COUNTRY RISK REPORT ALONG THE BELT AND ROAD

2018

China Chengxin International Credit Co., Ltd. | VIS Group of Companies | Rating-Agentur Expert RA GmbH | China Council for the Promotion of International Trade

INTRODUCTION

It was in 2017 that CCXI released the Risks of Countries along the Belt and Road for the first time. The present report Country Risk Report along the Belt and Road in 2018, jointly released by CCXI, VIS Group and RAEX-Europe, is the latest research achievement in an effort to provide profound assessment of country risks along the B&R, and to help the investors better identify investment opportunities.

China Chengxin International Credit Rating Co., Ltd.(“CCXI”) was founded in 1992. With the largest business operations and the best quality of services, CCXI enjoys the highest reputation of credit rating services in the domestic bond market. Since 1992, CCXI has maintained its leading position in the credit rating industry, topping in accumulated market share of each type of services. CCXI formally published its sovereign rating framework in 2012. Currently, CCX’s sovereign rating and analysis covers more than 70 countries and economies, of which 40 are along the Belt and Road.

The VIS Group started operations in 1994. Currently VIS has expanded as a group of companies involved in various areas of information-based services and has now evolved as a major source of independent information in the region. Having been remarkably successful in Pakistan, now the Group has entered into joint venture arrangements in various regional markets including Bangladesh, Bahrain and Iran. Through its affiliates and joint ventures, footprint of the group spans over more than 20 countries ranging from Africa to East Asia.

Rating-Agentur Expert RA GmbH (trademark RAEX-Europe) is operating since 2013 and its office is located in Frankfurt am Main (Germany). RAEX-Europe is registered by ESMA with approved ECAI mapping equivalent to other global CRAs. The main priority of agency's activities is assigning credit ratings to companies, financial institutes and regions from Eastern Europe and CIS countries. The agency is also assigning sovereign ratings, ESG ratings and provides second opinions for Green Bonds. The activities of the Agency are based on over 20 years of experience obtained by RAEX group worldwide and at the same time benefit from complete independence of other group activities.

Risk Profile of Countries along the Belt and Road

Global outlook: Risk escalation in the backdrop of resurging trade protectionism

After nearly two years' broad-based global recovery, the global economic prospects depict divergence. Risks are mounting over time, as trade protectionism resurges and monetary policies are tightened worldwide.

In 2017, economies all over the world picked up, against the background of a rally in commodity prices and a drop in political uncertainty. Production, investment and international trade had achieved all-round growth during 2017, and it was the first broad-based recovery since 2010. Developed countries represented by the US and European countries started to recover at a faster pace, revealing a recovery trend that went beyond expectation. Emerging economies like Southeast Asian countries experienced a new round of rapid growth driven by rising commodity prices and improved overseas market demand. Some commodity exporters were gradually stepping out of recession. Since the outbreak of the financial crisis, with monetary easing policies and low interest rates globally, debt burdens kept rising, while financial pressure was relieved to a certain degree. Some countries still suffered from financial weakness and a high debt burden. Furthermore, geopolitical risks intensified after a periodic break.

In contrast to the all-round recovery in 2017, world economic trends have become more divergent since 2018, and the tendency has grown prominent since the second half of the year. Among advanced economies, the US, European countries and Japan embarked on a track of expansion that led to different directions. The US demonstrated a momentum for strong recovery. Its economic performance outperformed that of European countries and Japan, which partially benefited from the tax reform. Besides, its labor market continued to improve, and inflation picked up steadily. European economies saw their month-on-month growth rate slowing down. The instability of the European Union's political environment was highlighted by the deadlock in the negotiation of Britain's exit from Europe and the political turmoil in Italy, leading to a decline in inverstors' confidence. In addition, the European economy was confronted with increasing external pressure under the surge of trade protectionism and highly volatile crude oil prices. The Japanese economy recovered at a slow pace. Its exports kept improving, but its domestic consumption was still weak. Risks started to spread among emerging economies. As a result, their currency and economic growth both had to deal with considerable pressure. Since 2018, affected by the strong pickup of the US economy and the appreciation of the US dollar, the local currency of emerging markets has depreciated, of which Venezuela and Argentina suffered the biggest fall. To deal with the sharp devaluation of local currency, the central banks of some emerging countries had to raise interest rates to maintain the stability of their domestic financial markets, which restricted the economic growth momentum of some emerging economies in Latin America and the Middle East. These adverse external factors and the fragile macro-economic environment at home that featured great deficit in current account, considerable foreign debt and over-reliance on foreign investment worked together, arousing the world's concerns over the risks of emerging economies.

Looking into the upcoming 2018-2019, the world economy will continue on the path of recovery, but the characteristics of uneven expansion will become increasingly apparent. In the

latest World Economic Outlook released by the International Monetary Fund (IMF), the world economy is expected to grow at 3.7% in 2018-2019, 0.2 percentage point lower from an earlier forecast, a level basically on par with that of 2017. The central factor that interferes with the world economic prospects in the coming two years is policy uncertainty. The primary uncertainty comes from the surge in trade protectionism worldwide and the possible trend of trade wars. Since 2018, the US trade protection and unilateral measures have provoked retaliatory responses among its trade partners, which worsened the tension and friction of international trade. The intensified trade tension worldwide will finally drag down world economic growth through impaired investment and trade. Additionally, trade barriers will also disturb the international supply chain, hold back the spread of new technologies, and end up as a bane to the improvement in global productivity and people's welfare. Since the second half of 2018, global production, investment and trade have demonstrated a downward trend. Although the pro-cyclical fiscal policy of the United States has driven economic growth in the short run, its marginal diminishing effect combined with the toxic effect of trade friction, will restrain the momentum of economic growth in the U.S. At the same time, trade tension boosts risk aversion all over the world. Coupled with the universally tightened liquidity which results from the appreciated US dollar and its increasing yield rate, the capital flow into emerging economies will be hindered, thus dealing a severe blow to some of these countries that overly rely on foreign capital and suffer from a fairly weak foundation. In the past two years, the universal economic pickup all over the world boosted different economies' resistance against risks to varying extents. However, as the downside risk keeps growing, the world economy, if intended to continue its expansion, should try its best to avoid protectionism, seek for active cooperation to tackle with structural problems confronting it, and propel commodity and service trade toward fast growth.

Risk assessment system for countries along the Belt and Road

CCXI mainly applies quantitative analysis to country risk measurement, i.e. quantifying overall risk of a country and predicting its likely trend, while qualitatively analyzing and gauging the indicators that could not be fully quantified. The scorecard model in use clearly shows the factors and weights taken into consideration by CCXI for country risk assessment. The model's indicators are the most important matrices for a country's risk assessment, and summarize all considerations of CCXI. Weight, as the estimate of each indicator's importance, reflects CCXI's measurement of the indicator's importance.

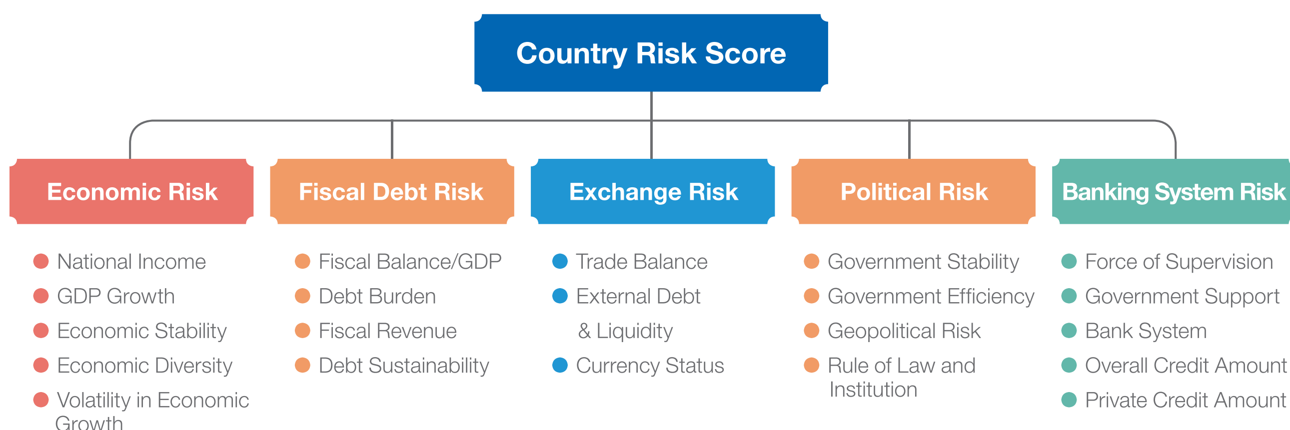
The country risk assessment system evaluates country risk profile of a country or region by using five basic factors including economic risk, fiscal debt risk, banking system risk, exchange risk and political risk. Economic risk factor is aimed at assessing the sustainability and stability of a country's economic growth, mainly the diversification of economic structure, stability of economic operation and potential for, or expectation of economic growth. Fiscal debt risk factor is for assessing the debt solvency of a sovereign government by mobilization of national resources, mainly the health of a government's finances, debt burden and debt composition. Banking system risk factor is aimed at assessing the stability of a country's banking system, as well as the government's supervision of, and intervention in the banking system, as assessed through the capital adequacy ratio (CAR) and asset quality of the banking system. Exchange risk factor is aimed at assessing the match between foreign assets and liabilities, exchange rate movement, as well as reliance on and sensitivity to foreign capital of a country. CCXI evaluates a country's exchange risk mainly from the perspectives of exchange rate movement, international status of its currency, and reliance on foreign capital, as well as foreign assets and liabilities. Political risk factor measures the risk arising from change of a country's political organizations, unexpected reform process and intensity, and rule of law.

The country risk assessment system is partially revised this year based on the Risks of Countries along the Belt and Road report that was released in 2017. Major revisions are mainly made in terms of economic risks and political risks. With respect to economic risks, an indicator that reveals fluctuations in economic growth, has been added to the new system. Since fluctuation in economic growth exercises noted influence on the return of investment activities, especially in highrisk economies, volatility in economic growth should be incorporated for improved results. This indicator is designed to calculate the standard deviation of the actual GDP growth rate in the past decade (t-9 to t). The lower the standard deviation is, the lower the fluctuation and risks tend to be. In terms of political risks, an indicator of laws and policies is added to the new system, mainly referring to the Global

Competitiveness Index that is released by the World Economic Forum (WEF). Since making investment in the countries with sound laws and policies means greater security and less risks, the newly-added indictors thus become an important factor to measure a country's political risks. Under the indicator, scores of Pillar I Institutions and scores of 1.06 Judicial Independence as part of Global Competitiveness Index are adopted to measure different countries' judicial and institutional strength. Furthermore, the data of 2016 and 2017 are used to reflect the changes in the indicator in the corresponding year. If a country gets a higher score, it carries lower judicial/institutional risks and country risks.

Economic risk and political risk are the most important among the five factors for country risk assessment. Economic risk can affect investment earnings directly. Single economic structure and its volatility point to uncertainties in the operating environment of the economy, and thereby limit expected investment earnings. Political risk is often linked with uncertain, insecure and inefficient policies and investment environment, and thus can affect investment earnings in a direct, material way. So, economic risk and political risk are assigned a higher weight in the rating system. Please see below for the country risk assessment system of CCXI:

Figure 1: Country Risk Assessment Factors



Risk profile of countries along the Belt and Road

It was in 2017 that CCXI released the Risks of Countries along the Belt and Road for the first time. The present report entitled the Risks of Countries along the Belt and Road in 2018 is another research achievement of CCXI. In this report, CCXI, VIS group and RAEX-Europe study 50 countries (2017 report: 38), while keeping an eye on the risks of the countries along the Belt and Road. Furthermore, the present report, by using the data updated in 2017 and comparing it with the 2016 data, keeps a track of the changes in risk tendencies of the B&R countries in the last two years, and forecasts how the risks of these countries and their sub-risks will evolve in 2018-2019, thus better warning against these risks.

The 50 countries under review are located in Central & East Europe, Central Asia, Southeast Asia, South Asia and the Middle East, where the Belt and Road passes. Their gross GDP approaches about USD27.17 trillion (including that of China), and represents 94% of the total along the Belt and Road. In general, the B&R countries are mostly in the emerging market and the developing world with great potential for further development, abundant natural resources and enormous population dividends, but their urbanization and infrastructure is relatively underdeveloped. Moreover, their local geographical conflicts and political risks are relatively significant.

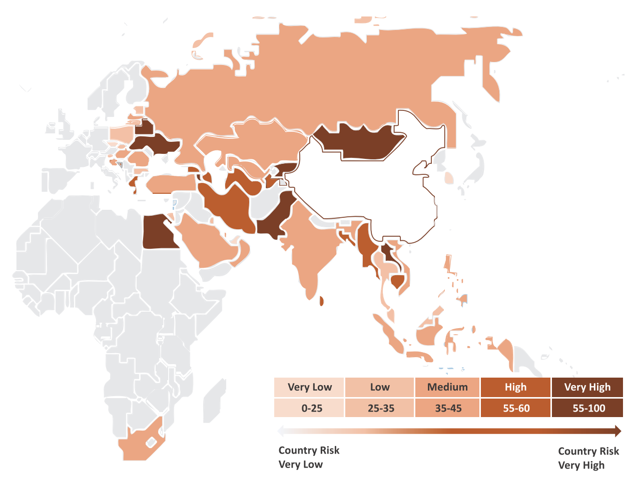
In line with the country risk assessment system of CCXI, the 50 countries along the Belt and Road made an overall risk score in 2016 and 2017 as follows (0 stands for the lowest risk, and 100 indicates the highest risk):

Table 1: Risk Scores of the B&R Countries

Countries	2016 Risk Score	2016 Risk Score Ranking	2017 Risk Score	2017 Risk Score Ranking
Singapore	11.08	1	10.90	1
China	20.03	3	19.31	2
Korea	17.89	2	20.20	3
Czech Republic	23.90	4	20.89	4
UAE	26.95	8	23.36	5
Poland	25.30	5	25.63	6
Malaysia	26.86	6	26.60	7
Thailand	27.87	9	27.04	8
Israel	26.94	7	27.48	9
Slovenia	32.44	10	28.33	10
Estonia	33.53	12	31.52	11
Slovakia	33.04	11	32.12	12
Bulgaria	37.59	18	32.72	13
Kuwait	37.48	16	32.76	14
Lithuania	36.69	13	33.86	15
Indonesia	37.89	19	36.02	16
Russia	41.13	26	36.59	17
Philippines	36.71	14	37.86	18
Latvia	37.50	17	37.95	19
Qatar	40.90	24	38.13	20
Romania	40.48	21	38.35	21
Saudi Arabia	40.00	20	38.54	22
Hungary	37.16	15	38.59	23
Croatia	43.42	29	39.12	24
Vietnam	40.99	25	40.31	25
Uzbekistan	40.89	23	41.75	26
India	41.90	27	41.89	27
Kazakhstan	47.35	32	42.11	28
Turkey	40.60	22	43.01	29
Oman	44.64	30	44.34	30
South Africa	42.12	28	44.89	31
Bangladesh	46.22	31	46.18	32
Myanmar	50.88	33	49.61	33
Cambodia	51.33	35	51.15	34
Bahrain	51.31	34	51.21	35
Tajikistan	58.25	44	52.45	36
Georgia	54.51	38	52.73	37
Iran	54.13	37	52.98	38
Sri Lanka	54.83	39	54.11	39
Azerbaijan	62.47	47	54.27	40
Turkmenistan	52.24	36	54.28	41
Greece	55.71	41	54.60	42
Laos	55.02	40	55.17	43
Belarus	57.61	42	55.31	44
Egypt	58.01	43	58.58	45
Pakistan	60.66	46	59.46	46
Mongolia	63.71	48	61.50	47
Armenia	59.77	45	61.69	48
Kyrgyzstan	66.30	49	65.14	49
Ukraine	71.98	50	69.70	50

Based on the overall risk scores of the countries along the Belt and Road in 2017, CCXI divides their overall risk status into "very low", "low", "medium", "high" and "very high", and represents different levels of risk in different colors. In the Figure below, the darker the color , the higher the overall risk in the region. According to the figure, Singapore, Czech and the UAE are exposed to relatively low overall risk, in contrast to Kyrgyzstan, Armenia, Pakistan, and Ukraine.

Figure 2: 2017 Country Risk Map of the B&R Countries



Please see below for the risk characteristics of the B&R countries:

1. The overall risk of the B&R countries has declined compared with 2016, and presents a more balanced distribution. Among the 50 countries under review in 2017, 19 had their risk rated "high" and "very high", accounting for 38% of the total; and 15 had their risk rated "low" and "very low", representing a 30% share. Compared with 2016, the proportion of the countries that fall under the "low" and "very low" risk categories went up by 25%, and the percentage of the countries with "very high" risk declined by 27%. Of all the countries under review, eight countries including Azerbaijan and Tajikistan saw their risk level lowered. In general, out of the 50 B&R countries, 36 witnessed their overall risk on the decline in 2017. Thanks to the recovery of its oil and gas industry and the positive development of non-oil industries, the Azerbaijani economy grew faster, and was exposed to the obviously lower exchange risks. The country managed to reduce its overall country risk most significantly among all the surveyed countries. Out of all the 50 B&R countries, 14 saw their overall risk increasing somewhat over 2016. Of these, South Africa drove up the risk to the largest extent. Largely affected by the worsening financial deficit and the tense political landscape, South Africa was exposed to more fiscal debt risks and political risks in 2017.

Figure 3: Risk Distribution of Countries along the B&R

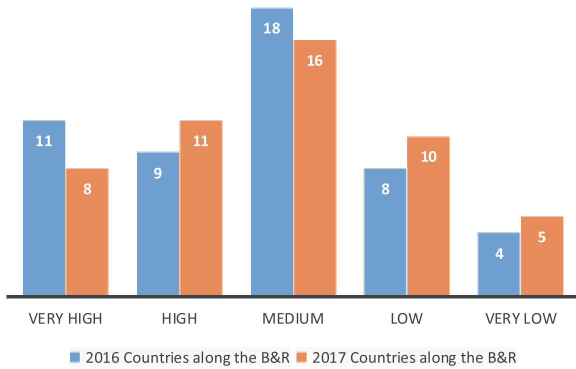
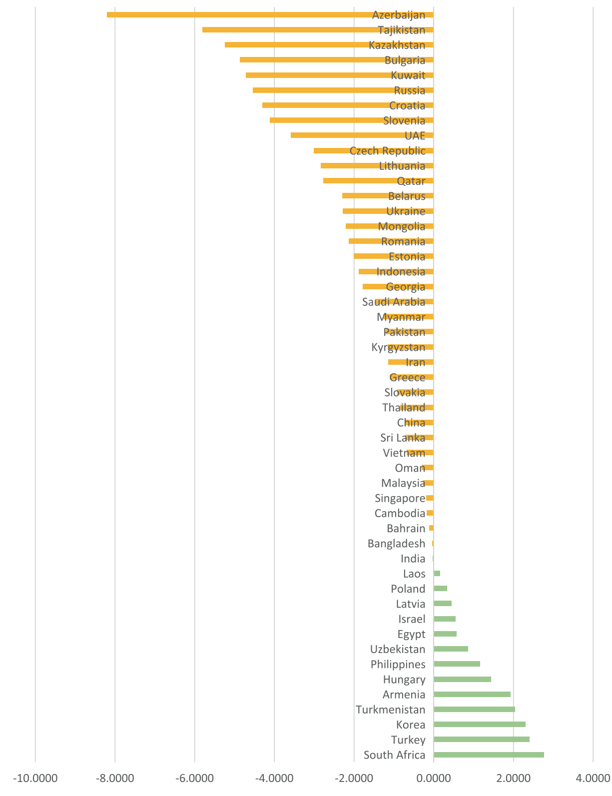


Figure 4: Eight Countries with Descending Risk Level

Countries	2016 Risk Level	2017 Risk Level
UAE	Low	Very Low
Lithuania	Medium	Low
Kuwait	Medium	Low
Bulgaria	Medium	Low
Kazakhstan	High	Medium
Greece	Very High	High
Tajikistan	Very High	High
Azerbaijan	Very High	High

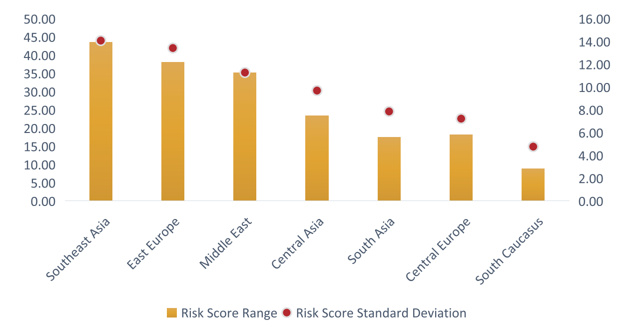
Figure 5: 2017 vs. 2016 Risk Score of Countries along the B&R



2. All the regions along the Belt and Road have incurred lower risks. Central Asia, South Asia, and the South Caucasus have relatively higher overall risk, and countries within the same region display stark risk disparities. As the world economy picked up for the whole, the regions along the Belt and Road all saw their overall risk on the decline in 2017 compared with 2016, among which the overall risks of South Caucasus and East Europe having reduced significantly. But there was a great difference in overall risk among the regions. Of these, Central Asia, South Asia, and the South Caucasus were exposed to fairly high overall risk, and most countries in these regions dealt with the pressure from political instability and economic transformation at home as well as the challenges from other economies. Thanks to the overall pickup of European economies, Central Asia managed to grow fast, improve its fiscal situation, and bring inflation back to a normal level. Its overall risk was the lowest among all the surveyed regions. Besides, different countries in the same region also delivered polarized performance in risk control. For instance, the countries in Southeast Asia, East Europe, and the Middle East revealed apparent risk disparities.

