China's Belt and Road Initiative
A guide to market participation
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China’s Belt and Road Initiative (BRI) now extends from East to West, from the Pacific to the heart of Europe and has become one of the most transformational trade policies connecting 137 countries along its routes since its inception in 2013.

This white paper has been developed by Deutsche Bank in response to client demand for a comprehensive source of information about this constantly evolving landscape. It not only defines and places the BRI in the context of today’s global market place, but shares some helpful case studies demonstrating the BRI in action.
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An old proverb says that when the winds of change blow, some people build walls and others build windmills. The message is simple enough: you can build walls – battening down the hatches and resisting the change – or you can choose to build windmills, embracing change and the opportunities that it presents.

It is a metaphor that could have been written for today’s global economic situation. China has, over the past six years, embarked on a vast programme of development across its historic Silk Road trade routes, revamping infrastructure, trade and transport links between China and more than 137 other countries in strategic locations. Originally known as ‘One Belt, One Road’, the Belt and Road Initiative (BRI) is a long-term policy and investment programme, aiming at infrastructure development and acceleration of the economic integration of the countries along the route of the historic Silk Road.

Foreign support
Since its 2013 inception and absorption into China’s economic and foreign policy, the BRI has evolved to expand geographically well beyond its original parameters – it now includes Italy and Latin America – and in depth, addressing third-party country collaborations and building traction with China’s Green Investment Principles (GIP). Having had a longstanding presence in mainland China, Deutsche Bank became a founding signatory and supporter of the GIP in April 2019 and is one of the most active foreign banks participating in the BRI as business and economic ties between China, Europe and BRI countries continue to strengthen.

As the strategic economic vision behind the BRI to increase cross-border trade and investment and boost infrastructure along BRI-routed countries has gained traction, this in turn has exposed Deutsche Bank’s multinational clients (including those based in China and particularly those in commodities, infrastructure and machinery industries) to BRI-related transactions.

Demand has therefore increased for BRI-related risk management, financial and banking solutions, which are best served by providers with local expertise and global reach. It was for this reason that Deutsche Bank set up its dedicated BRI office in 2019, leveraging strong partnerships with more than 3,500 financial institutions globally, of which around 350 are in China and include major Chinese banks. We see the BRI as a potential game-changer for participating countries and market participants.

Impact and outcomes
Bearing in mind the almost intractable scope of the BRI, this guide aims to provide an overview of the initiative and its expansion to date – outlining its key drivers and objectives – and demonstrating, via a series of case studies involving Deutsche Bank financing, the variety of BRI projects taking place across the world, the importance of third-party country market participation to extend the reach of the project, and the real-life impacts that these projects can have on local and regional communities globally.

Enjoy the journey.
Deutsche Bank’s Belt & Road Initiative Office

At the second Belt and Road Forum for International Cooperation in April 2019, Chinese President Xi Jinping called for joint efforts to work out a “meticulous painting” of the Belt and Road Initiative (BRI) and emphasised the importance of high-quality cooperation.²

The need for first-class and sustainable infrastructure projects, with impacts and outcomes that promote inclusiveness and accessibility, cannot be met without diversified funding systems and a multi-tiered capital market will also be required.

Major investments such as these also carry inherent risks, and Chinese sponsors are proactively exploring risk mitigation and off-balance-sheet funding solutions, typically provided by international banks such as Deutsche Bank.

In response to rising client demand for this diversified funding and risk mitigation, Deutsche Bank launched its dedicated BRI hub in February 2019 to provide global and local support for BRI-related business.

Our strengths in project finance, structured trade and commodity finance, structured export finance, and supply chain finance, as well as our track record in cash and FX management solutions all around the world put Deutsche Bank in an ideal position to support BRI corporate sponsors.

We do this with knowledge-sharing workshops, roadshows featuring our subject-matter experts and we are building an ecosystem connecting Deutsche Bank capabilities with underlying BRI fundamentals.

The BRI will deepen cooperation in trade, investment, infrastructure construction, and sustainable development as well as make a significant contribution to the United Nations’ 2030 Agenda for Sustainable Development, if projects are financed and implemented in a viable manner.

Deutsche Bank’s BRI Office door is open, and we welcome your ideas for cooperation and collaboration anytime.

“Our strengths in project finance, structured trade and commodity finance, structured export finance, and supply chain finance... put Deutsche Bank in an ideal position to support BRI corporate sponsors”
Definition and scope

In its heyday, the Silk Road was the most important trading network in the world – connecting East to West and stimulating economic, diplomatic and cultural development. Some 2,000 years later, China set out to rebuild its historic highway through an ambitious foreign policy programme of investment and development, dubbed the Belt and Road Initiative (BRI) (“yi dai yi lu” or “one belt, one road” in Chinese). This lays out a vision of what was at first integrated Afro-Eurasian trading (global reach was to follow), driven and supported by the creation of solid national infrastructures.

First revealed by President Xi Jinping in speeches during visits to Kazakhstan and Indonesia in September 2013 and then officially unveiled at the China-ASEAN Expo in November that year, the BRI lays down plans to build trade infrastructure and connections along two historical trade routes. These are: — The “Belt”, connecting China to Europe through Russia and Central Asia; and — The “Road”, which strangely enough refers to the old maritime Silk Road that covers the ports and shipping lanes from China to Venice via the South China Sea and Indian Ocean while also connecting China to the South Pacific (see Figure 1).

