Saudi Arabia.

China's evolving BRI was first conceived by the Chinese president Xi Jinping in 2013 and officially launched in March 2015 by the Chinese government as the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. The initiative has become a focal point in the analysis of the impact of Chinese policies on the international community, particularly for the countries along the BRI routes. The project seeks to answer the following key questions:

- Has the BRI ever been defined properly?
- What are its main elements, and why is it controversial at times?
- Will China's future energy demand be affected by the evolving BRI and, if so, in what way(s)?
- How should Saudi Arabia react to China's BRI — are there areas that can deepen the bilateral relationship and areas to avoid?



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