Figure 6: Risk Distribution of Regions along the B&R

Figure 7: Risk Disparities of Regions along the B&R



3. Political risks and banking system risks stand out, as shown by the secondary factor-based scores of the B&R

countries. All the regions except Central Europe remarkably differ from each other in terms of secondary factor-based risks. With respect to secondary factor-based risks, the B&R countries are exposed to marked political risks and banking system risks. Compared to 2016, the risks of all secondary factors went down somewhat in 2017, with exchange risks declining the most. In the geographic view, Central Europe delivered a comparatively balanced performance in risk control. Central Asia featured the highest banking system risks; South Asia suffered from the highest fiscal debt risks; and the South Caucasus was plagued by the highest economic risks.

Figure 8: Secondary factor-based Risk Score of Countries along the R&B

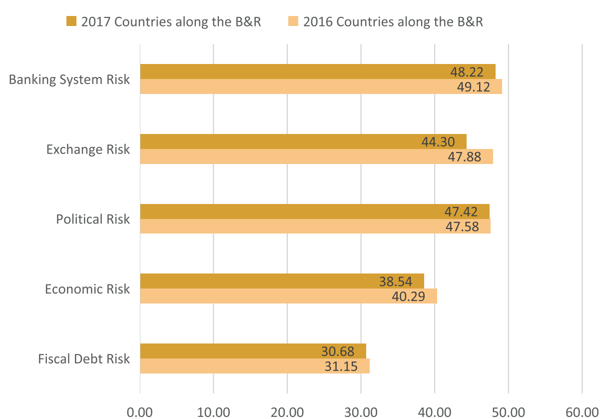
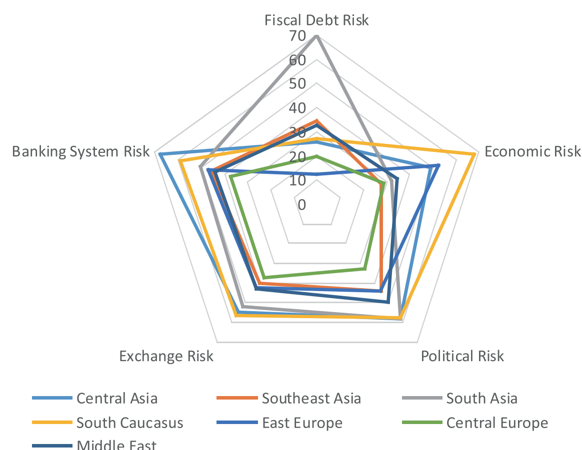
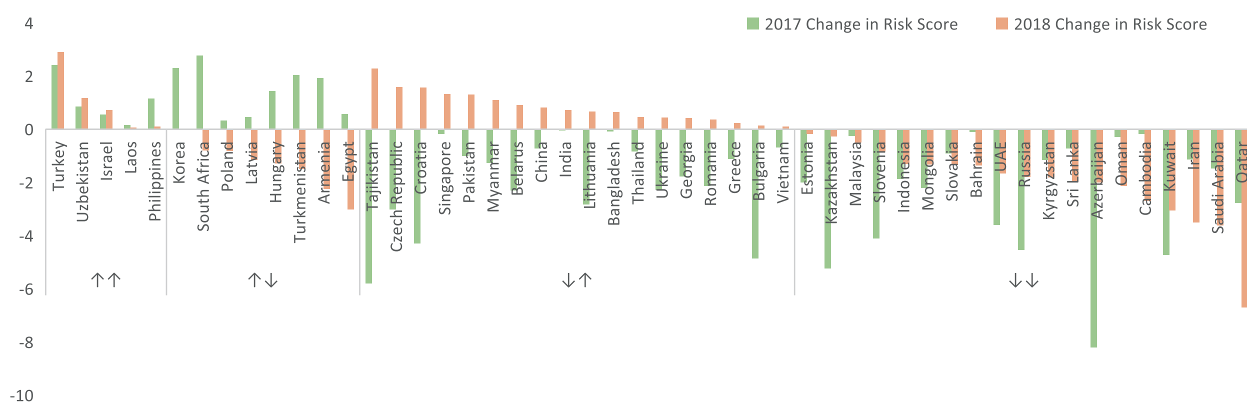


Figure 9: Secondary factor-based Risk Score of Regions along the R&B



4. Looking into 2018, the number of countries facing upward risk pressures is expected to increase significantly. With respect to secondary factor-based risks, the B&R countries are exposed to marked political risks and banking system risks. Compared to 2016, the risks of all secondary factors went down somewhat in 2017, with exchange risks declining the most. In the geographic view, Central Europe delivered a comparatively balanced performance in risk control. Central Asia featured the highest banking system risks; South Asia suffered from the highest fiscal debt risks; and the South Caucasus was plagued by the highest economic risks.

Figure 10: Risk Trend of Countries along the B&R



In line with the country risk assessment method of CCXI, the countries along the Belt and Road got their scores with respect to economic risks, fiscal debt risks, exchange risks, political risks, and banking system risks in 2017 as follows (0 stands for the lowest risk, and 100 indicates the highest risk):

Table 2: Secondary Factor-based Risk Score of Countries along the B&R

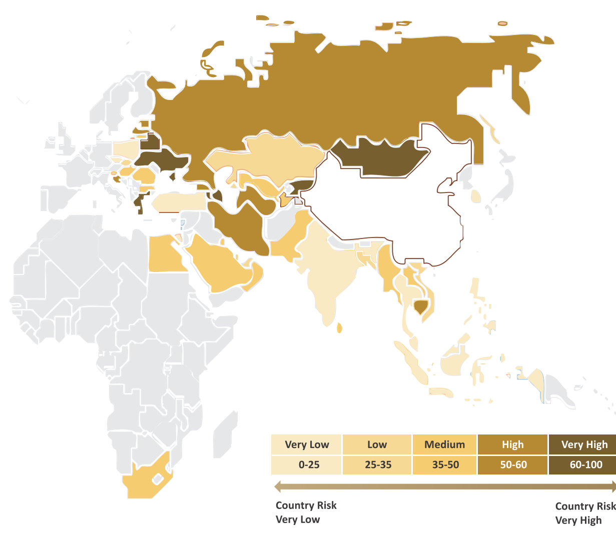
Countries	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Singapore	1.59	20.00	7.20	0.00	25.00
China	27.62	0.00	31.57	6.67	47.00
Korea	6.98	0.00	48.22	10.56	31.00
Czech Republic	1.90	14.73	29.00	27.22	34.00
UAE	11.11	27.91	24.80	20.56	28.00
Poland	19.05	2.79	38.13	46.67	35.00
Malaysia	50.79	5.43	31.80	29.44	34.00
Thailand	9.84	15.04	52.00	15.00	32.00
Israel	29.21	6.36	52.87	15.56	30.00
Slovenia	25.08	41.09	17.80	23.33	34.00
Estonia	4.76	50.08	27.83	32.22	26.00
Slovakia	17.46	25.43	35.47	55.56	29.00
Bulgaria	0.00	40.93	44.13	20.00	42.00
Kuwait	0.00	35.66	50.60	17.22	43.00
Lithuania	5.40	42.17	36.83	38.33	36.00
Indonesia	34.92	17.36	44.40	51.67	45.00
Russia	6.35	51.01	35.90	27.78	54.00
Philippines	37.14	17.36	60.33	33.89	39.00
Latvia	10.48	52.25	35.90	42.22	36.00
Qatar	20.63	48.99	29.47	43.33	50.00
Romania	19.68	35.04	40.50	55.56	44.00
Saudi Arabia	22.22	41.55	54.40	19.44	35.00
Hungary	33.02	36.90	38.73	41.67	47.00
Croatia	21.90	51.47	39.13	28.33	44.00
Vietnam	42.86	33.64	46.90	29.44	53.00
Uzbekistan	10.42	44.03	59.41	18.33	64.00
India	72.38	14.88	52.23	43.33	44.00
Kazakhstan	20.63	34.42	43.97	66.67	55.00
Turkey	9.52	18.91	67.97	72.78	46.00
Oman	29.52	48.68	34.13	71.11	44.00
South Africa	43.17	35.50	49.37	58.33	42.00
Bangladesh	46.03	30.70	62.57	36.67	58.00
Myanmar	33.75	42.95	56.67	57.78	60.00
Cambodia	29.21	53.49	53.80	57.22	60.00
Bahrain	79.37	28.22	48.40	76.11	49.00
Tajikistan	26.98	45.12	61.40	61.67	72.00
Georgia	13.65	60.31	52.30	76.67	54.00
Iran	38.75	51.01	74.07	21.67	64.00
Sri Lanka	83.81	46.36	44.17	63.89	48.00
Azerbaijan	19.05	76.74	59.47	28.33	63.00
Turkmenistan	29.17	50.39	63.73	54.44	75.00
Greece	45.71	62.33	50.17	53.33	60.00

Countries	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Laos	69.58	41.86	44.07	85.00	62.00
Belarus	11.11	65.43	60.00	62.78	66.00
Egypt	86.35	37.67	61.20	71.11	53.00
Pakistan	77.14	36.12	73.67	65.00	52.00
Mongolia	63.17	64.34	46.97	82.22	63.00
Armenia	49.52	66.51	61.87	65.00	60.00
Kyrgyzstan	42.08	72.25	62.57	73.89	73.00
Ukraine	44.13	83.57	73.03	60.00	71.00

Based on the risk scores of these countries, CCXI also depicts the distribution of their secondary factor-based risks accordingly. Such risks are divided based on their scores into the following five levels: very low, low, medium, high and very high.

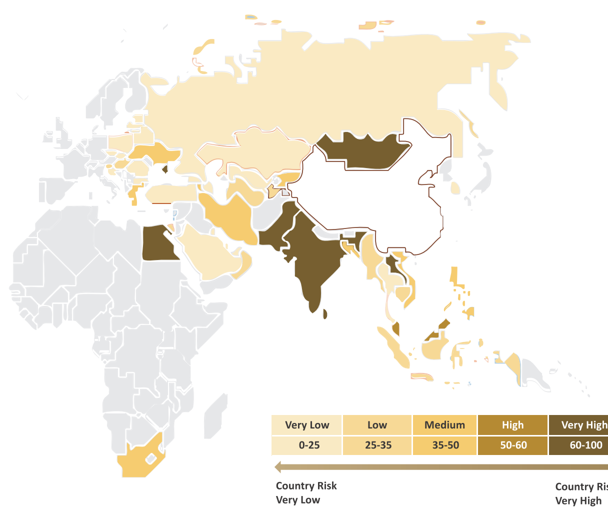
In Figure below, the higher the risk is, the darker the region's map appears. Shown by Figure 11 Below, Ukraine, Azerbaijan, and Kyrgyzstan had to deal with considerably high economic risks, while Poland and Malaysia faced less risks of the sort.

Figure 11: 2017 Economic Risk Map of the B&R Countries



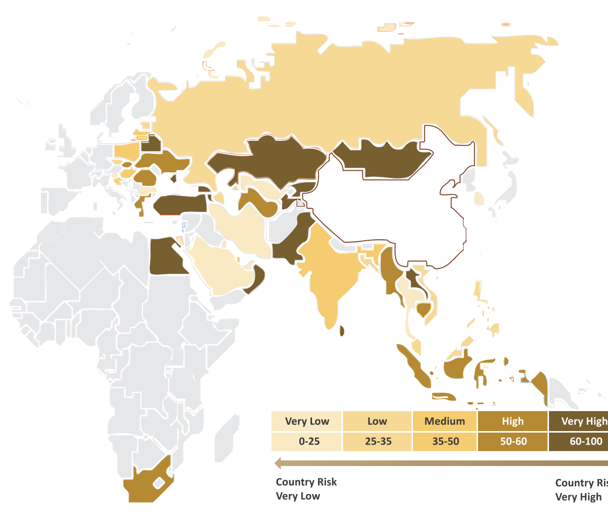
With respect to the distribution of fiscal debt risks, Egypt, Sri Lanka and Pakistan were exposed to more risks than Kuwait, Czech, and Bulgaria.

Figure 12: 2017 Fiscal Debt Risk Map of the B&R Countries



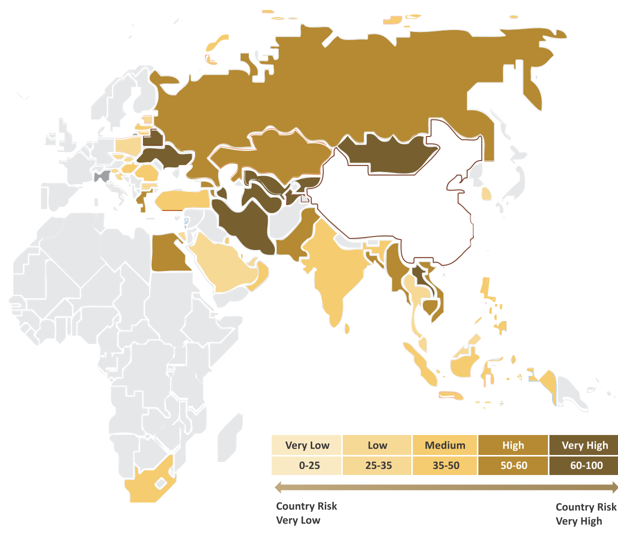
As to the distribution of exchange risks, Laos, Georgia and Kyrgyzstan took more risks than Thailand, Israel, and Uzbekistan.

Figure 13: 2017 Exchange Risk Map of the B&R Countries



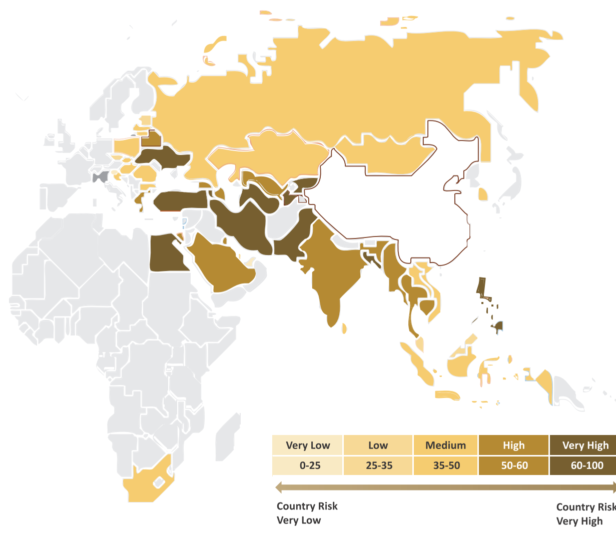
In terms of the distribution of banking system risks, many Central Asian countries like Ukraine and Kyrgyzstan entailed more risks than Estonia, the UAE, and Slovakia.

Figure 14: 2017 Banking System Risk Map of the B&R Countries



When it came to the distribution of political risks, Pakistan, Ukraine and Iran involved more risks than Singapore, Slovenia and UAE.

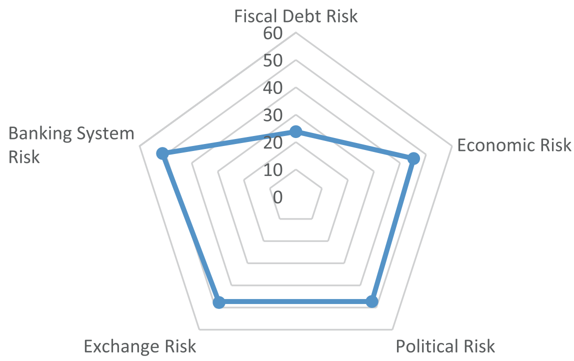
Figure 15: 2017 Political Risk Map of the B&R Countries



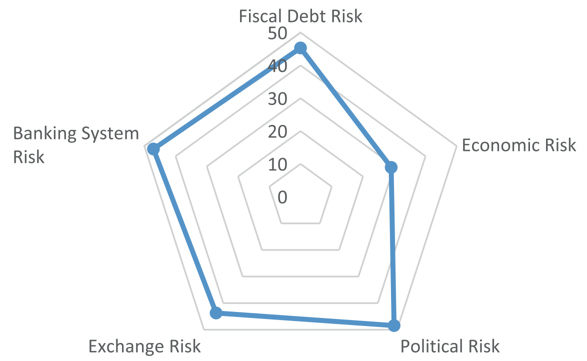
In view of the current New Eurasian Continental Bridge, the China-Pakistan Economic Corridor, the Bangladesh-China-India-Myanmar Economic Corridor, the China-Central Asia-West Asia Economic Corridor and the 21st Century Maritime Silk Road, among others, CCXI has classified the 50 countries into different groups roughly, and the corresponding risk radar maps are shown below. In details, the New Eurasian Continental Bridge covers major European countries featured with relatively low overall risk. The Central Asia-West Asia Economic Corridor covering the five countries in Central Asia as well as Iran and Turkey features relatively high political and banking system risks but the minimum fiscal debt risks. The 21st Century Maritime Silk Road Economic Belt mainly refers to the trade routes at sea across some Southeast Asian and African countries that are featured with the comparatively balanced performance in controlling secondary factor-based risks, and the minimum economic risk. The Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor mainly radiate over the countries in South Asia and Southeast Asia, political risks of which are the primary unstable factor.

Figure 16: Risk Distribution of Economic Corridors along the B&R

New Eurasia Continental Bridge



The 21st Century Maritime Silk Road



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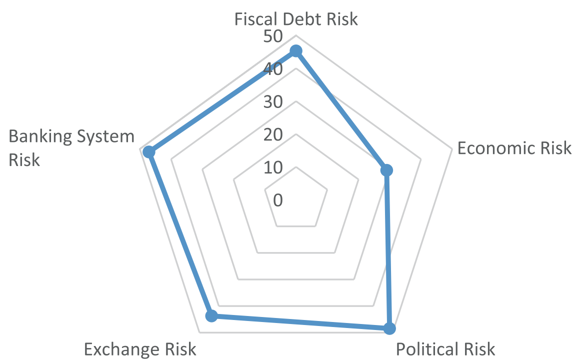
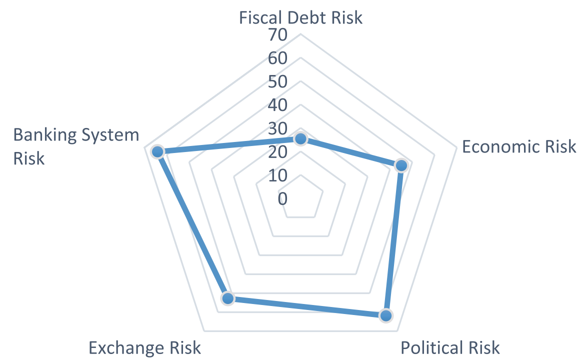


China-Central Asia-West Asia Economic Corridor



Regional Risks of Countries along the Belt and Road

Central Europe

Figure 17: 2017 Risk Map of Central European Countries along the Belt and Road

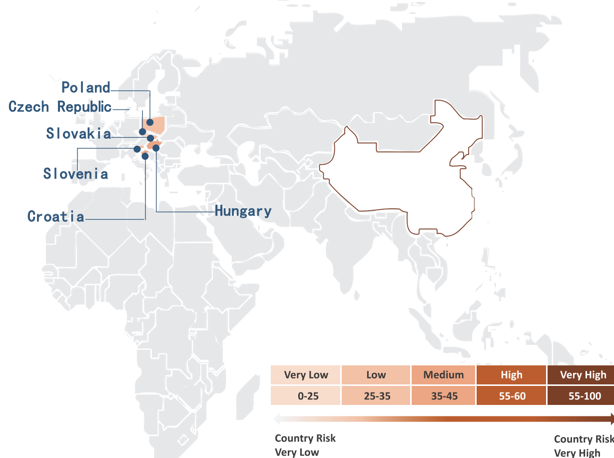


Table 3: 2017 Risk Score of Central European Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Poland	25.63	19.05	2.79	38.13	46.67	35.00
Czech Republic	20.89	1.90	14.73	29.00	27.22	34.00
Slovakia	32.12	17.46	25.43	35.47	55.56	29.00
Slovenia	28.33	25.08	41.09	17.80	23.33	34.00
Croatia	39.12	21.90	51.47	39.13	28.33	44.00
Hungary	38.59	33.02	36.90	38.73	41.67	47.00
Central Europe	30.78	19.74	28.74	33.04	37.13	37.17

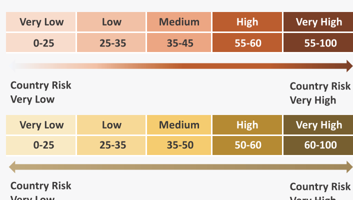


Table 4: 2017 vs. 2016 Changes on Risk Score of Central European Countries along the B&R

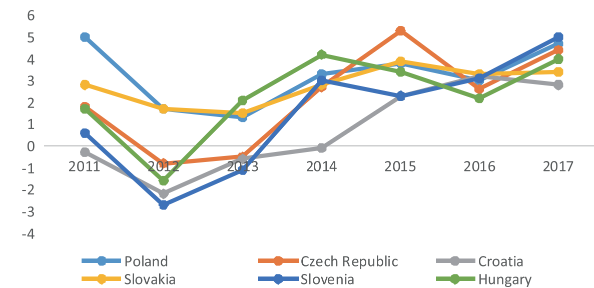
	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Poland	↑0.33	↓3.17	↓1.09	↑4.67	↓1.11	↓1.00
Czech Republic	↓3.01	↓1.90	↓6.20	→0.00	↓4.44	↓2.00
Slovakia	↓0.92	↓4.76	↓3.41	↑1.83	↑1.11	↑1.00
Slovenia	↓4.11	↓11.11	↓4.03	↓1.83	↓3.89	↓1.00
Croatia	↓4.30	↓8.25	↓6.98	↑1.00	↓7.78	↓1.00
Hungary	↑1.43	→0.00	↓1.40	→0.00	↑11.67	↑1.00
Central Europe	↓1.76	↓4.87	↓3.85	↑0.94	↓0.74	↓0.50

Central Europe connects the developed Western Europe as well as the Middle East and Central Asia, located at the end of the Belt and Road, which is the necessary place to pass through the Euro-Asia Land Passage. With sound legal system, stable political and economic development, and expanding market demand, Central Europe is a suitable investment region along the Belt and Road. Central European countries boast a time-honored industrial tradition and have a national industrial level higher than the countries with comparable income and, benefiting from the integration of Europe, Central Europe has taken over some industries of the developed countries in Western Europe. In this sense, the overall economic situation of the EU will have great bearing on the region.