1.1 Economic corridors

Historically, the Silk Road was in fact the overland route, but when revisited by the BRI, the Chinese government ended up branding a maritime route as a “Silk Road”, with the Belt now designated as the overland route, thus reversing the labels. As the initiative has expanded in scope, the Belt comprises at least six overland corridors, while the maritime Silk Road is now joined by a Polar Silk Road through Arctic shipping routes, following President Xi’s announcement in January 2018 and the publication of China’s first Arctic policy whitepaper.¹

Figure 1: BRI economic corridors

Source: OECD research from multiple sources, including: HKTDC, MERICS, Belt & Road Center, Foreign Policy, The Diplomat, Silk Routes, State Council Information Office of the People’s Republic of China, WWF Hong Kong (China)
1.2 Rapid reach

Since its launch, the scope of the BRI has grown rapidly. According to the Belt and Road Portal, China has, as at October 2019, signed 171 co-operation documents with 30 international organisations and 137 countries (see Figure 2). The BRI’s footprint is now enormous – extending from East to West, from the Pacific to the heart of Europe. Starting with key connections in Central Asia and the Middle East, such as Kazakhstan and Iraq, and expanding into Russia, Central Eastern Europe and Africa, before extending further into Western Europe, the project has even reached as far as South America.

This sprawling geographical reach translates to a significant human impact. The BRI reaches as much as 65% of the world’s population, while covering half of world gross domestic product (GDP), 75% of all known energy reserves, and a quarter of all cross-border goods and services trade.

Figure 2: List of participating BRI countries

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As from the official BRI government source at: [https://www.yidaiyilu.gov.cn/xwzx/roll/77298.htm](https://www.yidaiyilu.gov.cn/xwzx/roll/77298.htm)
Timelines and context

By March 2015, more detail about the BRI had been shared by the Chinese government, with the publication of its “Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” by the National Development and Reform Commission (NDRC). This document set out the background, principles, and cooperation framework of the BRI. The paper explains how China’s economy is closely connected with the world economy and China will stay committed to “the basic policy of opening-up, build a new pattern of all-round opening-up, and integrating itself deeper into the world economic system”.

Figure 3 sets out some of the main milestones achieved since the launch, in the form of projects completed, further policy and new joiners.

“First and foremost, the BRI is an economic venture, linking China to important export markets and sources of commodity imports. It reflects the government’s confidence in its economic development model – that rapidly building infrastructure prevents bottlenecks developing that would constrain growth – and its determination to export that model to other developing countries”

Michael Spencer, Chief Economist, Deutsche Bank
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See http://english.www.gov.cn/beltAndRoad/ for ongoing updates
2.1 Reform agenda

President Xi’s ambitious economic vision aims to improve partnerships and collaboration among the countries along the BRI, by improving infrastructure and enhancing trade and investment opportunities, while also developing cultural ties with people across the regions involved.

Driven by a general rise in China’s trade influence globally, the BRI is an important component of China’s ongoing reform agenda, complementing the current “Five-Year Plan 2016-2020” and the Made in China 2025 strategic plan issued in May 2015.  

“The infrastructure funding gap amounts to US$100bn every year across the African continent. Africa is regarded as the world’s last frontier market of growth and, as such, presents huge investment opportunities in sectors including power, renewables, healthcare, education, agriculture, industries, logistics and rail and road infrastructure”

Alarik d’Ornhjelm, Director, Head of Middle East & Africa, Structured Trade & Export Finance, Deutsche Bank

Michael Spencer, Chief Economist at Deutsche Bank makes the point that there is a strategic element to the BRI – that of improving territorial transportation links to Europe, which “not only shortens delivery times materially but it reduces China’s vulnerability to the Straits of Malacca and the Persian Gulf”. He adds that building ports in the Indian Ocean “may also give the Chinese greater ability to police those waters and protect its trade that still goes via the sea”.  

The initiative also stands to help China mitigate regional imbalances between its western provinces and the rest of the country. Provinces such as Guangxi, Gansu, Yunnan and Xinjiang – left behind as rapid growth has benefited the rest of the country – stand to gain from an increase in trade with neighbouring countries.

In addition, China is filling the void created as the United States (US) government continues its shift towards nationalism, as exemplified by the US withdrawal in January 2017 from the Trans-Pacific Partnership Agreement and its declared ‘America First’ economic policy.
2.2 Trade influence

With this objective in mind, it is clear that the BRI is positioned to have meaningful impact on a global scale, as Deutsche Bank research indicates there is significant potential for economic development for the countries along the project’s routes. While China has historically focused on building economic ties with developed countries – its main export markets – the BRI plan suggests that East Asia and Europe are two economic powers that should be better connected, and the vast region between the two has great scope for further development. The connection is already growing, according to research, which shows that China’s trade influence on Europe has been rising steadily in the past decade.

Figure 4 illustrates the economic growth rates of BRI countries when compared with the rest of the world excluding China and those BRI participants. It can be seen that among BRI countries, the Asia Pacific region is the most proximate to China and the largest BRI region. All ASEAN countries have signed up to the initiative, and Bangladesh, Hong Kong SAR, New Zealand, South Korea and Sri Lanka, along with some of the South Pacific island states have as well. Collectively these economies grew 5.4% on average between 2000 and 2008 and have slowed only a little to 4.7% across the period 2011 to 2018.

Figure 4: Growth in BRI economies

Sources: Haver Analytics and Deutsche Bank Research
2.3 Core objectives

On an official level, the BRI has five core objectives, as laid out by President Xi when speaking at the first Belt and Road Forum held in Beijing in May 2017.14

— **Policy coordination.** In many ways the most challenging of the five objectives, policy coordination is the key to ensuring the success of the remaining four goals – promoting effective and efficient connectivity and regional integration, through policy co-operation agreements and joint development strategies.

— **Unimpeded trade.** Improving investment and trade opportunities – and creating a favourable business environment – is central to the BRI’s strategy. In total, trade volumes between countries along the BRI have already exceeded US$6trn.15

— **Facilities connectivity.** Part of the BRI’s overarching strategy is to create a multi-dimensional infrastructure network, underpinned by economic corridors and transport routes covering land, air and sea.16 Many BRI countries are under-supplied with key transportation, power and telecommunications infrastructure, which Chinese companies are well-placed to supply.17

— **Financial integration.** Foreign investment is key to fulfilling the necessary financing requirements of BRI-related projects. The BRI also aims to develop the Asia bond market, leveraging the AIIB and the New Development Bank (formerly known as the BRICS Development Bank).18

— **People-to-people bonds.** The BRI stretches beyond infrastructure and includes cultural exchanges, education, media and tourism-related projects.

The BRI is still primarily an infrastructure investment programme, even if the geographical scope of the initiative has expanded far beyond its original conception. The focus on infrastructure both suits China’s need for alternative and often more secure transportation routes for its imports and exports and reflects the country’s own experience that infrastructure investment has been an important driver of growth. That perspective might not be shared widely, but as Spencer notes, there is evidence to suggest some correlation between the quality of trade-related infrastructure and income levels across countries (see dotted line in Figure 5 where 1.5 = low infrastructure quality and 4.5 = high).19

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**Figure 5: Trade infrastructure quality and real GDP per capita**

![Graph showing the correlation between trade infrastructure quality and real GDP per capita.](source: Haver Analytics and Deutsche Bank Research)
In terms of sectors, the BRI’s scope increasingly encompasses more than just transport infrastructure, moving into power generation and utilities, oil and gas pipelines, and telecommunications. Beyond even this, the BRI’s strategy also embraces social infrastructure – such as education, healthcare, software and innovation.

2.4 Stakeholders

Reflecting the scale of the project, the BRI’s stakeholders are many and varied. However, the initiative is being driven by the Chinese government, which is providing the basic funding required to make it a success. BRI projects receive significant backing from Chinese financial institutions such as the Chinese export credit agency (ECA) Sinosure, the Export-Import Bank of China, China Development Bank (CDB), and the country’s four state-owned commercial banks – Bank of China, China Construction Bank (CCB), Industrial and Commercial Bank of China and Agricultural Bank of China.

The nature of these projects positions them as cornerstones of national economic policy, which, combined with considerable backing from various industry bodies, give them an acceptable risk profile.

BRI projects have similarly gained support from non-Chinese industry bodies, including the European Bank for Reconstruction and Development (EBRD), German government-owned development bank KfW, the International Finance Corporation and the International Monetary Fund (IMF). The European support here has been particularly important in compounding BRI’s stability when dealing in emerging markets with unpredictable business climates – as was suggested by ratings agency Fitch in 2017.

Countries hosting BRI projects also have a key stake in the initiative as the end users and beneficiaries. Typically, the BRI is harmonious with each country’s strategic plan, such as Egypt Vision 2030 and Saudi Vision 2030, with those host countries assuming the status of the second level of stakeholders after the Chinese government. Meanwhile, domestic Chinese and foreign businesses are also heavily involved in BRI projects – be it as investors, suppliers, engineers, experts in project management, operators of infrastructure or as sellers of assets.

Although foreign financial institutional involvement is still limited, growth is anticipated. The Chinese government is promoting increased collaboration with third-party markets on BRI projects, greater participation from foreign ECAs is expected to support third-party country suppliers, and foreign banks have the opportunity to play an important role in sharing local expertise and supporting relevant investment and export opportunities along the route. Additionally, several multilateral financial institutions are associated with BRI investments, including major players such as the World Bank, the Asian Development Bank, the AIIB and the New Development Bank.

“Investments that improve the efficiency of trade can be growth-enhancing”

Michael Spencer, Chief Economist, Deutsche Bank
2.5 Macroeconomic context

Investing in the BRI provides a timely economic boost for China. In the five years to 2007, China’s economy grew, on average, by more than 10% a year, but by 2012 the rate had slowed to just under 8% and in the five years to 2017, it grew at a rate of between 6.5% and 7%. This is despite an increase in domestic investment from around 41% of GDP to 45% of GDP. With the rate of return on domestic investment declining, the BRI provides an outlet for China’s large stock of domestic savings that supports both its trading partners and its own economic activity.

Given the renminbi’s limited scope as a global currency, the currency of choice for BRI projects has often been the US dollar. To meet this demand, China has been funding the BRI through its foreign reserves of over US$3trn.

Since the start of the project, however, China has committed as much of its reserves as it is likely prepared to. A spate of investment between 2014 and 2017 saw its reserves drop by what could be as much as US$1trn from just above US$4trn to around US$3trn. As a result, while it wants to share the benefits of its own export-led model, China is not prepared to lose the same volume of funds as it was when developing through the heady days of globalisation. Instead, it has turned to borrowing to fuel the initiative – prompting concerns in some parts that continued investment in big-ticket projects in unstable and risky countries could see China’s debt climb even higher. As early as May 2017, Chinese debt was already estimated to reach 300% of GDP.