Since 2017, thanks to the overall pickup of European economies, Central Europe has managed to grow fast, improve its fiscal situation, and bring inflation back to a normal level. Its regional risks have edged down, but the overall risk level is the same as 2016. Among all the B&R countries, the six countries in Central Europe have relatively low country risks. Of these, Poland, Czech, Slovakia and Slovenia are low risk countries, and Croatia and

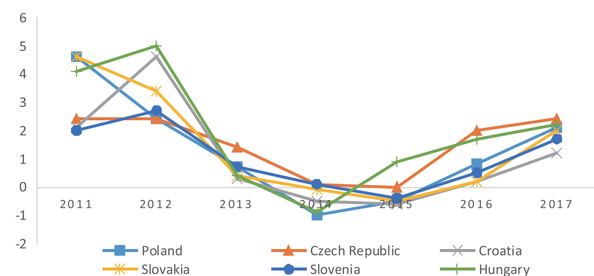
Hungary are medium risk countries. Of the low-risk countries, Poland economic and financial standings both improved somewhat in 2017. At the same time, its political risks picked up and country risks remained stable. Czech and Slovenia managed to improve their economic, political and foreign trade conditions remarkably, and their country risks went down slightly; and Slovakia maintained its country risks on a stable level. Among the medium-risk countries, Croatia managed to improve its economy, fiscal standing and export considerably, and to lower down its country risks. Hungary saw its country risks picking up by a small margin due to the rise in its exchange risks.

Figure 18: 2011-2017 Real GDP Growth of Central European Countries along the B&R (%)



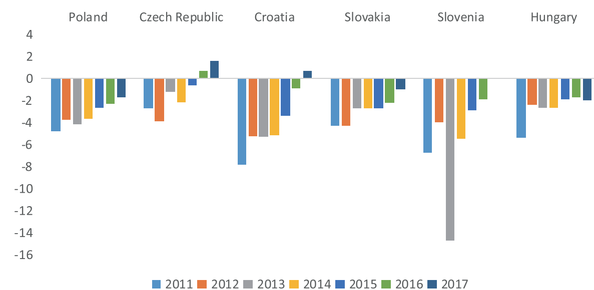
Data source: IMF.

Figure 19: 2011-2017 CPI Growth Rate of Central European Countries along the B&R (%)



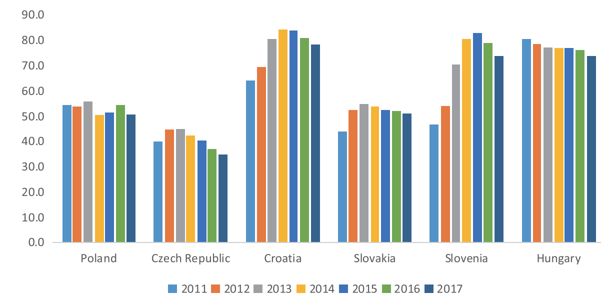
Data source: IMF.

Figure 20: 2011-2017 Fiscal Balance/GDP of Central European Countries along the B&R (%)



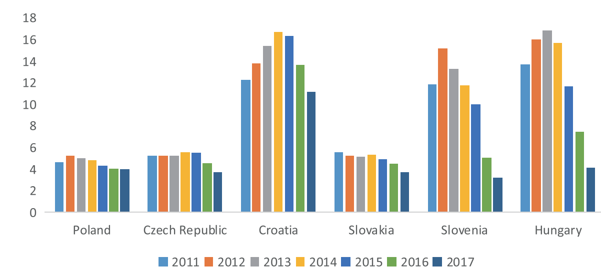
Data source: IMF.

Figure 21: 2011-2017 Debt-to-GDP Ratios of Central European Countries along the B&R (%)



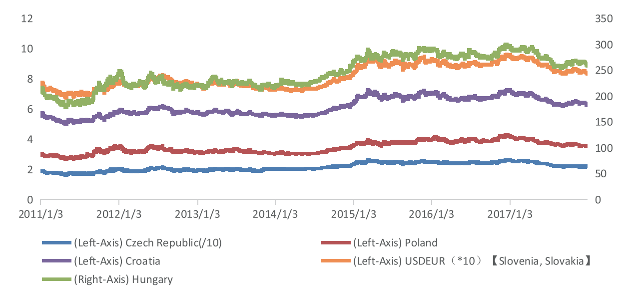
Data source: IMF.

Figure 22: 2011-2017 Non-Performing Loan Ratio of Central European Countries along the B&R (%)



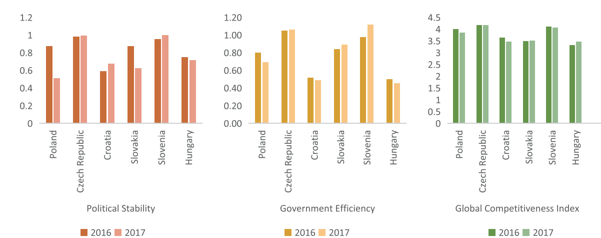
Data source: IMF.

Figure 23: 2011-2017 Exchange Rate of Central European Countries along the B&R



Data source: IMF.

Figure 24: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Central European Countries along the B&R



Data source: IMF.

Out of the six Central European countries, the Polish economy is the largest, equivalent to the sum of five other countries. Its economic risks and fiscal debt risks decreased, political risks rose somewhat, and country risks ran at a relatively stable level. In 2017, the Polish economy underwent rapid development, with the growth rate up to 4.7%, a record high since 2011. Domestic demand was strong, and the rising employment rate, wage raise and the "Family 500 + program"[1] drove up consumption. At the same time, the implementation of the 2014-2020 EU Funding accelerated investment, and the contribution of investment to the economy turned from -1.6% in 2016 to a positive figure, which pushed the Polish economy towards faster growth. It is expected that the economy will maintain rapid growth in the next two years and its economic growth rate will be able to remain above 3.5%. Affected by the robust economic growth and the intensified tax collection, the Polish government managed to see a sharp increase in tax revenue in 2017, a drop in fiscal deficit rate, a fall of 3.8 percentage points in the ratio of general government debt/GDP to 50.6%, and a decline in fiscal risks. However, its worsened contradictions with the EU led to a rise in political risks. In July 2017, Poland approved a judicial reform bill, but the EU Council believed that Poland violated the relevant EU treaties. This situation impaired Poland's political stability and institutional strength related indicators to some extent. In 2018, the EU Council prosecuted the Supreme Court of Poland which presented the reform bill to the European Court of Justice, and requested the latter to suspend the reform bill during the trial. Since the EU's financial support is an important driving force for Poland's economic growth, and the projects financed by the EU Funding programs since 2004 have contributed more than 10% to the average annual growth of Poland's GDP, the conflict between the two sides might impact the investment environment in Poland and the continuous flow of the EU funds into the country, thus holding back its economic growth, which should be addressed.

In 2017, Czech and Slovenia managed to lower their economic, fiscal and exchange risks slightly, and put their country risks on a downward track. Slovakia saw its economic and fiscal debt risks on the decline, political risks and exchange risks on a small incline, and country risks remaining at a low level. Czech, Slovakia and Slovenia all have a high gross national income. And they largely rely on international trade to realize economic development. In the three countries, their per capita GDP all exceeded USD18,000, and ratio of imports and exports to GDP surpassed 150% in 2017. In 2017, the recovery of European economy fueled the development of foreign trade in the three countries. As a result, their exports all went up. Among them, Slovenia benefited from the increasing competitiveness of their enterprises, and secured the fastest growth of exports, which was the main driving force for its economic development. Thanks to the continuously improving labor market, the three countries managed to pull down their unemployment rate, and drive up the growth of private consumption. In Czech, the unemployment rate fell to 2.9% in 2017, the lowest level across the euro zone. Besides, its wages continued to rise, and private consumption became the main driver of economic growth. In addition, with the gradual arrival of EU funding, the three countries all realized some investment growth. In Czech and Slovenia, the contribution of investment to economic growth turned from negative to positive in 2017, becoming an important driving force for economic growth. Affected by the above factors, the economic growth rate of Czech and Slovenia in 2017 stood at 4.4% and 5%, respectively, reaching the second highest and highest level since the outbreak of the financial crisis. Slovakia secured an economic growth rate of 3.4%. In 2018, European economic growth is expected to have fallen short of initial projections, which will affect the foreign trade of Czech and Slovenia. Furthermore, the growth of private consumption and investment in the two countries will slow down under the high base effect. As a result, their economies are expected to grow in 2018 and 2019 at a pace lower than 2017. Even so, the growth rate is projected to remain above 3.0%, a level consistently higher than the EU average. Benefiting from the investment of Volkswagen and Jaguar, the Slovakian economy is well-positioned to secure in 2018 and 2019 a higher growth rate than in 2017. On the fiscal front, thanks to the increase in fiscal revenues brought about by the rapid economic growth and the prudent fiscal policies, the three countries all improved their financial situation to varying extents. Czech achieved a fiscal surplus of 1.6%, Slovenia realized a fiscal balance, and Slovakia lowered its fiscal deficit rate from 2.2% to 1.0%, all of

[1] As a childbirth encouragement, the Polish government offers a family (regardless of household income) a benefit of PLN500 per month for a second and every further child, and a family whose monthly income per capita equals less than PLN800 a subsidy for its first child.

which were at their most favorable since the financial crisis. At the same time, benefiting from the environment of low interest rates in Europe and their economic growth, the three countries continued to reduce their debt burden, increase their ability to make repayment, and face less fiscal debt risks continuously. In recent years, Czech and Slovakia have maintained their banking system risks at a relatively stable level. The banking system risks of Slovakia slowed down with economic recovery and the pickup of production activities. In 2017, the Slovenian banking industry reported a 3.2% non-performing loan ratio, down 1.8 percentage points from 2016, while its ROA rose by 0.15 percentage point to 1.24%. Politically, the three countries have all experienced a hung Parliament in recent years, which undermined their political stability. Slovenian Prime Minister Miro Cerar announced his resignation after the country's Supreme Court annulled the results of a referendum on a government railway project. The newly-elected administration took office in September, becoming the first minority coalition government in the history of the country. The center-left party, Direction-Social Democracy in Slovakia lost the majority of seats in the 2016 election, which eroded the country's political stability. Its Prime Minister Robert Fico resigned due to a political scandal in 2018. This shook the Slovakian political circle, and might further jeopardize its political stability. Czech failed to form a cabinet after the general election in October 2017. In the end, the ANO 2011 Movement Party and the Czech Social Democratic Party jointly formed a minority party government in July 2018.

In 2017, Croatia's country risks declined somewhat, mainly due to the improvement in fiscal standing and the decline in exchange risks brought about by the increase in service exports. Croatia has an industrial base weaker than that of other Central European countries, with low added value of commodities, a limited economic volume, and a limited national income. Also in the year, the introduction of tax reform and wage raises boosted the growth of private consumption in Croatia. Exports achieved remarkable growth, benefiting from the booming tourism industry and the European economic recovery. However, the debt crisis of Agrokor, a major domestic corporation, weakened investors' confidence. As a result, a sharp decline occurred to its private investment, which dragged down by the economic growth by 0.4 percentage point to 2.8% in 2017. In 2018, thanks to the gradual arrival of EU funding and the steady increase in consumption, the Croatian economy grows steadily. Its fiscal standing has improved somewhat, fueled by the continued economic growth and the prudent fiscal spending. In 2017, Croatia's fiscal balance improved from -0.9% to 0.7%, achieving a fiscal surplus. Besides, there was a significant decline in debt burden and interest expenses. At the same time, exports of goods and services in Croatia increased by 4% and 9% in 2017, respectively, thus driving the current account balance to reach 4.3% and lowering down the exchange risks significantly. Croatia experienced political changes in 2017. The original ruling coalition broke down in April, and the new coalition was formed by a minority party in June, which would affect the Croatian reform process and increase the political risks confronting the country.

Hungary boasts a solid industrial base and considerable exports, but its economic development lags behind Czech, Slovakia and Slovenia. In 2017, the Hungarian economy grew at a faster pace, but due to the increase in exchange risks, the country risks increased slightly. The growth of EU funding and the progress in infrastructure construction contributed to a sharp increase in investments received. In the meantime, the improved labor market and the fiscal stimulus policies also boosted consumption and exports, alongside the European economic recovery which went beyond expectations. In 2017, Hungary's economic growth rate reached 4.0%, up 1.8 percentage points compared to 2016. In 2018, Hungary's investment growth is well positioned to maintain a high level with the help of EU funding; its private consumption will remain motivated as the labor market continues to improve; and hence its economic growth is projected to exceed 3.5%. However, due to the strong domestic demand in Hungary, its imports outpaced exports, resulting in the ratio of the current account balance to GDP decreased from 6% in 2016 to 2.7% in 2017. In this context, the exchange risks went up. In 2018, the populist Hungarian Prime Minister Orban won the election for his fourth term. The relationship between Hungary and the EU is becoming increasingly tense. The two sides have major differences on the refugee issue and the process of European integration. However, Hungary's economic development still depends on the EU market and capital. So long-term opposition will hinder the development of the Hungarian economy.

Looking into 2018-2019, despite the unfavorable factors such as trade friction and economic slowdown in Europe, Central

Europe will see its overall export maintaining growth but at a slower pace; the constant improvement in the labor market will continue to promote consumption expansion; and the arrival of EU funding will give investment growth a much-needed shot in the arm. Therefore, it is expected that the six countries in Central Europe will be able to grow at a rate of above 3.0% as a whole, and meanwhile further reduce their economic risks. The six countries in Central Europe will continue to pursue a fairly prudent fiscal policy, which aims to maintain the fiscal deficit rate and the debt burden at a low level. At the same time, interest expenses will be further reduced, thanks to the low interest rates in Europe and the gradual relief of debt burden. It is projected that their fiscal debt risks will run at a low level and dwindle further. The combination of improved economic conditions, relatively stable exchange rates and surplus current account in the six countries of Central Europe will stabilize the regional exchange risks at a certain level. Even so, as Hungary's economic growth and inflation exceeded expectations, the central bank may tighten monetary policy, which will lead to fluctuations in the Hungarian forint, affecting its exchange risk. Under favorable economic conditions, the six countries of Central Europe are predicted to further enhance their asset quality and capital adequacy ratio (CAR), so their banking system risks are expected to continue declining. The year 2018 witnessed dramatic changes in the political landscape of Central Europe. Hungary held parliamentary elections, the prime ministers of Slovenia and Slovakia resigned, and Czech formed a new government. At present, Czech, Slovakia, Slovenia and Croatia all have a hung Parliament in operation, which will undermine their political stability, and impact the progression of their structural reform; Czech, Slovenia and Croatia are all ruled by a monitory party, a situation making it more difficult to push forward reforms. Furthermore, the relationship between many Central European countries and the EU has deteriorated somewhat. Hungary, Czech, Poland, and Slovakia diverge on refugee issues with the EU. Poland has more fierce conflicts with the EU in terms of judicial reform and Hungary in terms of European integration process. However, despite the contradictions between Central Europe and the EU in various fields, the region still tries to integrate its politics and economy into the EU after joining it. In this sense, the European integration continues to advance as a process. At present, the economic development of the six Central European countries is still heavily dependent on the EU market and funds. On this basis, it can be concluded that the political relationship between the two sides will not be allowed to deteriorate seriously, in the short term. However, it will continue to become more strained in the long run. Political risks have limited impact on the six countries. Overall, country risks in Central Europe will remain low in the next two years. Country risks of Slovenia and Slovakia are expected to lower further over time.

Eastern Europe

Figure 25: 2017 Risk Map of Eastern European Countries along the Belt and Road

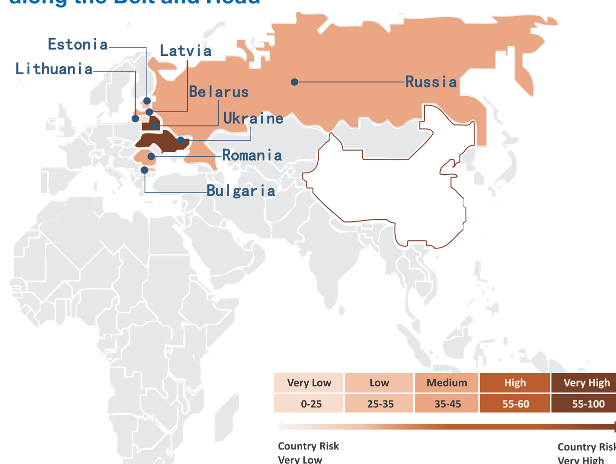


Table 5: 2017 Risk Score of Eastern European Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Estonia	31.52	4.76	50.08	27.83	32.22	26.00
Bulgaria	32.72	0.00	40.93	44.13	20.00	42.00
Russia	36.59	6.35	51.01	35.90	27.78	54.00
Latvia	37.95	10.48	52.25	35.90	42.22	36.00
Romania	38.35	19.68	35.04	40.50	55.56	44.00
Belarus	55.31	11.11	65.43	60.00	62.78	66.00
Lithuania	33.86	5.40	42.17	36.83	38.33	36.00
Ukraine	69.70	44.13	83.57	73.03	60.00	71.00
Eastern Europe	42.00	12.74	52.56	44.27	42.36	46.88

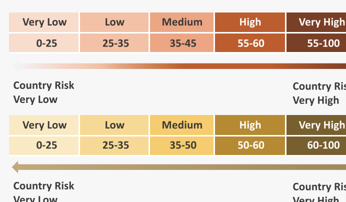


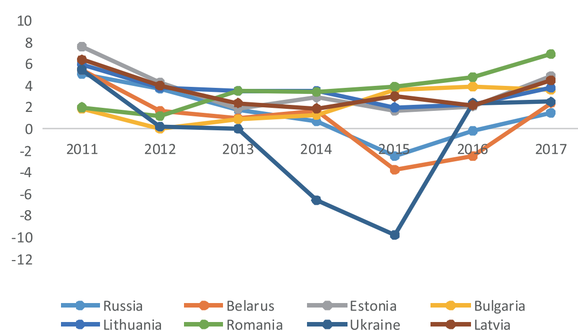
Table 6: 2017 vs. 2016 Changes in Risk Score of Eastern European Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Estonia	↓2.01	→0.00	↓2.48	→0.00	↓7.78	↓1.00
Bulgaria	↓4.87	↓1.59	↓11.94	↑0.40	↓7.78	→0.00
Russia	↓4.54	↓12.70	↑1.40	↓8.23	↓3.89	→0.00
Latvia	↑0.45	↑3.17	↓5.43	↑2.83	↑5.00	→0.00
Romania	↓2.13	→0.00	↓5.27	↓1.83	→0.00	→0.00
Belarus	↓2.30	→0.00	↓3.88	↑2.16	↓10.56	↓2.00
Lithuania	↓2.83	↓1.90	↓2.48	↓0.40	↓10.56	↓1.00
Ukraine	↓2.28	↓1.90	↓2.17	↓2.43	↓2.78	↓2.00
Eastern Europe	↓2.56	↓1.87	↓4.03	↓0.94	↓4.79	↓0.75

Eastern Europe borders the well-developed Central Europe and Western Europe as well as Russia. This region is an important gateway of the Asia-European Economic Belt to the EU market and enjoys the geographical advantage by connecting the West and the East. In Eastern Europe, some countries including Estonia, Lithuania, Latvia, Romania and Bulgaria are members of the European Union, while Russia, Ukraine and Belarus used to be members of the former Commonwealth of Independent States ("CIS"). The Eastern European countries boast abundant natural resources, sophisticated agricultural production technologies, and time-honored industrial traditions. Their industrial development outperforms that of other countries with similar income level. The industrial and geographic advantages allow Eastern Europe to serve as a regional pivot along the Belt and Road.