“China is buying debt across the BRI – securing its debt against national assets. To finance the ever-growing number of BRI projects, China is required to borrow. This creates a significant risk of the debt bubble bursting”

Dr Rebecca Harding, CEO, Coriolis Technologies


Meanwhile, continued uncertainty relating to the US-China trade dispute and how it might further develop continues to cloud China’s economic outlook, and that of the entire Asian region beyond, just as exports seem to be stabilising. In early 2019, Deutsche Bank research identified the risk of the US imposing a 25% tariff on all imports from China and on automobile imports from Europe as a plausible scenario, resulting in both China and US GDP falling by around 2%. Despite the noise surrounding further tariff increases from both sides as the year went on, each is more optimistic of reaching a deal. As of November 2019, it is expected that the respective Presidents will meet in December or early 2020 to discuss a “phase one” trade deal.

The general consensus among economic observers is that any risk of a trade war will continue to damage Chinese economic outlook and growth. This may seem like bad news for the BRI – reducing the amount of financial muscle the Chinese government can apply to it – but, at the same time, it makes the project all the more important from a strategic perspective. With exports to the US encumbered by heavy tariffs, the ability to trade freely and efficiently with Europe becomes increasingly critical. Successful investments in building trade routes across Asia and Europe are therefore set to become all the more important, should China’s relationship with the US continue to deteriorate.
Third-party country market participation

With China’s financing capacity stretched, and an estimated US$1.9trn worth of annual investment still required, new financing solutions will be necessary to ensure much of the short- and medium-term success of the project. As China seeks to broaden the horizons of the BRI by encouraging international collaboration, this will include making the project more attractive to banks and investors in developed markets. This would not only bring in much-needed funds, but also ensure a diversified financial participation that makes the project more resistant to geopolitical and financial risks.

Concerns among third party lenders, as with all infrastructure lending, include debt sustainability in the host countries and the creation of future burdens. In April 2019 at an investment forum hosted by Beijing, former IMF Managing Director Christine Lagarde commented that investment should not build up vast levels of debt that could prove problematic in future. “I have said before that, to be fully successful, the BRI should only go where it is needed. I would add today that it should only go where it is sustainable, in all aspects,” she said.

“Project sustainability needs to be at the heart of the BRI, focusing on the provision of high-quality infrastructure and services that borrowers can pay for within the projected timelines. The Chinese government’s debt sustainability framework is a positive step in this respect – encouraging financiers to conduct debt sustainability analyses and manage debt risks accordingly. This will help direct financing to the most productive developments”

**Feng Gao, Chief Country Officer, China, Deutsche Bank**
In September 2019, China’s NDRC outlined its strategy to help foreign countries benefit from the BRI. As part of the plans, China has said it will actively explore and expand its third-party market cooperation, with greater importance being placed on the economic feasibility and sustainability of projects.31

“Bringing in more creditors – whether the AIIB or other international financial institutions or foreign governments or private creditors – would both help ease the financial constraint on the BRI and also address some of the concerns about project governance”

*Michael Spencer, Chief Economist, Deutsche Bank*

With the right agreements and partnerships in place, however, there are opportunities for developed world financiers and investors.

“BRI projects are sound investments for corporates and their financiers, because of the support from China’s export credit agencies and state-owned commercial banks as well as agencies of the respective governments in BRI countries. Central to a valuable agreement of course, is effective risk mitigation and strong relationships with local partners”

*Atul Jain, Head of Trade Finance Asia Pacific, Deutsche Bank*

### 3.1 Collaboration and partnerships

Increased participation from those in third-party markets, such as France, Italy and Singapore, is expected to help meet this financing demand – promoting projects that comply with international standards and allowing for underlying business risks to be shared. In the interests of progressing the project, competition is starting to give way to co-operation. China has signed third-party country market collaboration documents with 14 countries including France, Japan, Italy, and the UK.32

Trilateral partnerships between China, the destination country and third-party country investors are helping BRI projects balance Chinese financial investment with additional quality assurance and risk mitigation from best-in-class providers in Western Europe. In Africa, for example, governments are increasingly open to foreign support for projects where quality assurance is a critical consideration. Take the building of Mozambique’s landmark Maputo-Katembe bridge, for example, opened in November 2018 after a four-year construction period, where the government awarded the tender for the build quality monitoring to German engineering firm Gauff.33
Co-operation between China and third-party countries is still rare though, with much demand being fulfilled through Chinese money alone. However, a growing interest in such arrangements, from both a Chinese and host-country perspective, will likely spur further adoption.

3.2 Risks for foreign banks and investors

A significant number of countries along the BRI have a relatively unattractive risk profile for many foreign financial institutions, with some historically scoring highly on corruption and political instability indices – placing them among the world’s most difficult to handle from a compliance perspective.

Environmental, social and governance factors are also regularly taken into consideration with large infrastructure projects.\textsuperscript{34} With the aim of mitigating such risks, 27 institutions announced in April 2019 that they had signed up to a set of voluntary principles – known as the Green Investment Principles (GIP) – to promote green investment along the BRI.\textsuperscript{35}

Since its launch five months earlier in November 2018, the GIP agreement has received strong backing from the global financial industry, including commercial banks, development banks, institutional investors, stock exchanges and other stakeholders that invest or help mobilise investment in the BRI.\textsuperscript{36} This list was increased to 33 by November 2019 with a further nine supporting institutions (see Figure 6).

“Business and economic ties between China, Europe and BRI countries continue to strengthen. By committing to the GIP, we are pledging that we will not only help steer BRI’s open collaboration across countries from China to Europe, but also strive to ensure these projects are as sustainable as possible”

\textit{Werner Steinmüller, Asia Pacific CEO and Member of the Management Board, Deutsche Bank}
China’s Belt and Road Initiative: A guide to market participation

The GIP aims to incorporate sustainable development and low-carbon practices to BRI-related projects, aligning with the United Nations 2030 Agenda for Sustainable Development and the Paris Agreement.

There are seven core principles to the agreement, across strategy, operations and innovation:
— Embedding sustainability into corporate governance;
— Understanding environmental, social and governance risks;
— Disclosing environmental information;
— Enhancing communication with stakeholders;
— Utilising green financing instruments;
— Adopting green supply chain management; and
— Building capacity through collective action.37

“China is prioritising its renewable energy in an effort to ensure a ‘green BRI’ and there are many more countries where such investments may be fruitful. Renewables – hydro, solar and wind – aren’t universally available as energy sources but… this will become in the years ahead an increasingly important component of the BRI”

Michael Spencer, Chief Economist, Deutsche Bank

Figure 6: Signatories to the Green Investment Principles

<table>
<thead>
<tr>
<th>Signatory Institutions*</th>
<th>Supporting Institutions*</th>
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</thead>
<tbody>
<tr>
<td>✓ Agricultural Bank of China</td>
<td>✓ APEC Network on Green Supply Chain Tianjin Pilot Center</td>
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<tr>
<td>✓ Agricultural Development Bank of China</td>
<td>✓ Beijing Environmental Exchange</td>
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<td>✓ Al Hilal Bank</td>
<td>✓ Carbon Trust</td>
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<td>✓ Ant Financial Services Group</td>
<td>✓ Climate Bond Initiative</td>
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<tr>
<td>✓ Astana International Exchange (AIX)</td>
<td>✓ Deloitte</td>
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<td>✓ Bangkok Bank PCL.</td>
<td>✓ Ernst &amp; Young</td>
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<td>✓ Bank of China</td>
<td>✓ KPMG</td>
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<td>✓ Bank of East Asia</td>
<td>✓ PwC</td>
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<tr>
<td>✓ BMCE Bank of Africa</td>
<td>✓ Starquest Capital Investment Management (Shenzhen) Co. Ltd</td>
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<td>✓ China Construction Bank</td>
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This section of the paper shares a selection of Deutsche Bank BRI deals that were made possible because of partnerships with the Chinese government.

Under its MoU with China’s ECA Sinosure (signed in 2009) Deutsche Bank has provided more than US$1bn in financing for untied BRI deals. The bank also has an MoU with CDB, signed in May 2017, which includes funding provision in local currencies for BRI projects – helping stimulate renminbi internationalisation and promote financial and economic co-operation between Germany, China and other countries along BRI routes.

“This strategic partnership was formed to stimulate renminbi internationalisation and promote finance and economic co-operation between Germany, China and other countries along BRI routes. Deutsche Bank is the first international bank to sign this kind of MoU with a Chinese banking partner”

Daniel Schmand, Global Head of Trade Finance, Deutsche Bank

Deutsche Bank’s partnership with Sinosure made it the first international bank to sign an MoU for export guarantee business with a Chinese banking partner, allowing for new opportunities to streamline information flow and approval processes and providing best-effort pricing and collaboration regarding risk management.
4.1 Case studies

4.1.1 Kazakhstan: Shymkent oil refinery

Kazakhstan is a key target of Chinese investment – so the decision to announce the BRI project in the country’s capital, Astana, was carefully considered. The Kazakhstan economy is the largest and strongest performing in Central Asia, with an abundant supply of accessible mineral and fossil fuel resources and extensive trade ties with both China and EU Member States.\(^{39}\)

Utilising and refining the country’s abundant resources is naturally a priority – and the endeavour is drawing BRI investment. In February 2018, for example, the state-owned Development Bank of Kazakhstan (DBK) executed its first drawdown from a 12-year US$225m Sinosure buyer credit facility, for which Deutsche Bank acted as a Mandated Lead Arranger and continues to act as facility agent.

The transaction finances the modernisation and expansion of Kazakhstan’s Shymkent oil refinery – a project set to have a significant political and market impact; helping to enhance the quality and increase the volume of petrochemical products in the local market, while also improving the refinery’s environmental impact. DBK’s stake in the expansion has so far amounted to a total of US$932m in loans, with the equivalent of US$100m of this funded in Kazakhstani tenge.

The transaction was structured as an on-lending financing by DBK, guaranteed by JSC Baiterek National Management Holding providing funding to PetroKazakhstan Oil Products (PKOP). PKOP is a joint venture established on equal basis by KazMunayGas and China National Petroleum Corporation.

This deal marked the first two-step financing covered by Sinosure in Central Asia, and the first large amount of Sinosure-covered buyer’s credit financing provided solely by international banks.
Once completed, the works on the Shymkent refinery are anticipated to increase processing performance from 5.25 million tons to six million tons a year, while improving the quality of fuel provided to local communities and reducing emissions.

This is a key cross-regional transaction with significant strategic importance – supporting and enhancing the economic and political relationship between China and Kazakhstan via the BRI. A cornerstone of the BRI strategy, the Chinese government is determined to equip strategic countries such as Kazakhstan with critical energy production infrastructure. In turn, this reduces any risk to China’s own energy supply.