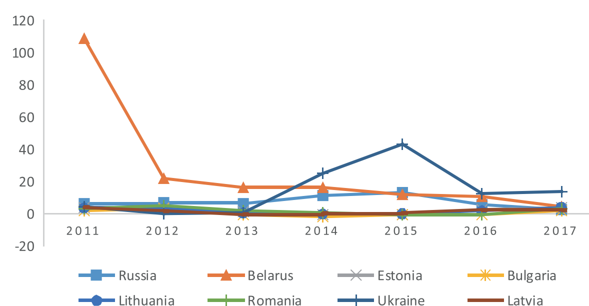
In 2017, the economies of Europe and Russia recovered, with rising household income, mounting industrial production and improving investment atmosphere, which gave a positive influence on the Eastern Europe's overall economic development. The exchange risks of the region also began to go down, followed by the stabilizing exchange rate and increasing trade activities. Among all the countries along the Belt and Road, the overall country risks of Eastern European countries are at "medium" level, while the risk levels of the countries remained uneven in the region. In 2017, the overall country risks of Eastern European countries have declined to varying extents, except for Latvia which country risk was relatively stable. The three Baltic countries, namely Lithuania, Estonia and Latvia, are members of the eurozone and possess advanced economic development. Lithuania's overall country risk level declined from "medium" in 2016 to "low" in 2017; Estonia and Latvia maintained their country risks at "low" and "medium", respectively, in 2017. The two Balkan countries, namely Bulgaria and Romania, are the members of the EU. Bulgaria's overall country risks decreased from "medium" to "low"; and Romania maintained their country risks at "medium". Among the three former CIS countries, Russia secured a "medium" risk level, while Belarus and Ukraine still suffered from "very high" country risks.

Figure 26: 2011-2017 Real GDP Growth of Eastern European Countries along the B&R (%)



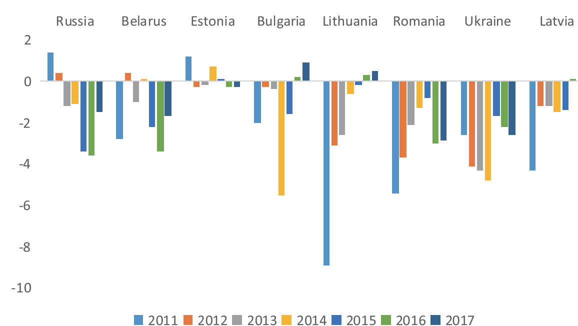
Data source: IMF.

Figure 27: 2011-2017 CPI Growth Rate of Eastern European Countries along the B&R (%)



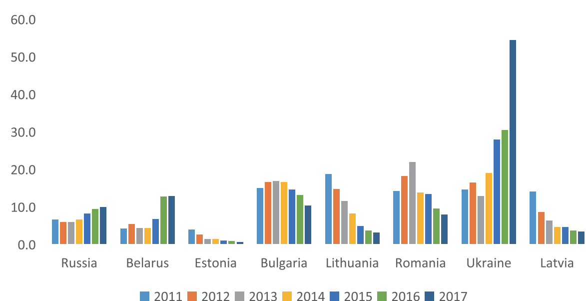
Data source: IMF.

Figure 28: 2011-2017 Fiscal Balance/GDP of Eastern European Countries along the B&R (%)



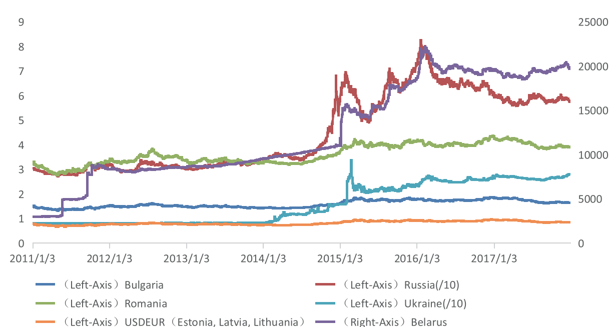
Data source: IMF.

Figure 29: 2011-2017 Non-Performing Loan Ratio of Eastern European Countries along the B&R (%)



Data source: IMF.

Figure 30: 2011-2017 Exchange Rate of Eastern European Countries along the B&R



Data source: IMF.

Figure 31: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Eastern European Countries along the B&R

Data source: IMF.

The overall country risks of the three Baltic countries have further lowered with reduced exchange risks. The fiscal and exchange risks of Latvia increased slightly, but the overall country risks remained stable. Estonia boasts a high level of economic development with leading information and communication technologies as an open economy. Latvia, wedged in between Estonia and Lithuania, is a small yet open economy. With a relatively matured economy, Latvia's GDP per capita exceeds USD15,000. However, its economy largely relies on international trade. Imports and exports account for more than 120% of its GDP. Its exports are diversified and are the key driver for its economic development. Benefited from the recovery of the European economy and the sharp increase in investment from EU funding, Estonia ,Lithuania and Latvia experienced rapid economic growth in 2017, with real GDP growth rates standing at 4.9%, 3.9% and 4.5%, up by 2.8, 1.6 and 2.3 percentage points over 2016, respectively. However, with the long-standing problem of aging population, the escalating economic growth was accompanied by a continuous rise in domestic wages, which may diminish their international competitiveness in exports and give a negative impact on their economic outlook. In 2017, the three countries showed a divergence in their current account. Estonia's current account surplus is expanding thanks to the growing service surplus in 2017. Its current account surplus reported as 3.1% of GDP in 2017, up 1.2 percentage points from 2016. As the overseas demand for agriculture and refined oil rose, Lithuania's exports increased substantially. Its current account turned to a surplus as 0.8% of GDP in 2017 from a deficit in 2016, up 2.0 percentage points from 2016. However, the continuously expanded domestic demand of Lativa led to a trade deficit in 2017, comparing with a surplus in 2016. The deficit might continue to grow if its domestic demand continues to expand. In addition, tightening international sanctions on Russia may threaten Latvia's political stability resulting in a slight increase of Latvia's political risks in 2017. Nonetheless, the Harmony Social Democratic Party[2], Latvia's largest political party, is cutting its relations with Russia and has joined the Party of European Socialists[3]. This move will help the country to relieve its political instability. Besides, the three countries' fiscal debt risks and banking system risks remain relatively stable.

In 2017, Bulgaria's country risks declined from “medium” to “low”, benefiting from a significant lowering in its fiscal debt risks and exchange risks; Romania's country risks stayed at “medium” while it country risk level slightly decreased, thanks to the improved economic conditions and fiscal position. In 2017, Bulgaria realized a real GDP growth rate of 3.6%, declined by 0.3 percentage points as compared with that in 2016, owing to the

[2] Harmony Social Democratic Party

[3] Party of European Socialist

strong deomestic demand leads to a widening trade deficit in 2017. Even so, its growth rate was much higher than the average level from 2010 to 2016, against the backdrop of the mounting private consumption and investment in 2017. In terms of fiscal debt, Bulgaria's ratio of general government debt to GDP fell from 29.0% in 2016 to 25.4% in 2017, and its fiscal debt risks remained low and had a trend of decreasing. In addition, the current account surplus to GDP ratio of Bulgaria reached 4.5% in 2017, up 2.2 percentage points as compared with 2.3% in 2016, due to the country's growing services surplus which helped the exchange risks of Bulgaria go down in 2017. On the political front, Bulgaria held a presidential election at the end of 2016. The victory of Rumen Radev, the Socialist Party's candidate, in the election helped change the enduring situation of a government with weak public support. There was a smooth transition between the old and new administration in 2017 and the internal political situation became stable.

The Romania's economy grew rapidly in 2017 as driven by the mounting private consumption in the country. Its real GDP growth rate soared to 6.9% in 2017, significantly higher than that of 4.8% in 2016. Against such backdrop, the country's economic risks dropped obviously. While Romania's import grew at a pace faster than its exports, its current account deficit further climbed to 3.6% in 2017, up 1.6 percentage points from that of 2016. The ratio of foreign debt to GDP was 49.8% and the ratio of foreign currency reserve to foreign debt was 34.5%, maintaing its exchange rate risks at "high" in 2017. In December 2016, the Romanian Social Democratic Party[4] won the majority of seats in the Chamber of Deputies and the Senate in the parliamentary elections and became the largest party in the Parliament. President Klaus Iohannis announced that he agreed to appoint Viorica Dancila as the new prime minister in January 2018 and authorized her to form a cabinet as proposed by the ruling coalition headed by the Social Democratic Party. This helped alleviate the country's long-term political conflicts and decrease its political risks .

Russia has seen its country risks reduce slightly. The country has started to recover from the economic recession, as supported by rising crude oil price, mounting private consumption and increasing demand of industrial products. However, the further sanctions from the US in July 2017 may to some extent derail its recovery. In 2017, Russia's real GDP growth rate stood at 1.5%, significantly higher than the -0.2% in 2016. Thanks to the economic recovery and the government's control over debt, the ratio of general government debt to GDP of Russia fell from 13.3% in 2016 to 12.6% in 2017. In March 2018, the incumbent Russian President Vladimir Putin won the re-election by receiving 76.67% of the vote. His term of office was extended to 2024, which further stabilized the domestic political situation and lowered the political risks of the country. In the first half of 2018, with increasing oil price and growing residential income, the Russian economy grew steadily at a real GDP growth rate of 1.7%. We expect that the Russian economy will grow at a rate of 1.8% in the whole year of 2018, in the context of relatively high oil prices and mounting industrial outputs. At the same time, its fiscal debt risks and exchange risks will remain low owing to its prudent financial management and stabilizing exchange rate, and its country risks are expected to decline further.

In Ukraine, the country risks remain "very high" due to the ongoing political instability in the region. Although the country has benefited from the cycle of economic recovery, its domestic militants have dealt a serious blow to some economic regions of the country, holding back its economic recovery. Ukraine has a real GDP growth rate of 2.5% in 2017, slightly higher than the 2.4% in 2016. The country is still exposed to very high economic and political risks. In the beginning of 2017, the Ukrainian Parliament passed its fiscal budget, and acquired the first phase of USD1 billion financial aid[4] from the IMF. This financial aid helped mitigate the financial pressure on debts maturing in 2019. To sustain financial supports, Ukraine has announced several reforms in corruption crackdown and retirement guarantee. The Ukrainian government has also stepped up its control over national debt. The ratio of general government debt to GDP fell from 80.9% in 2016 to 71.8% in 2017. Its fiscal debt risks dropped from "high" to "medium". However, due to the fast-growing domestic import and rising energy prices, Ukraine's current account deficit further increased from 1.3% in 2016 to 2.1% in 2017. The ratio of foreign debt to GDP remained high at 103.0% and the ratio of foregin currency reserve to foregin debt was

[4] Partidul Social Democrat

[5] The total amount of the planned financial aid is USD17.5 billion, with a 4-year term

21.0%, down 2.8 percentage points comparing with that of end-2016. Its exchange risks remained at “high” level. In December 2016, the Ukrainian government took over the largest bank in the country, namely Privatbank, and gradually pushed forward the regulatory reform on the banking system. The banking system risks have gone up somewhat, being affected by the decline in asset quality. However, banking system risks are expected to decline with its onging reforms of the banking system.

In 2017, thanks to the substantial improvement in the economy, Belarus managed to lower down its country risks slightly. However, due to its economic dependence on Russia, the ratio of Belarusian government’s foreign currency debt is extremely high and its foreign exchange reserves are very low. Its overall country risks remained at fairly high level. In 2017, the economy of Belarusian improved along with the recovery of Russia and Europe eonomies, which gave a strong support to the recovery of its agriculture and manufacturing sectors. In this context, its industrial output increased by 6.1%, and real GDP growth stood at 2.4% in 2017, a remarkable rebound compared to the -2.5% in 2016, which helped reduce its economic risks. With the healthy export growth in service, the suppression of imports, and the move to increase diversificiation in its export under the new five-year program, Belarus managed to relieve the long term current account deficit notably from 3.6% in 2016 to 1.7% in 2017. Meanwhile, the large capital inflow from foreign investment into Belarus help increase its foreign exchange reserves from USD4.2 billion in 2015 to USD7.3 billion in 2017. However, the current foreign debt level remained very high resulting in high exchange risks level. Moreoever, as influenced by the previous depreciation of Rubble and the economic downturn of Belarus, the Belarusian government has issued more debts, though the debt level of the country remained manageable. The ratio of general government debt to GDP rose from 41.7% in 2016 to 42.1% in 2017. With a gradual relief on Ukrainian political crisis, the sanctions withdrawal from the EU, as well as the widening cooperation between Belarus and the EU and China, the country’s geopolitical risks stood lower. In addition, its central bank has strengthened the regulatory system by introducing the Basel III capital requirements in 2016, which helps its banking system improve over time.

Looking into 2018-2019, Eastern Europe will maintain stable economic growth on the back of the positive yet slowing down European economic growth, the recovery of the Russian economy, the rebounding crude oil price, and the expanded private consumption. At the same time, the constantly improved labor market will continue to drive up consumption. The arrival of the EU funding will continuously enhance investments in the region. It is expected that Eastern Europe will grow at a steady pace. All other Eastern European countries, except for Russia, are likely to realize an average economic growth rate of above 2.0% in 2018. The economic risks of the region are expected to decrease. However, persisting issues such as aging population and corruption are likely to slow down the pace of economic recovery in the region. The fiscal debt risks of Eastern Europe countries will continue to diverge. Since most countries in the region appear to pursue a more prudent fiscal policy, some countries will demonstrate their ambition in implementing reforms to seek for more financial supports from the IMF. The fiscal deficit rate and the debt burden of the region are expected to decline, reducing the existing fiscal debt risks. Besides, the exchange risks of Eastern Europe will be stable, as driven by most of the countries’ improving economy, stabilising exchange rates, and improving current account. In 2018, the internal affairs of Russia, Bulgaria and Romania continue to stabilize, and the internal conflicts in Ukraine gradually cool down. As a result, the overall political risks of Eastern European countries will improve to some extent. Yet, the long-standing divergences between Estonia, Lithuania, Latvia and Bulgaria and the EU, as well as the mounting tensions in a number of major countries, will intensify the geopolitical risks in the region. Overall, the country risk level of the Eastern European countries will gradually improve in the next two years, but it will continue to be uneven.

South Caucasus

Figure 32: 2017 Risk Map of South Caucasus Region Countries along the B&R

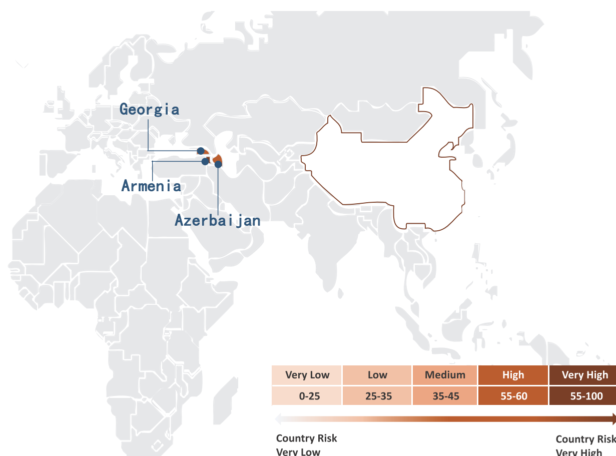


Table 7: 2017 Risk Score of Caucasus Region Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Georgia	52.73	13.65	60.31	52.30	76.67	54.00
Azerbaijan	54.27	19.05	76.74	59.47	28.33	63.00
Armenia	61.69	49.52	66.51	61.87	65.00	60.00
Caucasus Region	56.23	27.41	67.86	57.88	56.67	59.00

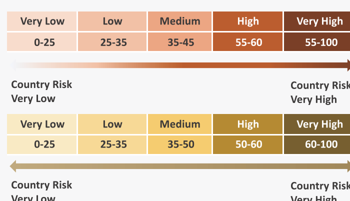


Table 8: 2017 vs. 2016 Changes in Risk Score of South Caucasus Region Countries along the B&R

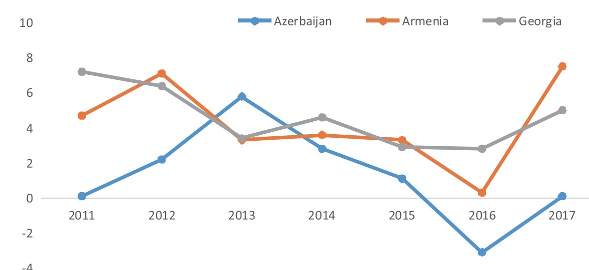
	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Georgia	↓1.78	↓1.59	↓2.48	↓2.67	→0.00	→0.00
Azerbaijan	↓8.20	→0.00	↓7.60	↓3.83	↓31.11	↓1.00
Armenia	↑1.92	↑1.59	→0.00	↑3.67	↑3.89	→0.00
Caucasus Region	↓2.69	↓0.00	↓3.36	↓0.94	↓9.07	↓0.33

The South Caucasus region is connected to the Belt and Road (B&R) through the Middle or Trans-Caspian Corridor, which is currently operational via the Baku-Tbilisi-Kars (BTK) Railway system, which goes from Turkey to Georgia and Azerbaijan. However, the ambitious Trans-Caspian East-West Trade and Transit Corridor initiative will include more infrastructure investment in the region. Even though Armenia is not directly connected to the B&R, it could highly benefit from the economic spill over from the Middle Corridor investments. The economic structure within countries in the South Caucasus region is dissimilar. On the one hand, the economies of Georgia and Armenia are not dependent on the hydrocarbon sector, instead, these economies are oil importers; thus, they were not directly hit by the dip in oil prices from 2014 to 2016. On the other hand, Azerbaijan's economy is highly dependent on this sector and its economy suffered from the negative development in the hydrocarbon prices.

The country risk assessment of this region is below the average of the B&R countries. In fact, all three countries are exposed to relatively high risk. The risk of Armenia, Georgia and Azerbaijan is, in general, mainly a result of the low level of development, subdued economic diversification combined with slightly adverse fiscal indicators, unstable institutional framework and underdeveloped and highly dollarized banking sectors.

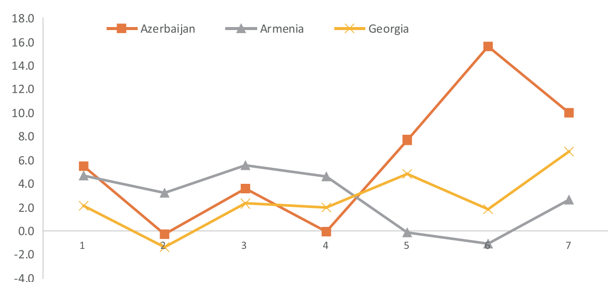
In terms of development, Azerbaijan has the highest GDP per capita by far at USD 17,530 in 2017, which can be explained by the fact that the overall economy of Azerbaijan is inflated by the large size of the hydrocarbon sector. However, even though Georgia's GDP per capita indicator for 2017 at USD 10,742 was substantially lower than Azerbaijan's, Georgia has a more diversified economy and has the highest Human Development Index (HDI) score of the three countries at 0.780 while Azerbaijan's indicator stands at 0.757. The least developed country of the three is Armenia with a GDP per capita of USD 9,456 in 2017 and an HDI index score of 0.755.

Figure 33: 2011-2017 Real GDP Growth of Caucasus Region Countries along the B&R (%)



Data source: IMF.

Figure 34: 2011-2017 CPI Growth Rate of Caucasus Region Countries along the B&R (%)



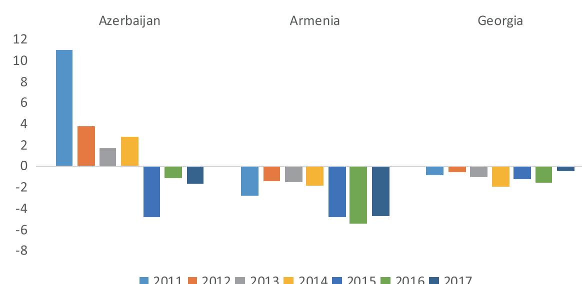
Data source: IMF.

In regards to the economic sphere, the South Caucasus region is mainly focused on commodities exports; however, Georgia's exports are the most diversified and the economy is also more industrialized being involved in the manufacturing of auto components, exports of which account for around 7% of total exports. On the other hand, Azerbaijan's hydrocarbon exports account for around 88% of the country's total outbound trade. All of the countries in the South Caucasus region are highly exposed to external developments, either through commodities' prices fluctuations or the economic development of key trade partners and countries where incoming remittances originate. The dependence of Armenia on remittances from abroad affected the economy back in 2016 as the regional (Russia and Eurasia) development was slower than in previous years. Moreover, the reduction in copper prices, Armenia's main export, also had an adverse impact on economic output. As of 2016, the country grew by a mere 0.26% but it recovered in 2017 as a result of an increased inflow of remittances and the loose monetary policy in place; higher private consumption was also a factor which caused imports to increase. Moreover, external demand, industrial production and the services sector have also performed positively.

The Georgian economy, in contrast, is more diversified and not as vulnerable to volatility in commodities' prices. Georgia is the only country in the South Caucasus region with free trade agreements with both China and the European Union (EU). The Georgian economy grew at an average pace of 2.9% in 2015 and 2016 and by as much as 4.9% in 2017 as a result of increased external demand for Georgian exports, tourism activity and private consumption.

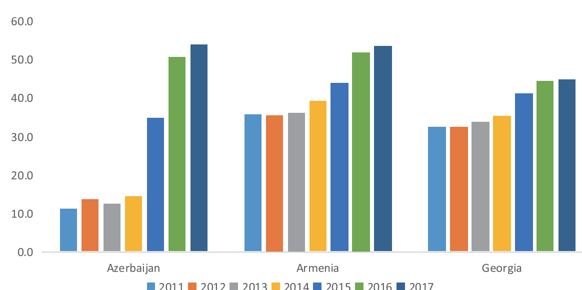
Azerbaijan's economy is extremely dependent on the gas and oil sector, which includes extraction and logistics. As a result of this dependence combined with the plummeting of hydrocarbon prices starting in 2014, the economy contracted by around 3.1% in 2016; however, as a result of the recovery in the aforementioned sector alongside the positive performance of the non-oil sector, the economy recovered in 2017 by growing at a rate of 0.07%.

Figure 35: 2011-2017 Fiscal Balance/GDP of South Caucasus Region Countries along the B&R (%)



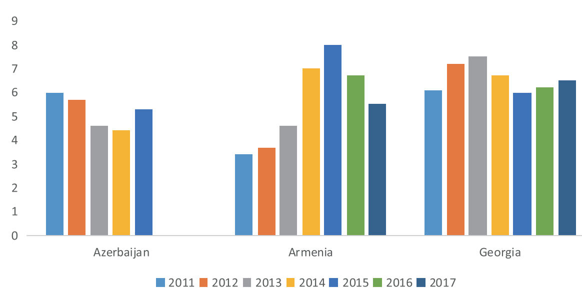
Data source: IMF.

Figure 36: 2011-2017 Debt-to-GDP Ratios of South Caucasus Region Countries along the B&R



Data source: IMF.

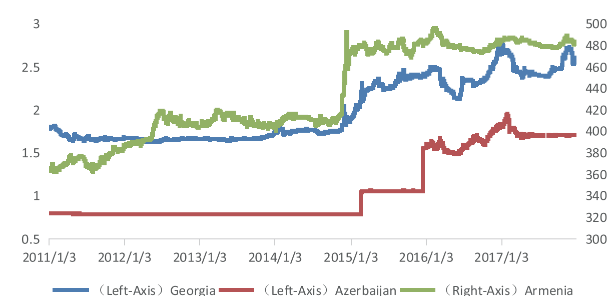
Figure 37: 2011-2017 Non-Performing Loan Ratio of South Caucasus Region Countries along the B&R (%)



Data source: IMF.

The fiscal position of the three countries is divergent. Government debt was higher than 45% and the fiscal budget balances have been negative for all three countries in the South Caucasus region. The highest level of debt to GDP was that of Azerbaijan posting a reading of 54% in 2017 as a result of the strong currency devaluations in 2015 combined with the fact that most of its public debt is denominated in foreign currency. Azerbaijan also presented a deficit of 1.7% of GDP given the loose fiscal policy implemented by the government in order to improve economic conditions after the oil price debacle. Despite this, the reading will improve in 2018 given the recovery in oil prices in the first three quarters and stability of the exchange rate. Moreover, the assets in the oil fund of Azerbaijan remain a key buffer supporting the country's fiscal stance. Georgia had the lowest debt in the region posting a figure of 45% of GDP in 2017 and it has remained substantially stable for the past years. Moreover, Georgia's fiscal deficit narrowed down to 0.5% of GDP resulting from increasing revenues given better economic activity. However, the main threat to the stability of the fiscal stance in Armenia is the high amount of unproductive and risky SOEs, which may trigger the materialization of contingent liabilities of the government. Armenia's debt figure reached 53.5% of GDP in 2017; however, debt relative to budget revenues stood quite high at 252% of GDP, almost 100p.p. higher than its other two peers. These figures reflect a higher debt sustainability risk for Armenia as compared to the rest of the region. Armenia also posted the widest deficit at 4.8% of GDP; nonetheless, this figure was already an improvement from a year before.

Figure 38: 2011-2017 Exchange Rate of South Caucasus Region Countries along the B&R

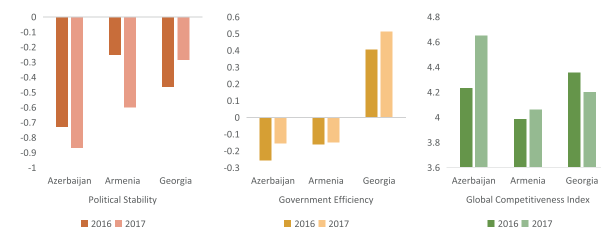


Data source: IMF.

The exchange risk of the countries in the region is widely varied. In Georgia and Armenia, the amount of FX-denominated government debt as a percentage of total debt was 79% and 82% respectively; substantially high numbers as compared to the 42% reading for Azerbaijan. However, the debt structure is quite favorable for all countries as it is mostly built up by concessional obligations. In regard to total external debt, Georgia and Armenia once again presented high indicators as external debt to GDP was 113% and 91% respectively, which, combined with low FX-reserve coverage, increase the exchange risk for these countries. Nevertheless, the risk is partially mitigated by their stable exchange rates. On the other hand, even though Azerbaijan's external debt is lower and better covered by reserves, the government intervention on the exchange rate market could potentially create imbalances in case the currency stability cannot be maintained.

The banking systems in the South Caucasus region are relatively unstable as they are highly concentrated and dollarized. However, main indicators of asset quality and capitalization remain at favorable levels. In Azerbaijan, however, non-performing loans were quite high at 10% in 2017 and the sector is still feeling pressure from currency devaluations from the past.

Figure 39: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Caucasus Region Countries along the B&R



Data source: IMF.

The political effectiveness of the countries in the region is also contrasting. While Georgia has separated itself in this respect as compared to the rest of the region by having posted significant improvements in control of corruption, rule of law, regulatory quality and government effectiveness over the past years, Armenia and Azerbaijan still have high indices of corruption and low effectiveness in the governability indicators. Moreover, geopolitical conditions of these two countries have been negatively affected by the frozen Nagorno-Karabakh conflict and, in Armenia's case, the current political crisis. Georgia has also had its share of political uncertainty as recent constitutional reforms will transform Georgia into a parliamentary republic. Despite these developments, we don't believe

this is a threat to the stability of the economy.

As a result of better external demand, the recovery of the regional economies and increased commodity prices, economic growth is anticipated to pick up in Azerbaijan and Georgia and to slow down slightly but remain stable in Armenia. We also expect improved fiscal metrics across the board. Azerbaijan's public finances will benefit from the expected high level oil prices in 2019 and the development of the non-oil economy as the exchange rate stabilizes and the level of international reserves replenishes, while Armenia will benefit from the new fiscal framework in place. Moreover, Georgia's fiscal indicators will remain stable given the neutral policy stance from the government and its commitment to consolidation; however, troubled SOEs will remain a hazard to the soundness of public finances. The banking systems in Georgia and Armenia will remain stable with solid metrics and we expect additional credit growth to support the economies. On the other hand, we expect the banking system in Azerbaijan to remain fragile due to the lingering effects of the AZN devaluation back in 2015. In general, the banking systems of the whole region will remain exposed to potential risks arising from external developments given the high level of dollarization. In the geopolitical sphere, we anticipate Nagorno-Karabakh tensions between Armenia and Azerbaijan to continue. However, we expect the political crisis in Armenia to ease after snap elections are held in December. In Georgia, we anticipate political stability despite the recent election results. In general, the country risk of the region is expected to move downwards going forward at a slow pace.

Central Asia

Figure 40: 2017 Risk Map of Central Asian Countries along the Belt and Road

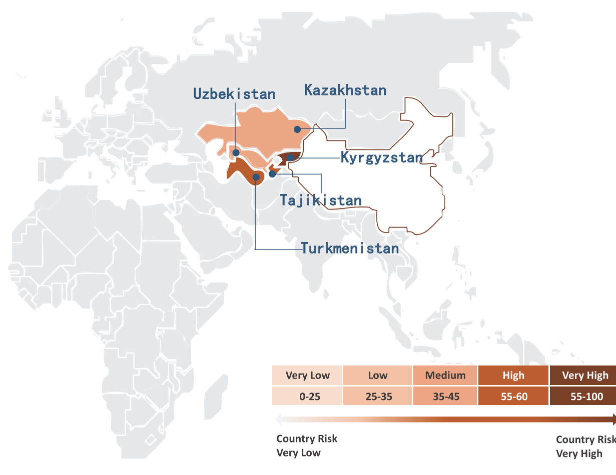


Table 9: 2017 Risk Score of Central Asian Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Uzbekistan	41.75	10.42	44.03	59.41	18.33	64.00
Kazakhstan	42.11	20.63	34.42	43.97	66.67	55.00
Tajikistan	52.45	26.98	45.12	61.40	61.67	72.00
Turkmenistan	54.28	29.17	50.39	63.73	54.44	75.00
Kyrgyzstan	65.14	42.08	72.25	62.57	73.89	73.00
Central Asia	51.14	25.86	49.24	58.21	55.00	67.80

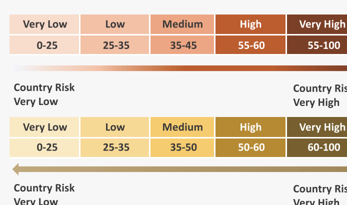


Table 10: 2017 vs. 2016 Changes in Risk Score of Central Asian Countries along the B&R

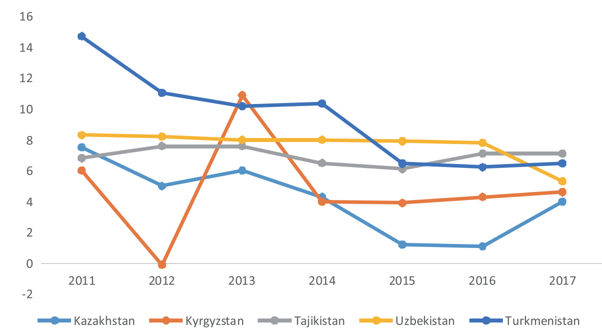
	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Uzbekistan	↑0.85	↑8.33	↑6.51	→0.00	↓11.67	↓6.00
Kazakhstan	↓5.24	→0.00	↓7.91	↓1.43	↓15.56	↓1.00
Tajikistan	↓5.80	↓6.03	↓7.60	↑1.83	↓21.11	→0.00
Turkmenistan	↑2.04	↑4.17	↓0.93	↑4.31	→0.00	↑4.00
Kyrgyzstan	↓1.16	↓8.33	↑0.31	→0.00	→0.00	→0.00
Central Asia	↓1.86	↓0.37	↓1.92	↑0.94	↓9.67	↓0.60

Central Asia lands in the center of Eurasia. As the main passageway of the ancient Silk Road, this region has always played an important role in bridging the East and West. In the modern times, considering abundant mineral resources and important geographical position, the Central Asia is becoming an important stage for strategic interaction between major powers. The five Central Asian countries have their economic development closely related to the Russian economy and the fluctuations in crude oil prices, based on their commodity exporting economic structure. Russia has been a major origin of import and export destination for the five Central Asian countries, which builds up a direct dependence between them. With the rising of crude oil prices, and steadily recovery of Russia economy since 2017, Central Asian economies managed to grow slightly faster. Specifically, Kazakhstan and Tajikistan made the most

impressive improvement, with their economic risks and fiscal debt risks both declining somewhat, and exchange risks also taking on a downward path (thanks to the stabilized exchange rates and the improved trade). Uzbekistan has rolled out an array of reforms in economic, administrative, judicial and diplomatic fields. Consequently, its economic growth rate declined slightly, and fiscal debt risks increased somewhat, while its country risks remained stable. Meanwhile, Turkmenistan and Kyrgyzstan have managed to operate their economy relatively steadily.

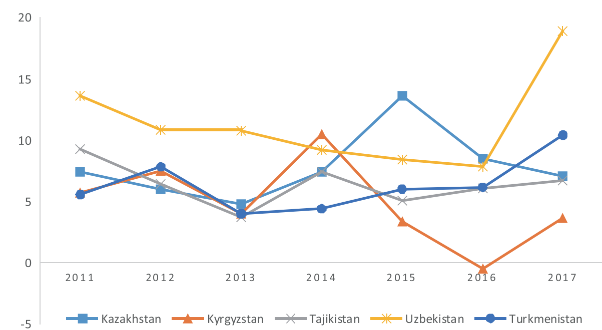
Among all the countries along the Belt and Road, those in Central Asia are still exposed to the overall country risks at a medium-to-high level. Among them, Uzbekistan and Kazakhstan have their country risks rated "medium", Tajikistan and Turkmenistan feature high country risk, and Kyrgyzstan faces very high country risks. From the perspective of risk changes, Kazakhstan lowered its risk from "high" to "medium" and Tajikistan lowered from "very high" to "high" respectively.

Figure 41: 2011-2017 Real GDP Growth of Central Asian Countries along the B&R (%)



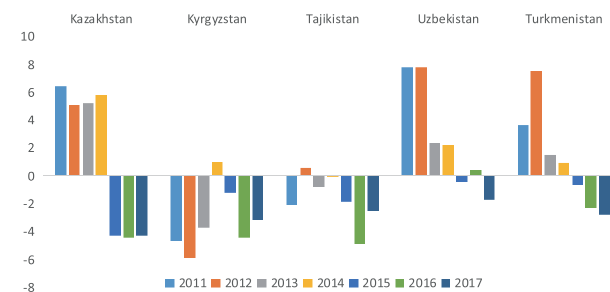
Data source: IMF.

Figure 42: 2011-2017 CPI Growth Rate of Central Asian Countries along the B&R (%)



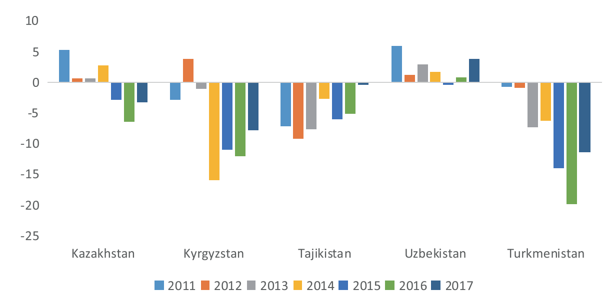
Data source: IMF.

Figure 43: 2011-2017 Fiscal Balance/GDP of Central Asian Countries along the B&R (%)



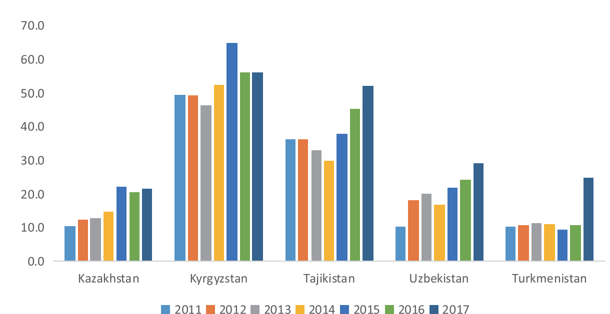
Data source: IMF.

Figure 44: 2011-2017 Current Account Balance/GDP of Central Asian Countries along the B&R (%)



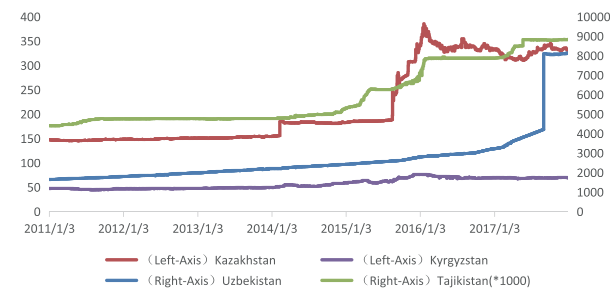
Data source: IMF.

Figure 45: 2011-2017 Debt-to-GDP Ratios of Central Asian Countries along the B&R (%)



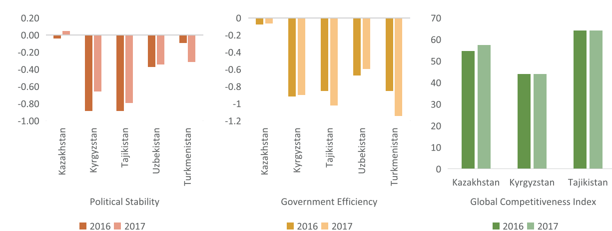
Data source: IMF.

Figure 46: 2011-2017 Exchange Rate of Central Asian Countries along the B&R



Data source: IMF.

Figure 47: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Central Asian Countries along the B&R



Data source: IMF.

Since 2017, the country risks facing Kazakhstan and Tajikistan have shown a downward trend. Benefiting from the rising oil prices, more frequent trade activities and a manufacturing boom, the economy of Kazakhstan rebounded significantly in 2017, securing a real GDP growth of 4%, much higher than 1.1% in 2016. As a result, its economic risks fell from "medium" to "low". At the same time, the robust export growth squeezed the ratio of current account deficit to GDP from 6.5% in 2016 to 3.4% in 2017. Moreover, its exchange rate has stabilized after a severe depreciation, which alleviated the high exchange risks. To empower its banking sector, the government purchased non-performing assets, and provided capital support, which led to an increase in fiscal expenditures. Even so, due to the increase in fiscal revenues, the fiscal debt risks remained at a very low level, while the bank system risks were still at a very high level. In the meantime, the political situation in Kazakhstan was relatively stable in 2017, and its political risks dropped from a high level to a medium level. Since Russia has come out of the economic recession, economic risks in Tajikistan managed to lower down slightly in 2017, with its real GDP growth rate up to 7.1%. The primary reason for such improvement was the increase in migrant remittances and exports. Besides, its fiscal deficit rate fell from 4.9% in 2016 to 2.5% in 2017, thus driving down fiscal debt risks slightly. In 2017, the ratio of current account deficit to GDP shrank sharply from 5.2% in 2016 to 0.5% in 2017, thus lowering the exchange risks to some extent.

Uzbekistan is exposed to the lowest country risks among all Central Asian countries. It continued to present medium level risk in 2017. In September 2016, the new President of Uzbekistan Shavkat Mirziyoyev came to power, marking a smooth transition of power in the country. In 2017, Uzbekistan carried out a series of reforms in the economic, administrative, judicial and diplomatic fields. Some measures adopted in the economic overhaul included: lifting price controls, cutting tariffs, starting to restructure state-owned enterprises, giving greater independence to its central bank, and reshuffling foreign exchange policies (which proved to be influential). Before the reforms, in order to guarantee the relative stability of exchange rates, Uzbekistan used to actively intervene in exchange rates with administrative measures, which held back the development of the formal foreign exchange market at home. On September 5, 2017, Mirziyoyev issued a presidential decree to cancel the foreign exchange control policy throughout the country, and announced that all legal persons and natural persons are free to exchange foreign currencies. The implementation of this policy directly led to the sharp depreciation of Uzbekistan's local currency, Soum. The exchange rate for US Dollar to Soum soared by nearly 150% from 1:3,231 at the end of 2016 to 1:8,120 at the end of 2017. In response to the currency depreciation, Uzbekistan's domestic inflation has risen sharply. The CPI was reported 18.9% at the end of 2017, far higher than the 7.9% at the end of 2016. Amid a series of reforms, Uzbekistan's real GDP growth rate registered 5.3% in 2017, lower than the 7.8% in 2016. The economic risks increased slightly but remained at a medium level. The fiscal debt risks rose slightly but stayed at a very low level, with its fiscal balance turned from surplus to a 1.72% deficit. Stimulated by the foreign exchange policy reform, current account surplus to GDP improved significantly from 0.75% in 2016 to 3.71% in 2017. Correspondingly, the exchange risks have fallen from a low level to a very low level. In addition, Uzbekistan's political risks and bank system risks are still at a very high level. As the domestic reforms further advance and take effect, such risks are expected to decline.

The country risk levels of Turkmenistan and Kyrgyzstan are comparatively stable. Thanks to the increasing oil and gas export, import substitution drive, and expansionary credit policy, the Turkmen economy grew steadily in 2017, and its real GDP growth rate stood at 6.47%, slightly higher than 6.22% in 2016. However, the currency expansion drove up the inflation rate to 10.42%, which was significantly higher than 6.17% in 2016. Therefore, its economic risks are still at a high level. Besides, the expansion in government budget resulted in a higher fiscal deficit rate, reaching 2.81% in 2017 from 2.35% in 2016. The fiscal debt risks have risen slightly but still stayed at an overall low level. At the same time, Turkmenistan has managed to improve its exports, and narrowed down its current account deficit slightly, but still faces

high exchange risks. In addition, Turkmenistan also has to deal with very high political risks and bank system risks, as it did in the past. In Central Asia, Kyrgyzstan is exposed to the highest country risks, with a very high risk level. Since 2017, thanks to the increase in gold production, the growth of migrant remittances, and the economic recovery of major trading partners, the economy of Kyrgyzstan realized a modest recovery, with its real GDP growth reaching 4.6%, slightly higher than 4.3% in 2016. Even so, its economic risk is still at a very high level. Its fiscal deficit rate narrowed from 4.4% in 2016 to 3.2% in 2017. As a result, its fiscal debt risks were alleviated from a high level to a medium level. In October of the same year, the country wrapped up a peaceful handover of power, signaling a gradually stabilizing political situation. But its political risks are still at a very high level. Furthermore, still weak in external repayment and banking operations, the exchange rate risks and bank system risks of Kyrgyzstan remain very high.