“While internal board committees (whose support drives financing propositions to market) may harbour memories of BTA Bank’s fraud and consequent bankruptcy more than a decade ago, the financing of these new Silk Road ventures in Kazakhstan are cut from a different cloth – not least because they are entrenched in economic policy and consequently enjoy robust government support. Critically these agreements also depend on a natural flow of goods into the country, which was not the case with the loans afforded to BTA back in the late 2000s”

Daniel Schmand, Global Head of Trade Finance, Deutsche Bank

4.1.2 Russia: ZAO Baltic Pearl

Russia is a major strategic partner for China and the BRI, with Shanghai having been the “sister city” of St. Petersburg since 1988. In 2015, China and Russia signed a joint statement for the integration of the BRI and the Eurasian Economic Union (EAEU). The EAEU’s primary objective is to create a single market for goods, services, capital and labour, similar to that of the European Union. The pairing of both initiatives will lead to further co-operation on infrastructure and transport projects, as well as cultural development.

In 2016, for example, Deutsche Bank structured a three-year US$95m Sinosure-guaranteed credit facility for ZAO Baltic Pearl, to support the development of a large-scale residential and commercial complex on 205 hectares of land in St. Petersburg.

This deal – providing overseas subsidiary financing without the need for cross-border parent insurance for the borrower’s shareholder companies – comes as part of a huge programme of investment undertaken primarily by Chinese investment firm Shanghai Overseas United Investment Holdings Co. More than US$1.3bn has been invested so far into this major residential project, making it the biggest non-energy project investment by Chinese companies in Russia. Its progress has seen the deal hailed by policymakers in Beijing and Shanghai as a model for Chinese companies looking to invest in BRI projects in Russia and other Central and Eastern European countries.
4.1.3 Singapore: Jurong Island pitch gasification project

While BRI investment has typically been put towards filling major infrastructure gaps, the initiative’s influence has also extended to smaller deals in strategically important developed countries. This is the case in Singapore – a major strategic partner for China, both as a financing hub for BRI projects and a source of third-party country partnerships.

For instance, BRI funding is being used to increase Singapore’s energy output while reducing its environmental impact. This can be seen in the investment, announced in April 2019, in the Jurong Island pitch gasification complex, which is being expanded to allow for the production and supply of hydrogen and synthesis gas to ExxonMobil by upgrading the heavy residue feedstock from its new facilities. Upon completion, currently scheduled for early 2023, the plant will also supply hydrogen, carbon monoxide and synthesis gas to other customers on Jurong Island and quadruple chemical and engineering group Linde Aktiengesellschaft Singapore’s (Linde) present capacity.

To fund the expansion, Deutsche Bank issued three guarantees (an advance payment guarantee, a performance guarantee and a retention bond), totalling US$55m, backed by counter-guarantees from CCB. This structure enabled beneficiary SinoTCC, a wholly-owned subsidiary of China National Chemical Engineering Third Construction Co Ltd. to purchase goods from Linde, meeting the group’s need for both a German bank to provide the final guarantee and a Singapore-based bank that could understand the local project and provide professional advice.
4.1.4 Saudi Arabia: Rabigh-3 independent water desalination plant

Saudi Arabia plans to align the BRI with its “Vision 2030” reform plans, announced in April 2016, which aims to reduce the country’s dependence on oil, promote economic diversity and develop public service sectors such as health, education, infrastructure and tourism.43

In February 2019, Saudi Arabia signed more than 30 economic co-operation agreements with China, covering a broad spectrum of sectors including maritime transportation, manufacturing and energy, worth a total of US$28bn.44 As part of this, local designer and contractor Ashi & Bushnag Co (ABC) mandated Deutsche Bank to issue guarantees totalling US$97.97m – with a tenor of one to three years backed by a counter guarantee from ABC.

The guarantee is set to help engineer, design, supply, manufacture, construct, test and commission the Rabigh-3 independent water project desalination plant and related facilities in the Kingdom of Saudi Arabia. Once fully operational, currently projected to be towards the end of 2021, the plant is expected to yield 600,000 litres of desalinated water per day.
4.1.5 Iraq: Al-Anbar combined cycle power plant

Iraq could benefit significantly from participation in BRI projects, expanding its economic policy and reducing its reliance on revenues from oil exports. China is one of Iraq’s largest trade partners and Iraqi officials have called on China to increase its support in the reconstruction of infrastructure through increased investments between the two countries.

The financing of the Al-Anbar combined cycle power plant stands as an example of how this process can play out. Built in the Anbar province of Iraq, and commissioned by the Ministry of Electricity, the plant will generate 1,642MW – adding much needed electricity to the Iraqi grid. With the €225m power generation equipment awarded to Alstom (2014) and the US$1.05bn construction contract to the Greek power plant consortium Metka SA and Metka Overseas (2013), the plant is expected to be one of the largest and most efficient combined cycle power plants in Iraq once completed.

Finalised in February 2017, and mandated by CCB, Deutsche Bank is supporting this project with a US$52.5m performance bond with a one-year tenor for SEPCO III, which has already been extended to February 2020 through the Trade Bank of Iraq. The bond was backed by a counter-guarantee from CCB. The Bank also provided a US$105m advanced payment guarantee for SEPCO III Electric Power Construction (a subsidiary of Power Construction Corporation of China) to support the construction of the plant.