Looking into 2018-2019, the economic prospects of Central Asia are still highly dependent on the trend of crude oil price. The crude oil market is facing more uncertainties in the coming two years. The sanctions on Iran and still complicated geopolitical landscape in the Middle East is the major upward drive, at the same time, the market is also facing great downward pressure from the global demand decline anticipated on account of trade conflict, as well as the increase of supply in American shale oil. Overall, the oil price in the coming year will be increasingly volatile, while still comparable on an average basis to 2018. At the same time, Russia, as a major trading partner of Central Asia, has become more resilient to the commodity price volatility and sanctions, therefore will be able to sustain its momentum for steady economic growth, which is conducive to the economic development of the region and the continued improvement in foreign trade. As a result, Central Asia will be exposed to less economic risks, fiscal debt risks and exchange risks. However, under the universal influence of the Fed's tightened monetary policy and the rising global trade protectionism, the five Central Asian countries still present uncertain prospects. The increasingly challenging global environment underscores the need for this region to build resilience and accelerate reforms that build dynamic private sectors and promote inclusive growth. In addition, since 2018, the adjoining Middle East and Russia have seen their geopolitical risks on the rise, which complicates the security situation in Central Asia.

Southeast Asia

Figure 48: 2017 Risk Map of Southeast Asian Countries along the Belt and Road

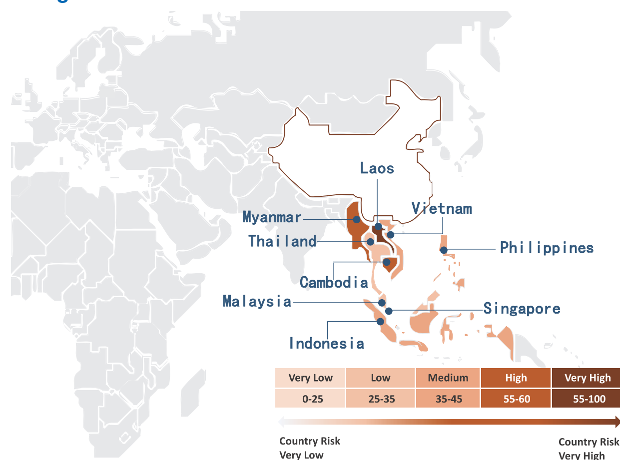


Table 11: 2017 Risk Score of Southeast Asian Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Singapore	10.90	1.59	20.00	7.20	0.00	25.00
Malaysia	26.60	50.79	5.43	31.80	29.44	34.00
Thailand	27.04	9.84	15.04	52.00	15.00	32.00
Indonesia	36.02	34.92	17.36	44.40	51.67	45.00
Philippines	37.86	37.14	17.36	60.33	33.89	39.00
Vietnam	40.31	42.86	33.64	46.90	29.44	53.00
Myanmar	49.61	33.75	42.95	56.67	57.78	60.00
Cambodia	51.15	29.21	53.49	53.80	57.22	60.00
Laos	55.17	69.58	41.86	44.07	85.00	62.00
Southeast Asia	37.18	34.41	27.46	44.13	39.94	45.56

Very Low	Low	Medium	High	Very High
0-25	25-35	35-45	55-60	55-100

Country Risk Very Low — Country Risk Very High

Very Low	Low	Medium	High	Very High
0-25	25-35	35-50	50-60	60-100

Country Risk Very Low — Country Risk Very High

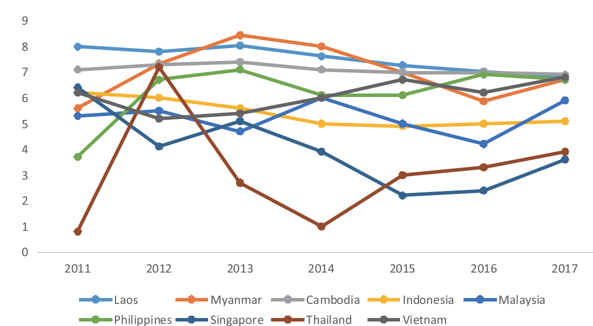
Table 12: 2017 vs. 2016 Changes in Risk Score of Southeast Asian Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
Singapore	↓0.18	↓1.59	↓0.16	→0.00	→0.00	↑1.00
Malaysia	↓0.26	→0.00	↓1.09	↑1.83	↓3.89	↑1.00
Thailand	↓0.83	↑4.76	↓4.50	→0.00	→0.00	↓2.00
Indonesia	↓1.87	↑3.17	↓2.17	↓4.67	→0.00	↓3.00
Philippines	↑1.15	↓3.17	→0.00	↑6.10	→0.00	↓2.00
Vietnam	↓0.68	→0.00	→0.00	↓1.83	↑1.11	↓3.00
Myanmar	↓1.27	↑3.75	↓6.51	↓4.31	↑9.44	→0.00
Cambodia	↓0.18	↑14.60	↓4.34	↓1.83	↓2.78	↓1.00
Laos	↑0.15	↑2.50	↑1.09	↓1.83	→0.00	→0.00
Southeast Asia	↓0.44	↑2.67	↓1.96	↓0.73	↑0.43	↓1.00

Located at the "crossroads" between Asia and Oceania, the Indian Ocean and the Pacific Ocean, Southeast Asia has had close trade relations with China since ancient times and the two share strong cultural commonalities. This region functions as an important hub of the 21st Century Maritime Silk Road and also a magnet for strategic investment under the Belt and Road Initiative. Most countries in Southeast Asia are export-oriented economies. The US and the EU, as their traditional export destinations, account for a high proportion of their exports, and China is increasingly important to the region's trade development. Therefore, changes in international trade and performance of major global economies have a strong impact on the region's exports and even economic growth. In addition, foreign direct investment from the above-mentioned countries and regions, constitutes an important factor for Southeast Asian countries to maintain their economic growth and balance their international payments. Thereby, the stability of international financial market is of great significance for countries in the region to maintain exchange rate stability, control exchange rate risks, and ensure the smooth operation of the overall economy.

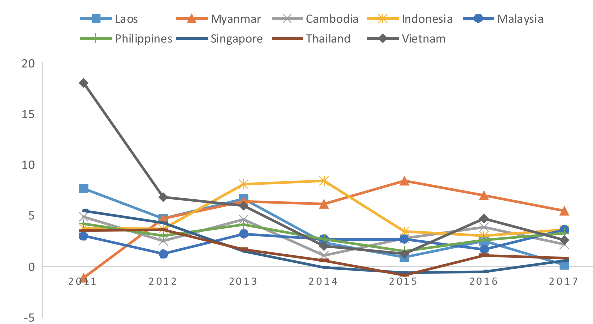
In 2017, with the exception of the Philippines, where political stability was threatened by internal armed conflict, the overall risks of countries in the Southeast Asian region showed a steady and positive trend. Seen from the big picture, their economic performance is the most eye-catching aspect. Driven by both internal and external demand, these countries attained an average GDP growth rate of 5.8% in 2017, an increase of 0.5 percentage point over 2016. Furthermore, in some countries, the banking system risks declined somewhat, domestic and geopolitical situations began to ease, and exchange risks remained stable overall. At the same time, due to the increase in infrastructure investment, public spending, and other aspects, such Southeast Asian countries as Indonesia, Thailand, Myanmar, and Cambodia witnessed their fiscal deficit, debt ratio and other fiscal indicators deteriorating to some extent, as a result of which their fiscal debt risks increased to varying degrees. As revealed by the overall scores of these countries, the risk level of Southeast Asian countries did not change in 2017 compared with the previous year: Singapore's country risk is still "very low"; Malaysia and Thailand belong to low-risk countries; Indonesia, the Philippines and Vietnam fit under the categories of medium-risk countries; Myanmar and Cambodia are grouped into high-risk countries; and Laos has very high country risk.

Figure 49: 2011-2017 Real GDP Growth of Southeast Asian Countries along the B&R (%)



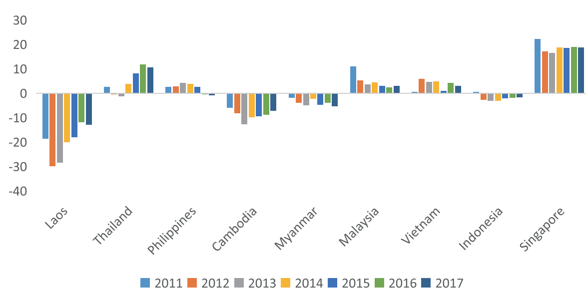
Data source: IMF.

Figure 50: 2011-2017 CPI Growth Rate of Southeast Asian Countries along the B&R (%)



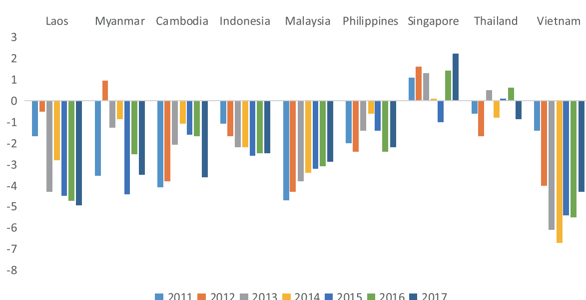
Data source: IMF.

Figure 51: 2011-2017 Current Account Balance/GDP of Southeast Asian Countries along the B&R (%)



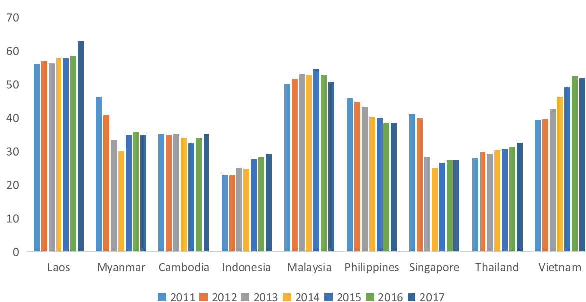
Data source: IMF.

Figure 52: 2011-2017 Fiscal Balance/GDP of Southeast Asian Countries along the B&R (%)



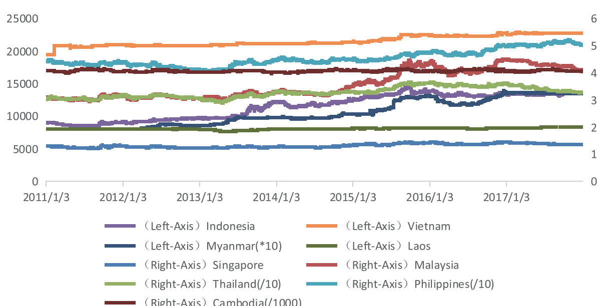
Data source: IMF.

Figure 53: 2011-2017 Debt-to-GDP Ratios of Southeast Asian Countries along the B&R (%)



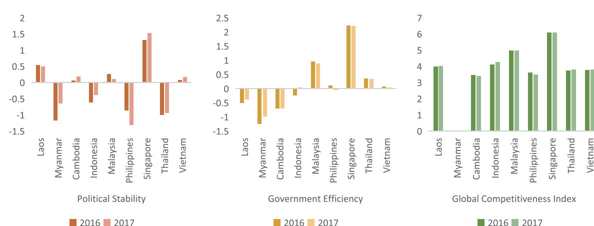
Data source: IMF.

Figure 54: 2011-2017 Exchange Rate of Southeast Asian Countries along the B&R



Data source: IMF.

Figure 55: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Southeast Asian Countries along the B&R



Data source: IMF.

To be specific, Singapore, the only developed country in Southeast Asia, is exposed to the lowest country risk among all the countries along the Belt and Road. In the context of world economic recovery, its foreign trade sector dominated by the export of electronic products has grown rapidly, leading the Singaporean economy out of sluggishness. Its GDP growth rate in 2017 reached 3.6%, a significant increase of 1.2 percentage points from 2016. The spillover effect brought about by the expanded foreign trade sector was further transmitted to the domestic employment market and the private consumption sector. The overall inflation level turned from negative to positive for the first time in the past two years, registering 0.6%. In addition, since fiscal revenues beat expectation, Singapore succeeded in further improving its fiscal position in 2017. The ratio of fiscal surplus to GDP increased from 1.4% in 2016 to 2.2% in 2017. In the meantime, its debt burden also declined slightly. Indicators such as banking system risks, exchange risks and political risks all stayed at a relatively stable level. As a result, Singapore's country risks declined slightly in 2017.

In the region, there are five emerging market countries, which are Malaysia, Thailand, Indonesia, the Philippines and Vietnam. All the four other countries except the Philippines managed to improve their country risks to varying extents in 2017. Among the four countries, Indonesia delivered the most impressive performance in this regard. The sustained, rapid economic growth and the relatively stable macro environment have won the countries in the region a great deal of international investors. The huge foreign capital inflows, coupled with the rising import demand of developed countries, have provided strong impetus for export-oriented economies such as Malaysia, Thailand, Indonesia and Vietnam. The GDP growth rates of the four countries reported 5.4%, 4.0%, 5.2% and 6.7% in 2017, respectively, and their

economic risks dwindled to varying degrees. The pickup of exports and external investment both have helped the Southeast Asian countries to reduce their exchange risks, with Malaysia making the most significant improvement. In Malaysia, the proportion of its current account surplus to GDP increased by 0.4 percentage point year on year to 3.0% in 2017, and its foreign exchange reserves also expanded slightly. In addition, due to the large scale of foreign currency assets held by the private sector, and the fact that about one third of foreign debt being denominated in Ringgit, the country's exchange risks are overall controlled, despite the significant external debt. In 2017, the banking system risks in countries such as Thailand, Indonesia, Vietnam, and the Philippines eased somewhat as their NPL ratios and capital adequacy improved. Among these countries, Indonesia managed to reduce its banking system risks the most. Its capital adequacy ratio reached 23.2%, higher than that of the Southeast Asian countries at the same level of economic development. The overall profitability of the Indonesian banking system is fairly robust, and the internal liquidity of the system is sufficient. The NPL ratio has stabilized at 3.0% after experiencing a rapid rise in 2014-2016. But its loans under special-mention and restructured categories have been rising continuously, continuous attention should be paid to its asset quality. In order to boost domestic demand and strengthen infrastructure construction, the Thai government increased its spending in 2017, causing the fiscal balance shifting from positive to negative and a slight rise in debt burden. As a result, the fiscal debt risk indicators deteriorated. However, the country features a clear fiscal governance framework, a good operational status, a relatively reasonable debt structure with a low proportion of external debt, and sufficient domestic savings which continue to provide sufficient government financing. All of these factors enable Thailand to be exposed to very low level of fiscal debt risks. Although Indonesia's fiscal deficit was at par with that of the previous year, its ratio of debt to fiscal income expanded from 225.9% in 2016 to 237.9% in 2017 due to its weak fiscal revenue base. At the same time, its interest expenses also went up slightly, and solvency decreased. The national economy heavily relied on external financing, and more than 40% of government financing was denominated in foreign currencies. All of these unfavorable factors rendered Indonesia quite likely to face fluctuations in exchange rate. The small increase in Indonesia's fiscal debt risks partially offset the improvement in the economy and banks. As a result, its overall country risks declined slightly. In 2017, no countries in Southeast Asia held elections involving a government transition. Therefore, the political situation in the region remained generally stable. However, in the field of non-traditional security, many countries in the region are still under the threat of extremist religious organizations and terrorism. This issue is implicit in Indonesia, Thailand, and Malaysia, while it has evolved into fierce armed confrontations in Malawi, the southern Philippines. The political stability of the country has been seriously impaired, thus driving up its country risks slightly.

Myanmar, Cambodia and Laos remain the three countries with relatively high risks in Southeast Asia, but their country risks have remained stable as a whole in 2017. Stimulated by foreign direct investment and government spending on infrastructure construction, the three achieved GDP growth rates of 6.7%, 6.8% and 6.9% in 2017, respectively, leading other countries in the region. The continued, rapid economic growth has provided impetus for their robust economic performance. However, due to their relatively simple economic structure, low per capita income, and heavy dependence on external investment, their economic anti-shock capacity is relatively weak. At the same time, the increased investment in infrastructure construction has also negatively influenced the fiscal debt risks of the three countries. Among them, Cambodia's fiscal debt risks deteriorated most significantly, and its fiscal deficit expanded from 1.7% in 2016 to 3.6% in 2017. Laos' fiscal deficit and debt ratio reached 4.9% and 62.7%, up 0.2% and 4.4% respectively on a year-on-year basis, due to the lower-than-expected fiscal revenues and the increase in capital expenditure related to the Belt and Road projects. In addition, as the foreign currency debt accounts for about 80% of Laos' public-sector debt, the decline in fiscal revenues will adversely affect its solvency. Banking system risks in Myanmar, Cambodia and Laos remained high in 2017. Specifically, the profitability of Myanmar's banking system is poor, and some state-owned banks and private banks with systemic importance suffer from funding gaps. Cambodia's banking system is under weak regulation. Although the current NPL ratio of the banking system is 2.5%, the quality of bank assets is likely to be overestimated due to the absence of a clear system of classification for loans and assets. The US Dollar-denominated loans account for a relatively high proportion in the Laos banking system, and the expansion of its foreign currency-denominated credit has outpaced the growth of its local currency loans, exacerbating currency mismatches in the balance sheets of the banking system. Additionally, Cambodia

and Laos saw their exchange risks operating at a high level. In Myanmar, due to the sharp increase in imports related to infrastructure construction, the current account deficit as a share of GDP rose from 3.9% to 5.3%, and the exchange risk rose from "high" to "very high".

Looking into 2018-2019, the overall risks in many Southeast Asia countries will increase somewhat under the combined effects of the tightened global monetary policy, relatively high but volatile oil prices, haunting trade wars, and uncertain political situation. Since 2018, the US economic indicators have continued to improve, the Fed has sped up its interest rate hikes, and thereby the US Dollar has grown stronger. In this context, international capital reveals different risk preferences, and emerging market countries are generally facing pressure from capital outflows and exchange rate depreciation. Indonesia's foreign currency debt takes up a fairly high proportion, and the Philippines' current account deficit continues to expand, causing the two countries to suffer the most serious currency depreciation among Southeast Asian countries. In the first nine months of 2018, the Indonesian Rupiah and the Philippine Peso have depreciated over 10% and 7% against the US Dollar, respectively. The sharp devaluation of the local currency has forced the central bank of the two countries to raise interest rates several times to maintain domestic financial market stability. The sharp depreciation of the exchange rate combined with the rise in crude oil prices has also led to a sustained rise in domestic inflation in the Philippines, which has led to a rise in market interest rates, triggering capital outflows. Although domestic infrastructure construction and investment will continue to support the rapid economic growth of the two countries, their macroeconomic stability and exchange security will still face the challenges brought by the rocky international financial market in the short term. Singapore, Malaysia and Thailand have undergone less impact from this round of currency crisis, thanks to their strong balance of payments positions and abundant foreign exchange reserves. Another worsening risk facing Southeast Asia in 2018-2019 comes from the increasingly tense international trade situation. While exports, represented by electronic products, have provided support to Southeast Asian economies as the major advanced economies recover, exports from the region remain under downward pressure amid continuing tensions over global trade frictions. Take Vietnam for example, since the trade volume accounts for about 200% of its GDP, the economy is fairly sensitive to changes in the global trading environment. The intensified trade protectionism and the slowdown in China's economic growth will become the main downside risks facing Vietnam. In addition to the general external risks confronting Southeast Asian countries, Malaysia held a presidential election in 2018. Since the new government has taken office for a short period of time, various policies present some uncertainties. Indonesia and Thailand plan to hold general elections in 2019, and continuous attention should be paid to the progression of related electoral agendas and the possible impact of the elections on the economic and political landscape of the two countries.