As the Iraqi government looks to strengthen business links between the two countries, there is scope for more projects of this nature to contribute to the development of Iraq and the rebuilding of its infrastructure following damage incurred during the war with Islamic State.

4.1.6 Ghana: vocational training centres

Offering access to raw materials and a growing consumer goods market, Africa presents an alluring profile for BRI investment. There are huge opportunities in the fields of transport, energy and telecoms infrastructure development, while developing the continent’s education and employment networks also stands as a prime opportunity.

Africa is also fast becoming a centre for trilateral co-operation. On 1 July 2019, Deutsche Bank, operating on a 50/50 basis with another international bank, closed a €123m Sinosure-covered financing agreement with the Ministry of Finance of the Republic of Ghana – one of the first financing solutions of its kind to be provided by international banks to support Chinese companies operating in Ghana. The financing package comprised a 12.5-year facility of €105m, and a seven-year tied commercial loan of €18.5m.

The investment will help finance the upgrade and modernisation of 34 vocational training institutes across Ghana, undertaken by a consortium of Chinese and international companies. The project is also part of a broader initiative led by the Ministry of Education of the Republic of Ghana to create a sustainable vocational education system that will help improve employability and address the skills gap in the country.
4.2 Economic zones and corridors

4.2.1 Pakistan: China-Pakistan Economic Corridor

Pakistan is a vital partner for the BRI thanks to its strategic location between Asian and Western economies. Consequently, the China-Pakistan Economic Corridor (CPEC), established in 2002, is a major focus area for the BRI project and has established itself as a vehicle for financing opportunities across Pakistan’s economy.

From hospitals to railways, roads and power grids, the development of the CPEC will change the economic landscape of Pakistan. For instance, the Gwadar Port in Pakistan and China’s Xinjiang province is set to be connected by new transportation networks, allowing for a new route for trade between China and the Middle East. This is just one of several additional routes planned, including the Karachi Circular Railway, the Karachi-Lahore-Peshawar Railway, and a highway connecting Gwadar and Quetta. This will likely be followed by investment in manufacturing and trade, as well as other areas such as mining, finance, culture, media and tourism. The project also boasts significant potential in terms of boosting employment nationally, with continued investment set to create one million jobs across the country.

The total amount of investment for the infrastructure projects within the CPEC was reported at US$46bn in 2015. However, with an increasing number of projects falling within the BRI’s scope, this number has grown, with recent estimates reaching US$62bn.
4.2.2 Egypt: China-Egypt Suez Economic and Trade Co-operation Zone

The China-Egypt Suez Economic and Trade Co-operation Zone, located 120km east of Cairo near the Suez Canal, has become a landmark project for China and Egypt’s co-operation under the BRI. It aims, quite simply, to build a new city in the desert space located in the Ain Sokhna district of Suez province.

Construction of the zone, which is operated by the China-Africa Tianjin Economic-Technological Development Area (TEDA) investment company, started more than a decade ago, with the first phase begun in 2008, covering 1.34km². The second phase, covering 6km² has taken place under the auspices of the BRI, with President Xi Jinping present at the inauguration ceremony in January 2016.

The project has attracted investment of more than US$1bn, directly offered jobs to more than 3,500 people and created a further 30,000 job opportunities through the industries gathered there. Furthermore, the zone is expected to bring over 100 companies to Egypt, spanning diverse sectors such as textiles, garments, oil equipment, motorcycles and solar energy. For example, TEDA attracted China’s fiberglass manufacturer Jushi to the zone, which has helped Egypt become one of the largest fiberglass producers and exporters in the world over the past couple of years.

The project has certainly boosted relations between China and Egypt, with the increased co-operation raising trade exchanges between the two countries to a record high US$13.87bn in 2018. Egypt’s strategic Vision 2030 development plan, launched in March 2016, aligns with many ambitions of the BRI, and further collaboration is expected to further foster economic growth for both nations.
4.3 Expansion plans

4.3.1 Europe

More than half of European Union (EU) member countries – mostly smaller states – have signed BRI agreements. In March 2019, however, Italy signed a MoU to advance construction of BRI-related projects and became the first of Europe’s larger economies to officially engage with the initiative. The strategic partnership covers a broad range of areas such as trade, investment, finance, transportation, logistics, infrastructure, connectivity, sustainable development, mobility and co-operation, also involving third-party countries.

This deal is of particular strategic importance to China: Italy is the largest EU country to sign a BRI MoU to date and the only member of the G7. What’s more, one of China’s flagship projects – the Five Ports initiative – involves the Italian ports of Venice, Trieste, and Ravenna, making Italy one of the most important strategic partners for China in Europe.

From Italy’s perspective the BRI also offers a host of opportunities. Since 2001, average GDP in Italy has been just 0.25%, 1.45% below the EU average. And with government debt reaching 130% of the country’s GDP, Italy is hoping to finance some of its infrastructure projects with Chinese money.

Meanwhile, larger European countries such as France have been more sceptical of the initiative. Only recently has the French government begun to recognise the significance of the Chinese project, reflecting concerns that the scope and scale of the initiative were unclear. The two nations are yet to sign any formal MoU, nor do they look likely to do so in the near future.

Instead, any co-operation will come on a project-by-project basis, particularly across third countries, although no projects of this type are yet underway between the two nations.

A distinction can also be made between national and local government sentiment, the latter tending to be more optimistic about the BRI and its potential benefits. For example, Lyon, the second largest city in France and 16th century terminus for the Silk Road, welcomed the first BRI train connecting the two countries from Wuhan – with 41 containers of mechanical, electronic and textile products – in April 2016. The China-Europe Railway Express, which takes around 15 days to travel to the French city in contrast to five to eight weeks by sea crossing, is expected to inject new impetus into Sino-French trade relations, whose volume exceeded US$60bn in 2018.

There is no inherent opposition to the BRI in France. There is, however, an emphasis on the benefits that French companies should be able to reap from participating, as well as the need for projects to present a clear win-win proposition to all parties involved.

Meanwhile, four years ago, it seemed likely that the United Kingdom (UK) would be an enthusiastic European participant in the BRI initiative. President Xi Jinping’s five-day state visit to the UK in October 2015 was his first for 10 years and followed a similar visit by Premier Li Keqiang in June 2014. During Xi’s talks with David Cameron, then the prime minister, business deals totalling £40bn were signed.
Much of that momentum has since dissipated, but not all. Li visited the UK again in October 2018 and agreements were struck with Cameron’s successor, Theresa May, such as accelerating the Shanghai-London securities markets connection. However, the political unrest in the UK that followed the ‘Brexit’ referendum result of June 2016 in favour of the country’s departure for the EU has diverted attention away from deals outside the EU until the divorce terms can be finalised.

Speaking at a Beijing summit in April 2019, then British Chancellor of the Exchequer Philip Hammond described the BRI as “an extraordinarily ambitious vision” and pledged that “the UK is committed to helping to realise the potential of the BRI and to doing so in a way that works for all whose lives are touched by the project”.58

4.3.2 South America

BRI-related investment has also emerged in South America, with China issuing an open invitation in January 2018 for countries in the region – as well as those in the Caribbean – to join the initiative.59 Many have expressed interest and signed up to participate, though the four largest economies in the region – Argentina, Brazil, Colombia and Mexico – have yet to do so.60 Their reluctance may, in part, reflect regular criticisms of the BRI by the US.

Notable deals in the region include the Punta Sierra wind farm in Chile, which was brought online in 2018 with a capacity of 82 MW. It will generate about 282 GWh/year, thanks to 32 Goldwind turbines of 2.55 MW. The energy generated by the park will supply energy equivalent to 130,000 homes per year. The project marks the first Pacific Hydro wind farm in the country and the first wind farm financed by China State Power Investment Corporation in Chile, with total investment estimated to be around US$140m.61
The road ahead

As the examples in this guide testify, despite widespread macroeconomic volatility and geopolitical tensions, the BRI provides investors and businesses the world over with genuine opportunities to grow. The sheer scale of the initiative shocked many once details of the plan began to emerge after the September 2013 launch, and some observers were sceptical as to how realistic the project was. But as the BRI gains momentum, a host of deals have generated major benefits for communities right across China’s historic trade routes – generating power, clean water supplies and mining resources for numerous businesses and communities. At the same time, new and improved transport, infrastructure and policy-related projects have facilitated smoother trade and lowered costs.

Over the next few years, the continued success of this project will likely be driven by growing interest from global banks and investors prepared to fund projects within higher-risk regions. The backing of China’s big four state-owned banks here, along with support from Sinosure and the country’s development banks, represents a huge advantage – reassuring participants of the strength and stability of BRI projects.

The signs are that other countries and their industry and trade finance sectors are taking note of this. The increasing expansion of the BRI through participation from third countries, such as Italy and France, is an encouraging sign – reaffirming the attractiveness of BRI projects and diversifying the range of financiers and suppliers.

Other banks and financial institutions across the industry have since followed suit, signing similar memoranda with Chinese partners. In June 2018, for instance, Siemens Financial Services entered into more than 10 agreements with Chinese partners in support and exploration of opportunities from the BRI and called for a digital ecosystem for future-orientated infrastructure development.

The diversification of funding sources has also been encouraged by non-profit think-tank the Asia Society Policy Institute (ASPI), which, in June 2019, released a set of 12 best practices and standards covering various stages in a BRI infrastructure project. Given the scope and scale of the BRI, it argues, even modest improvements in its procedures and standards could yield significant benefits.

A key recommendation of the paper – highlighting the need for third-party country partnerships – is the use of blended finance to ensure BRI projects remain commercially viable and attract international public–private partnerships. The use of such blended financing instruments can help attract the necessary financing by lowering project and transaction costs, reducing risks and improving the likelihood of the project’s success.
In line with reducing environmental, social and corruption risks, ASPI also recommends, among other measures, that an environmental and social impact assessment (ESIA) be conducted for each project to mitigate any adverse outcomes along the lifecycle. Other best practices include expanding the use of local labour and businesses, better regulating the use of Chinese workers in overseas projects and the creation of a searchable, comprehensive, English-language project database. This would address a key criticism of the BRI – the lack of information and confusion over which projects are part of the initiative. The transparency provided by such a database would further bolster international trust in the BRI, by enabling in-depth analysis and reporting on BRI projects.54

Figure 7: Asia Society Policy Institute BRI Recommendations and Best Practices

These are sensible recommendations that can help the BRI as it continues its promising new direction – incorporating increased participation from third-party country markets. The incentive for these new participants is clear: structured in the right way, BRI-backed deals – even in perceived higher-risk countries – can continue to offer positive impacts both for the suppliers, financiers, and initiators of the project, as well as for the local and wider communities in which they take place.
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Additional research

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