South Asia

Figure 56: 2017 Risk Map of South Asian Countries along the Belt and Road

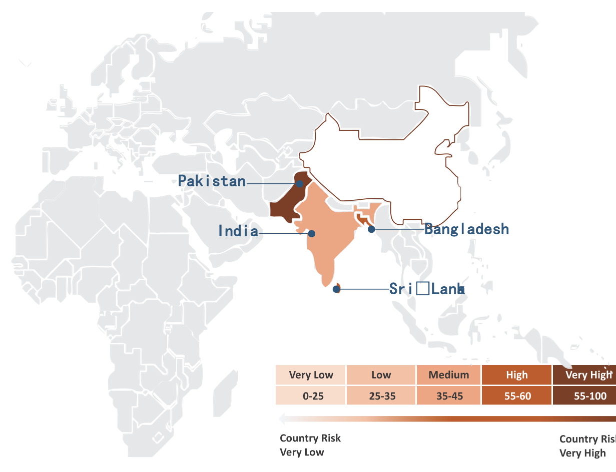


Table 13: 2017 Risk Score of South Asian Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
India	41.89	72.38	14.88	52.23	43.33	44.00
Bangladesh	46.18	46.03	30.70	62.57	36.67	58.00
Sri Lanka	54.11	83.81	46.36	44.17	63.89	48.00
Pakistan	59.46	77.14	36.12	73.67	65.00	52.00
South Asia	50.41	69.84	32.02	58.16	52.22	50.50

Very Low	Low	Medium	High	Very High
0-25	25-35	35-45	55-60	55-100

Country Risk Very Low → Country Risk Very High

Very Low	Low	Medium	High	Very High
0-25	25-35	35-50	50-60	60-100

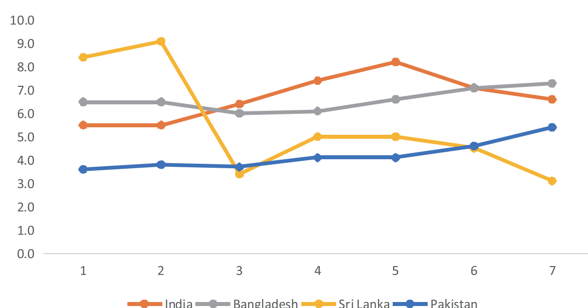
Country Risk Very Low → Country Risk Very High

Table 14: 2017 vs. 2016 Changes in Risk Score of South Asian Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
India	↓0.00	→0.00	↓2.02	→0.00	↑6.67	↓4.00
Bangladesh	↓0.04	↓3.17	↓1.09	↓1.00	↑7.78	↓1.00
Sri Lanka	↓0.72	↑1.59	↓2.79	↑1.00	↓2.78	→0.00
Pakistan	↓1.20	→0.00	↓2.95	↓6.00	↑10.56	↓1.00
South Asia	↓0.44	↓0.40	↓2.21	↓1.50	↑5.56	↓1.00

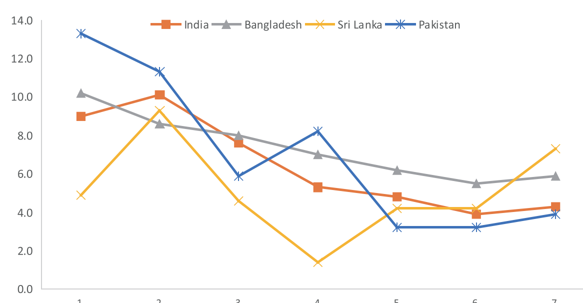
South Asia, as the relay station or the joint zone of sea and land in the Belt and Road Initiative and a region the Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor pass through directly, boasts an important geographical location, abundant human resources, and vast market space, thus holding a significant position in the Initiative. Looking at the overall performance of the region in 2017, the four South Asian countries were still exposed to comparatively high overall risks among those along the Belt and Road. India has the lowest risk level in the region and it is one of the medium-risk countries along the Belt and Road. The risk performance of Bangladesh is slightly worse than that of India, followed by Sri Lanka, both of which are high-risk countries. Pakistan has a high score for each sub-risk and becomes one of the countries with the highest risk level along the Belt and Road.

Figure 57: 2011-2017 Real GDP Growth of South Asian Countries along the B&R (%)



Data source: IMF.

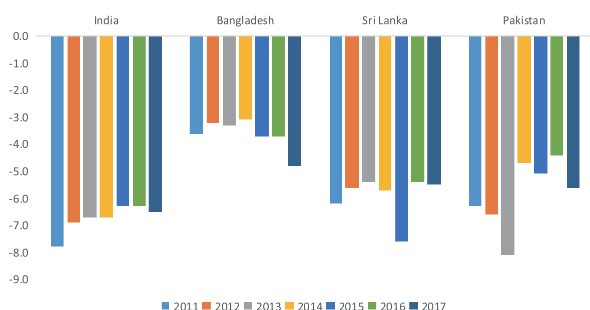
Figure 58: 2011-2017 CPI Growth Rate of South Asian Countries along the B&R (%)



Data source: IMF.

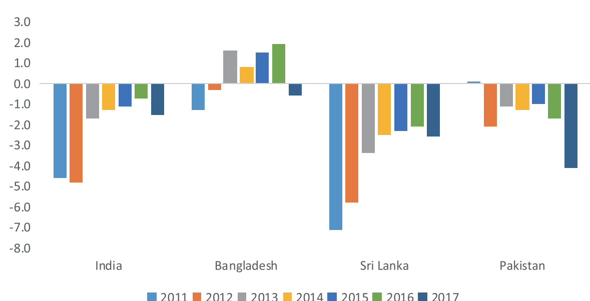
In recent years, South Asia has become one of the fastest growing regions in the world, thanks to its rising domestic demand and good investment environment. From the perspective of economic risks, weak infrastructure and low per capita income, are two major factors that hold back the development of the region; and meanwhile the impact of natural disasters on agriculture and economic operations cannot be ignored. In 2017, despite the natural disasters such as floods and droughts, the countries in South Asia generally secured a fairly high economic growth rate, which averaged 5.6%. In India, the withdrawal of legal tender character of the old banknotes and the introduction of the GST hindered its economic growth periodically. Its real GDP growth fell to 6.7% in 2017. However, the negative impact has gradually subsided since 2018. The growth rate of the Indian economy has rebounded to 7.7% and 8.2% in the first two quarters of 2018. Driven by the ongoing reforms, India presents a relatively optimistic economic outlook in the medium and long run. Natural disasters such as floods and droughts in 2017 severely impacted the agricultural production in Sri Lanka. Public and private consumption declined, and food-related imports increased significantly. In 2017, the country saw its real GDP growth rate dropping to 3.1%. At the same time, the EFF program has promoted a series of reforms targeted at state-owned economy, energy pricing, and other fields. If these reforms can be advanced steadily, the Sri Lankan economy will become more resilient. Despite the sharp decline in net exports, Pakistan still secured a faster economic growth in 2017, thanks to the implementation of the three-year EFF-supported program and the remarkable increase in investment driven by the China-Pakistan Economic Corridor. Its real GDP growth rate went up from 4.6% in 2016 to 5.4% in 2017. Led by the rapidly growing garment processing industry, the Bangladeshi economy has grown at an average of 6% for 10 consecutive years, making it the most stable country in South Asia.

Figure 59: 2011-2017 Fiscal Balance/GDP of South Asian Countries along the B&R (%)



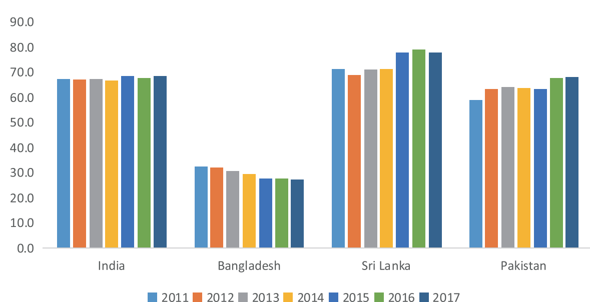
Data source: IMF.

Figure 60: 2011-2017 Current Account Balance/GDP of South Asian Countries along the B&R (%)



Data source: IMF.

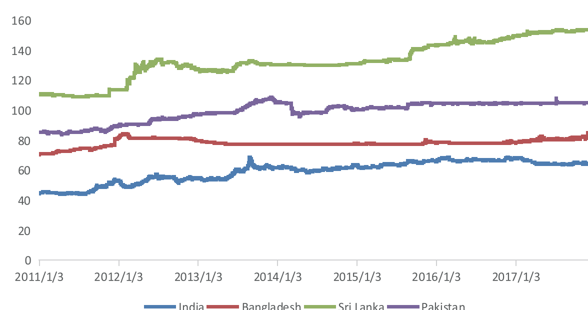
Figure 61: 2011-2017 Debt-to-GDP Ratios of South Asian Countries along the B&R (%)



Data source: IMF.

South Asia has always been exposed to substantial fiscal debt risks. Its fiscal deficit rate has remained higher than it should be for a long period of time. The average deficit rate reached 5.6% in 2017, a level even higher than 2016. Therefore, the region carries a heavy debt burden, with its average debt ratio up to 60.3% in 2017. Most South Asian countries have a shaky foundation in fiscal revenues, leaving these countries heavily dependent on external financing. Among the South Asian countries, Bangladesh delivers a relatively stable performance in overall financial situation. Its debt ratio is less than 30%. In addition, concessional borrowings from multilateral and bilateral institutions take up a relatively high proportion, thus incurring comparatively low borrowing costs lowering repayment pressures. Thanks to the ongoing fiscal consolidation in recent years, India has stabilized its fiscal deficit and debt burden relatively. The reduction of public debt is key to improving the country's financial standing. Although the financial consolidation progressed at a relatively slow pace, Sri Lanka's fiscal position remained basically stable in 2017. The high public debt and huge government financing needs remain the major risks facing the country. Due to the increasing infrastructure spending, Pakistan has to expand its fiscal expenditures continuously. Coupled with its extremely weak base of fiscal revenues, the country can do nothing but see its fiscal deficit and debt burden both in the rise. This trend is expected to continue in the upcoming two years.

Figure 62: 2011-2017 Exchange Rate of South Asian Countries along the B&R



Data source: IMF.

Another major feature of South Asia is its relatively weak resistance to external shocks. Some countries are exposed to relatively high exchange risks. The reliance on energy imports has kept the South Asian countries in current account deficit for years, with the deficit significantly higher than the average of emerging countries. The considerable debt burden, plus the underdeveloped financial market at home, has led to heavy dependence on external financing, which makes these countries vulnerable to changes in external markets. Sri Lanka and Pakistan are the most vulnerable countries in the region, and they showed significant deterioration in 2017. Affected by the growing imports of raw materials and food, Sri Lanka's current account deficit increased from 2.1% in 2016 to 2.6% in 2017. The rental income from the Hambantota Port pushed up the net international reserve slightly to USD 8 billion. But it is only enough to pay 3.6 months of import demand and cannot afford the external debt that is about

to mature in 2018. The exchange rate performance in 2017 was basically stable, but it has begun to experience a new round of devaluation in 2018. On the whole, due to the relatively large scale of external debt and the insufficient foreign exchange reserves, Sri Lanka is heavily dependent on external financing. In general, Sri Lanka is one of the B&R countries with the highest exchange risks. With a stronger US Dollar and increased tightening in global liquidity, the country is more vulnerable to external changes, thus causing severe exchange rate fluctuations. Since 2017, the large-scale infrastructure construction and rising energy prices have driven a rapid growth in Pakistan's imports. At the same time, the slow decline in exports and the slower growth in international migrant remittances have rapidly expanded Pakistan's current account deficit to GDP from 1.7% in 2016 to 4.1% in 2017. At the same time, foreign debts rose rapidly, and foreign exchange reserves shrank significantly to about USD1 billion in May 2018, a drop of nearly 40% from the peak in 2016. It is merely enough to cover about two months of imports. What's worse, Pakistan also faces repayment pressure from maturing external debts. In response to external imbalances, the central bank of Pakistan rolled out three consecutive rounds of Rupee depreciation from December 2017. By July 2018, its currency had weakened by 15% accumulatively. So far, Pakistan has requested a new round of assistance from the IMF. Bangladesh is exposed to the least exchange risks among all South Asian countries. Despite the decline in international migrant remittances in 2017, the slowdown of export growth, and the remarkable increase in imports, the country managed to further drive up its foreign exchange reserves to USD34 billion, thanks to the steadily increasing foreign capital inflows. The expanded foreign exchange reserves shored up its resistance to external risks. Also affected by the growth in energy imports, India's current account deficit deteriorated slightly from 0.7% in 2016 to 1.5% in 2017, putting an end to the previous trend of continuous improvement. However, the still strong overseas investment and the further recovering foreign exchange reserves enable India to efficiently respond to external risks and keep exchange risks under control.

Most South Asian countries have an underdeveloped financial market, and their banking system delivers a relatively poor performance in terms of capital adequacy, asset quality and profitability. Therefore, the region is exposed to quite high banking risks as a whole. While the Indian banking system is less risky in comparison to other regional economies, the increasing bad debts and the decline in profits, indicate a relative decrease in the banking system's ability to resist extreme credit shocks over time. In Bangladesh, high NPL of State-owned commercial banks is a major problem. At close to 30%, NPLs are high, while the capital adequacy ratio (CAR) is only 5.6%. A half of these banks even fail to meet the regulatory requirements. Combined with weak bank governance, it will undermine the efficiency of overall resource allocation among banks, leading to a much larger scale of contingent liabilities. In Sri Lanka, the banking system remains stable. Although the overall credit scaled up rapidly in 2017, CAR managed to stay at 15.2%. At the same time, the provision for non-performing assets increased to 70%. Pakistan's banking system depict relatively high risk, the Tier-1 and overall CAR of banking sector was reported at 12.9% and 15.8% respectively at end-2017.The NPLs have depicted significant improvement over the last 5 years, from 12.3% in 2014 to 8.4% in 2017. But the asset quality are expected to weaken from here onwards given the projected slow-down in GDP growth and sharp rise in interest rates.

Figure 63: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of South Asian Countries along the B&R

Data source: IMF.

South Asian countries undergo the continuous intra-party strife, are prone to regional terrorist incidents, and present a complicated geopolitical landscape, thus always incurring high political risks. In 2017, except Pakistan that was exposed to less geopolitical risks, the overall political risks of the region stays high. At the same time, as the countries in the region will generally hold political elections in the coming years, more uncertainties are added to the regional reform and policy continuity. India will host its general election in May 2019. Since the goals raised for the previous round of economic reform have not yet been achieved, and the economic growth rate has declined significantly in the past two years, Modi and the Bharatiya Janata Party headed by him, will thus face rigorous challenges. The pre-election policy will refocus on

pushing forward the existing reforms. In the meantime, to appease the needs of voters, the fiscal expenditures in the next two years are likely to increase. Bangladesh's 11th National Parliamentary Election will begin in December 2018. Despite there have been no large-scale protests and violent incidents recently, the political tensions continue and is likely to intensify with the approaching elections. In addition, Bangladesh is under the threat of terrorist attacks. Since 2015 when the United People's Freedom Alliance and the United National Party formed a coalition government, the country was plunged into constant political frictions, and its government efficiency dropped from -0.01 in 2016 to -0.21 in 2017. In March 2018, the parliamentary minority parties including the United People's Freedom Alliance jointly submitted a non-confidence motion against Ranil Wickremesinghe, requesting to impeach the prime minister. In October of the same year, President Maithripala Sirisena dismissed Wickremesinghe and appointed Mahinda Rajapaksa as prime minister. However Wickremesinghe claimed he would wait for the voting results at the Parliament. Before the new round of general elections in 2020, the frictions between the two parties are expected to continue in Sri Lanka, which will add greater uncertainty to the country's policy continuity and investment environment. Pakistan held the National Assembly election in July 2018. The Pakistan Tehreek-e-Insaf (PTI) became the largest party in the National Assembly. The leader of the party, Imran Khan, took office as the new prime minister, breaking the political landscape of Pakistan that has continued for more than a decade. However, political tensions persist, and political future of Pakistan remains uncertain, which creates a bane to the reform process and the stable economic development.

To sum up, the overall risks of the countries in South Asia remained basically stable in 2017 compared with 2016. The monsoon rains and droughts impaired the agricultural production of these countries to varying degrees. The rising crude oil prices further drove up the imports in these countries. As a result, their current account delivered a slightly worsened performance. At the same time, the ongoing reform measures are taking effect gradually, which has made the national economies in South Asia more resilient to shocks to varying extents. Coupled with the continuous influx of foreign investment, all South Asian countries realized sizable economic growth. However, as reforms proceed relatively slowly, it is hard for the region to bolster up its weak fiscal base and address the persisting weaknesses in its banking system in the short term. Therefore, the region is still heavily dependent on foreign capital. When external liquidity is significantly tightened, crude oil prices continue to rise, and major trading partners' economies begin to decline, Sri Lanka and Pakistan experienced a significant deterioration in their balance of international payments. The rising external debt and the rapidly depleting foreign exchange reserves exacerbated exchange rate fluctuations and external repayments crisis, rendering these countries exposed to the fast growing exchange risks and fiscal debt risks. Looking into 2018-2019, although the net exports will still be generally restricted by the growing imports, given relatively high energy prices, the economies of South Asian countries are expected to grow faster, driven by domestic demand and investment. At the same time, thanks to the improved climatic conditions, the countries in the region will see their agricultural production recovering, thus helping to stabilize the inflation level to some extent. The advancement of the fiscal consolidation, along with the continued economic growth, will boost financial debt solvency of the countries in South Asia. However, political elections will add more pressure to the implementation of the budget, hereby holding back the improvement in fiscal debt risks. It is quite difficult for the South Asian countries to reduce their current account deficit in the short run. At the same time, due to the continuous appreciation of the US Dollar and the ever-dwindling global liquidity, Sri Lanka and Pakistan will have to deal with the intensified external imbalances brought about by the tightened external financing, and be exposed to high risks of exchange rate fluctuations, which are likely to be periodically aggravated by the unstable political situation of the region. Most countries in South Asia are about to hold political elections, which will magnify the political uncertainty of the region, raise the political risks, and thus further erode investors' confidence. Due to its limited participation in the global product value chain, the rising global trade barriers will have relatively limited impact on the region. The more important factors affecting South Asia in the future will be the continuous inflow of external investment, the tightening external financing environment, and the continuous advancement of its own reforms. These aspects will face greater challenges due to the uncertain political situation of these countries in the region. Overall, India and Bangladesh will be exposed to relatively low and stable overall risks, while Sri Lanka and Pakistan will have to deal with comparatively high and possibly worsening risks. Since Pakistan has received the assistance from Saudi Arabia and the IMF, the risks of external imbalances facing it have been mitigated to a certain extent.

The Middle East

Figure 64: 2017 Risk Map of Middle Eastern Countries along the Belt and Road

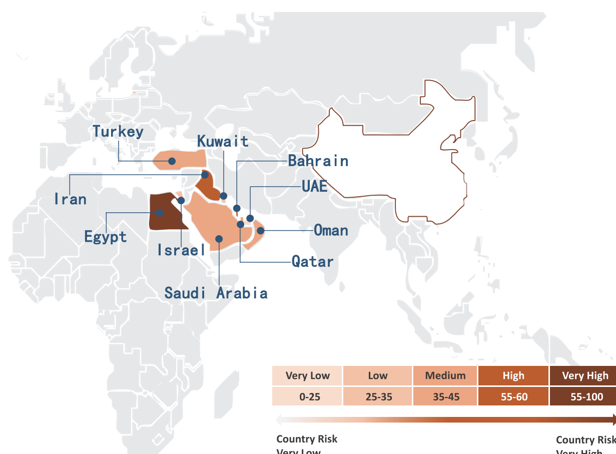


Table 15: 2017 Risk Score of Middle Eastern Countries along the B&R

	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
UAE	23.36	11.11	27.91	24.80	20.56	28.00
Israel	27.48	29.21	6.36	52.87	15.56	30.00
Kuwait	32.76	0.00	35.66	50.60	17.22	43.00
Qatar	38.13	20.63	48.99	29.47	43.33	50.00
Saudi Arabia	38.54	22.22	41.55	54.40	19.44	35.00
Turkey	43.01	9.52	18.91	67.97	72.78	46.00
Oman	44.34	29.52	48.68	34.13	71.11	44.00
Bahrain	51.21	79.37	28.22	48.40	76.11	49.00
Iran	52.98	38.75	51.01	74.07	21.67	64.00
Egypt	58.58	86.35	37.67	61.20	71.11	53.00
Middle East	37.35	25.20	32.03	45.33	42.01	40.63

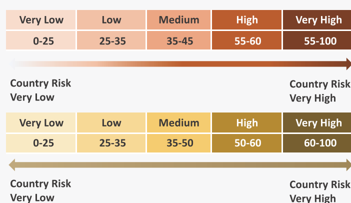


Table 16: 2017 vs. 2016 Changes in Risk Score of Middle Eastern Countries along the B&R

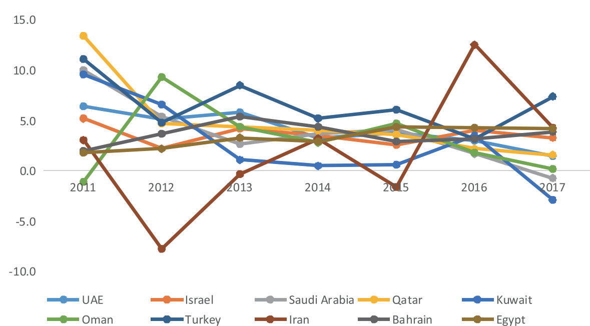
	Country Risk	Fiscal Debt Risk	Economic Risk	Political Risk	Exchange Risk	Banking System Risk
UAE	↓3.59	↓1.59	↓6.51	↑1.83	↓11.67	↓2.00
Israel	↑0.55	↑1.59	↑1.86	↓1.83	→0.00	↑3.00
Kuwait	↓4.72	→0.00	↑4.50	→0.00	↓37.78	↓4.00
Qatar	↓2.77	↓12.38	↑5.58	↑2.83	↓25.56	↑4.00
Saudi Arabia	↓1.47	→0.00	↑9.61	↓1.83	↓23.33	↓3.00
Turkey	↑2.40	↑1.59	→0.00	↑3.67	↑7.78	↓1.00
Oman	↓0.30	↑7.30	↓5.58	↓1.83	↑5.56	→0.00
Bahrain	↓0.11	↑3.17	→0.00	→0.00	↓3.89	→0.00
Iran	↓1.15	↓4.58	↓1.86	→0.00	→0.00	↑1.00
Egypt	↑0.57	↑1.90	↑4.96	↓3.23	↑1.11	↓4.00
Middle East	↓1.06	↓0.30	↑1.26	↓0.04	↓8.78	↓0.60

At the junction of the Silk Road and the Maritime Silk Road, the Middle East is a strategic highland and a core economic corridor for the Belt and Road Initiative. As the world's major crude oil producer and exporter, the region is home to many countries that. make a living on exporting crude oil. Therefore, the region's oil exporters see their economic trend highly correlated with fluctuations in crude oil prices. Since 2014, the international oil prices have fallen sharply, which had a significant impact on the risk profile of the GCC countries and Iran. To be specific, their economic growth has slowed down markedly, financial strength has deteriorated significantly, and balance of foreign trade has fallen sharply. In 2017, driven by the gradually rebounding international oil prices, these countries were exposed to significantly mitigated exchange risk. As a result, the overall country risks confronting the oil-producing countries in the Middle East declined to some extent; and those facing the non-oil producing countries like Israel and Turkey remained basically stable. However, geopolitical situation in the Middle East has been tense all the year round, which proves to be another major factor that stirs up country risks in the region. The Syrian civil war, which lasted for more than six years, has become internationalized due to the intervention of foreign forces. Although it ground to a halt in 2017, the scramble for the interests of all sides is still going on. The Saudi Arabia and Iran standoff remains a destabilizing factor in the region. The diplomatic break-offs with Qatar and the deadlocked Yemen war are two other epitomes of the region's political instability. At present, the US and Russia are also protecting their

own interest and influence in the Middle East, with a new Cold War situation of bilateral confrontation emerging.

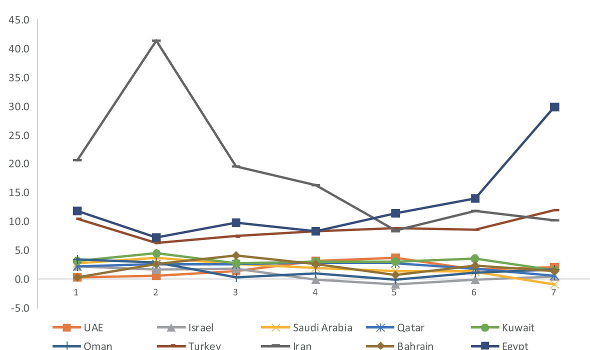
The countries in the Middle East are exposed to the overall risks, which are on a medium-to-high level among all those along the Belt and Road, but there are noted exception. The UAE, Israel, Kuwait, and Qatar have a well-developed economy, and demonstrate impressive economic and financial strength, thus maintaining relatively low country risks in 2017. Oman's country risk level is medium in 2017, which is consistent with that in 2016. Turkey witnessed an uplift in country risks from medium level in 2016 to relatively high level in 2017. Bahrain, Iran and Egypt still suffer from fairly high country risks in 2017. Among the three, Bahrain and Egypt are weak in fiscal and exchange strengths, and Iran faces relatively high geopolitical risks.

Figure 65: 2011-2017 Real GDP Growth of Middle Eastern Countries along the B&R (%)



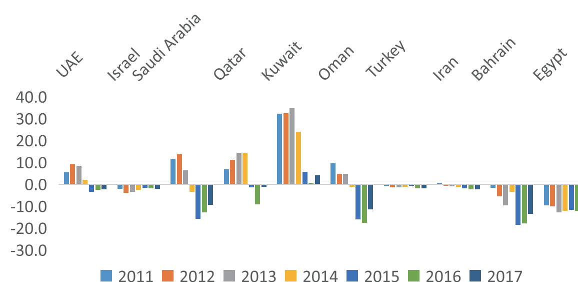
Data source: IMF.

Figure 66: 2011-2017 CPI Growth Rate of Middle Eastern Countries along the B&R (%)



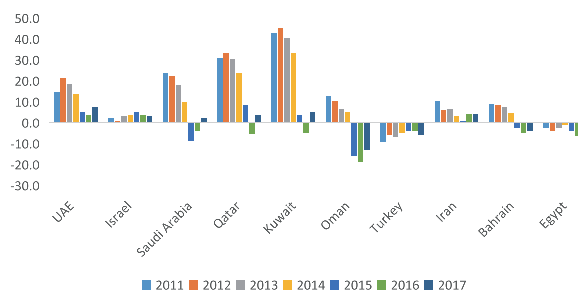
Data source: IMF.

Figure 67: 2011-2017 Fiscal Balance/GDP of Middle Eastern Countries along the B&R (%)



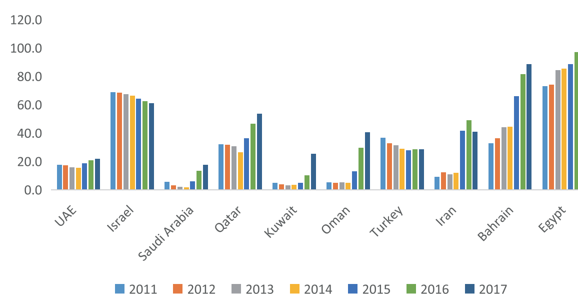
Data source: IMF.

Figure 68: 2011-2017 Current Account Balance/GDP of Middle Eastern Countries along the B&R (%)



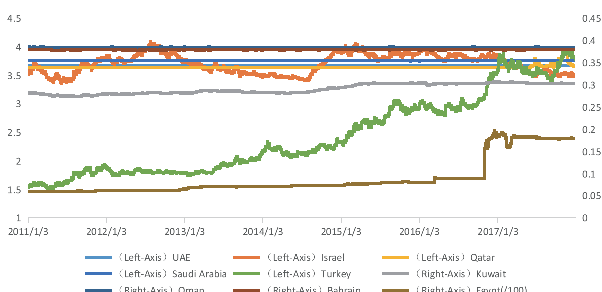
Data source: IMF.

Figure 69: 2011-2017 Debt-to-GDP Ratios of Middle Eastern Countries along the B&R (%)



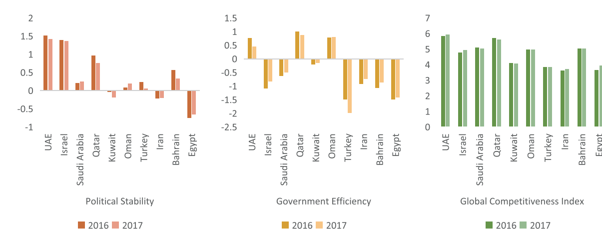
Data source: IMF.

Figure 70: 2011-2017 Exchange Rate of Middle Eastern Countries along the B&R



Data source: IMF.

Figure 71: 2016-2017 Political Stability, Government Efficiency, and Global Competitiveness Index of Middle Eastern Countries along the B&R



Data source: IMF.

The UAE, Kuwait, Qatar and Saudi Arabia are the oil-producers with lower overall country risks in the region. In the second half of 2017 when the international oil prices rebounded significantly, these oil producing countries managed to shore up their fiscal strength slightly and exchange strength significantly, compared with 2016. But even so, their economic performance was not as good as that in 2016. The UAE is exposed to the lowest country risks in the Middle East. In 2017, restricted by the oil production cut agreement, the UAE economic growth was mainly driven by the non-oil sectors. The confluence of employment expansion, increased government spending and faster economic growth of major trading partners boosted the UAE economy. Its real GDP growth rate was 1.5% in 2017, 1.5 percentage points lower than 2016. Although fiscal consolidation was not as striking as expected, overall UAE's fiscal base was good, and the fiscal deficit and debt burden both were at an appropriate level. In terms of exchange risks, with the rise in international crude oil prices, the UAE current account surplus soared from 3.8% in 2016 to 7.3% in 2017. Its banking system remained stable. The introduction of a credit registration system allowed banks to control credit risks better. Similar to the situation in the UAE, Kuwait, Qatar and Saudi Arabia also saw their non-oil sectors growing slightly faster in 2017, attesting their government's active moves in developing a diversified economy. However, restricted by the oil production cut agreement, these countries' oil sector grew at a limited scale, taking real economic growth in 2017 lower than in 2016. It was the first time that Kuwait and Saudi Arabia experienced an economic shrinkage in nearly six years. Specifically, the real GDP growth rates of Qatar, Saudi Arabia and Kuwait in 2017 stood at 1.6%, -0.7%, and -2.9%, down 0.6, 2.4, and 6.4 percentage points from 2016, respectively. On the fiscal front, the international oil price decline since 2014 has caused the fiscal balance of oil-producing countries to deteriorate slightly and the debt burden on these countries to increase somewhat. But Qatar and Saudi Arabia managed to lower their fiscal deficit rate slightly in 2017, and Kuwait even expanded its fiscal surplus by a small margin. In terms of government debt, the Kuwaiti and Saudi governments both shouldered a comparatively light debt burden. In 2017, Qatar saw its government debt burden exceeding 50%, but its huge sovereign wealth fund can provide sufficient buffers for its fiscal consolidation. In 2017, the rebound in international oil prices helped the three countries to drive up their current account balance remarkably, turning it from losses into gains. The current account surplus of Kuwait, Qatar and Saudi Arabia accounted for 5.0%, 3.8% and 2.2% of their respective GDP, up 9.6, 9.2 and 5.9 percentage points from 2016. With respect to banking system risks, since the UAE, Saudi Arabia and other countries broke off their diplomatic ties with it, Qatar presented the declined stability in its financial system in 2017. However, Saudi and Kuwait's financial systems performed well. Thanks to the reform of financial sector, Saudi Arabia eased its control over foreign investors' presence in its capital market.

Oman, Bahrain, Iran and Egypt are exposed to medium-to-high country risks among the oil-producing countries in the Middle East. Their performance was divergent in 2017. Specifically, the changes in country risk of Oman in 2017 showed the same trend as some oil producing countries such as the UAE and Saudi Arabia. Affected by the oil production cut agreement, Oman's real GDP growth rate fell from 1.8% in 2016 to 0.2% in 2017. Previously, its fiscal situation was worsened greatly by the falling oil prices. In 2017, thanks to the increasing oil prices, its fiscal deficit rate declined from 17.5% in 2016 to 11.4% in 2017, but the government debt burden rose from 29.6% to 40.5%. In terms of exchange risks, although Oman saw its current account deficit shrinking slightly, the ratio of the deficit to GDP in 2017 was still as high as 12.8%, a fairly high level in the Gulf countries. Bahrain was the only oil producer to see faster economic growth in 2017, largely because of Gulf Cooperation Council (GCC) funded projects and developments in the finance and hospitality sectors, which offset the decline in crude oil output, and its real GDP growth rose from 3.2% in 2016 to 3.9% in 2017. Its fiscal deficit rate fell by 4.5 percentage points in 2017, but still went as high as 13.4%. Besides, the government debt risks are worthy of attention. In recent years, the debt burden of the Bahraini government has been rising. In 2017, its ratio of general government debt to GDP reached 88.4%, the highest level among the oil-producing countries. At the same time, its current account deficit shrank slightly from 4.6% in 2016 to 3.9% 2017. In Iran, the slowdown in the oil economy in 2017 offset the rapid development in the non-oil sectors driven by public investment. The real GDP growth rate of Iran stood at 4.3% for the whole year, down 8.2 percentage points from 12.5% in 2016. In addition, its fiscal debt risks and exchange risks

remained basically stable in 2017. In terms of fiscal debt risks, with the comparatively rapid credit growth in the non-oil sectors, local banks had to deal with a slightly higher bad debt rate and greater financial system risks. In 2017, the IMF's assistance to Egypt boosted investors' confidence. As a result, Egypt's private consumption, investment, tourism and exports all boosted, securing a stable economic growth rate of 4.2%. It is worth noting that since Egypt began to adopt floating exchange rates in November 2016, the sharp depreciation of the Egyptian Pound exchange rate led to a significant rise in energy and food prices nationwide in 2017. The annual inflation rate reached 29.8%, doubling from 2016. What's worse, Egypt's fiscal strength remains weak, with the fiscal deficit rate and debt burden equal to that of previous year. In terms of exchange risks, due to the introduction of the floating exchange rate system in Egypt, the decline in the exchange rate enhanced the export competitiveness. However, affected by the rising oil prices, its current account deficit reached 6.6%, an increase of 0.6 percentage point from 2016.

Israel and Turkey are two non-oil producing countries in the Middle East. In 2017, the Israeli economy grew at 3.3%, down 0.7 percentage point from 2016. The fall was mainly due to a sharp decline in personal consumption, as a primary driving force for economic growth, compared to 2016. In 2017, the deficit of the Israeli government sector accounted for 2.0% of GDP, which was basically the same as that of last year. Besides, its exchange risks and financial system strength remained stable. In 2017, the Turkish government adopted a proactive fiscal policy and an easing monetary policy so that banks could lend more to export enterprises and small and medium-sized enterprises. This move effectively promoted the growth of consumption and investment. The annual economic growth reached 7.4%, the fastest growth rate since 2014. Turkey boasts impressive financial strength, with its fiscal deficit and debt burden both at a low level. It is worth noting that due to the year-around current account deficit and the high dependence on foreign investment, Turkey is exposed to considerable exchange risks. In terms of banking system risks, the Turkish financial system pursues the regulatory standards basically the same as those of the EU, and it fully complies with the Basel Accord, with great management compliance and strong stability.

The strong recovery of the US economy has driven up the international crude oil price further in the first three quarters of 2018. Against such a backdrop, the oil–producing countries in the Middle East ushered in a boom in the oil sector, which led to a comprehensive recovery of their economy and continuous increase in their external solvency. The fiscal strength of the countries in the Middle East is also highly correlated with the international oil prices. Their robust financial base leaves considerable room for fiscal consolidation. For example, Bahrain will levy a value-added tax on January 1, 2019, and the annual value-added tax revenue is projected to reach about USD1,596 million. Political and geopolitical risks remain a key factor that merits particular attention in the Middle East. From the perspective of internal affairs, the Turkish constitutional referendum was approved by 51.4% in April 2017, which marked that Turkey replaced the parliamentary system with the presidential system. It held in June 2018, the general election which was originally scheduled in November 2019. Erdogan was re-elected successfully and further accumulated even more power in the country. In 2017, the King of Saudi Arabia shook up the order of succession to the throne and replaced his younger brother with his favored son as the crown prince, thus straining the domestic political situation. In terms of geopolitical risks, tensions in the Middle East have intensified in 2018. The diplomatic break-offs with Qatar have not shown signs of easing. The US tore up the Iranian nuclear deal and imposed sanctions on Iran, causing the Iranian currency to devalue continuously and triggering an inflation of more than 20%. At the beginning of the year, Turkey sent troops to the city of Aflin in northern Syria, which exacerbated its relations with the US. Amid the continuous outflows of foreign capital, the Turkish currency continued to depreciate, the inflation level continued to rise, and the forecast of the annual economic growth was lowered sharply. In May, the US officially moved its embassy in Israel to Jerusalem, which triggered the widespread criticism from Palestine and Arab countries. As a result, the security situation became more tense in Palestine. The killing of a Saudi journalist in October 2018 further stirred up the geopolitical landscape in the Middle East. Turkey actively pushed forward the investigation into the case, potentially destabilizing relations between the two countries. Saudi Arabia had to relieve the restrictions on crude oil output, for fear of more sanctions to be imposed by Europe and the US. Looking into 2019, as the US is in the interest rate hike cycle and Europe is about to abandon its easing monetary policy at the end of 2018, emerging economies are expected to face tightened external liquidity. International oil prices fluctuate at a relatively high level, impacting the country risks facing the Middle East to a high extent. Specifically, such oil-producing countries as the UAE, Kuwait, Qatar and Saudi Arabia are expected to maintain their economic, fiscal and external repayment strengths, at the pull of the expected high level oil prices, but downward pressures are also mounting due to increasingly volatility in the crude oil market. The US sanctions come as a decisive factor for how Iran's country risk will change. With the assistance from the IMF, Egypt is expected to reduce its country risks.

The Belt and Road Initiative in Five Years

Achievements and challenges in the past five years

It has been five years since the Belt and Road Initiative was firstly proposed in 2013. In the past five years, the construction of the Belt and Road has started from scratch, continued to expand in cooperation, and become full-fledged now. Nevertheless, along with the launch of various projects, the Initiative also faces some practical doubts and challenges.

The international influence of the Belt and Road Initiative has reached a higher level, and its strategic integration and political communication have been continuously strengthened. The B&R has attracted an increasing number of partners in the past five years. So far, more than 100 countries and international organizations around the world have actively supported and participated in the construction. Moreover, China has signed collaboration contracts with these countries in order to construct the Initiative together. The proposal of the B&R and its core concepts have also been accepted by many international organizations, including the UN, the G20, Asia-Pacific Economic Cooperation (APEC) and Shanghai Cooperation Organization (SCO), etc.

The progress of the infrastructure interconnectivity has been accelerated, which has the top priority among the B&R construction projects. The past five years witnessed an efficient and smooth international corridor taking shape at a faster pace. The construction of the China-Laos Railway, the Thai-China Railway and the Hungary-Serbia Railway are in full swing, and the Jakarta-Bandung High-speed-rail Project has come under construction. The second phase of the Hambantota Port project has been completed, and work on the Colombo Port City project is half-complete. The Port of Piraeus has also been built as an important transit hub. The China-Myanmar Crude Oil Pipeline has been put into operation, piping crude oil from the Indian Ocean into China. The second China-Russian Crude Oil Pipeline has been put into use officially, and the construction of the China-Russia East Route Natural Gas Pipeline is progressing as planned. China Railway Express has made over 9,000 trips (expected to exceed 10,000 in December 2018) and reached 42 cities in 14 European countries.

Cooperation in economic and trade investment has achieved remarkable results. The scale of the collaboration on trades and the investments between China and other countries along the Belt and Road has been growing continuously, achieving mutual benefits and win-win results. In the first half of 2018, the volume of total trades between China and those countries increased by 18.8% and hit USD605.02 billion, while China's direct investment for B&R countries on non-financial categories increased by 12% and amounted to USD7.4 billion. So far, China and B&R countries have built more than 80 overseas economic and trade cooperation zones, creating 244,000 jobs for local people. The China-Belarus Industrial Park has become a good example for bilateral cooperation. A large number of cooperative parks are also being facilitated, such as the China-Lao Mohan-Boten Cross Border Economic Cooperation Zone and the China-Kazakhstan Horgos International Border Cooperation Center.

The financial infrastructure has also been improved remarkably. By strengthening financial cooperation, promoting currency circulation, facilitating financing access, and creating a stable financing environment for the B&R, China has attracted all types of capital to participate in the development of the real economy and the creation of the value chain, accelerating the healthy development of the global economy. Till June 2018, China had established RMB clearing arrangements in seven B&R countries. Up to now, 11 Chinese banks have established 71 first-tier branches in 27 countries along

the B&R routes. So far, China has preliminarily established a multi-layered financial service system with Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund (SRF) at the core. This has effectively broadened the domestic and overseas financing channels, improved the cross-border financial services, and diversified the financial supports and services for corporate participation in the Initiative. So far, the number of AIIB member countries has increased to 87 compared to 57 at the very beginning, and the capital fund stands at USD100 billion. 32 infrastructure projects have been approved with a total investment of around USD6.4 billion, greatly encouraging the sustainable development of the Asian economy, wealth creation, and infrastructure interconnectivity. Since its inception, the Silk Road Fund (SRF), designed to promote common development and prosperity of China and B&R countries, has been advancing the cooperation in infrastructure, resource exploitation, industrial cooperation and financial collaboration, as guided by the tenet of "openness, inclusiveness, mutual benefit and win-win". Up to May 2018, the Silk Road Fund has signed contracts for 19 projects, with an aggregate investment commitment of about USD7 billion. The total amount of investments for supporting these projects reaches USD80 billion. Additionally, the trade among the B&R countries has exceeded a total of USD5 trillion, and their foreign direct investment has exceeded USD70 billion, which covers Russia, Mongolia, Central Asia, South Asia, Southeast Asia, West Asia, North Africa, and Europe. The increasingly improved financial services system along the Belt and Road is expected to provide sufficient funding and auxiliary financial services for local infrastructure construction.

The B&R cooperation has boosted the economic development of the B&R countries and intensified regional interconnectivity. Take the China-Pakistan Economic Corridor (CPEC) as an example. The investment on the project not only significantly boosted the economic growth of Pakistan in 2017, but will also continue to support the investment and economy growth of the country in the coming years, due to the improved infrastructure environment and energy supply. The investments on CPEC will mainly be diverted to the construction of Karachi Circular Railway, the Karachi-Lahore-Peshawar Railway, and the Gwadar-Quetta Railway in 2019 and 2020, which will significantly reduce the transportation cost of the CPEC Western Alignment. In the mean time, the establishment of special economic zones will drive up the export growth in Pakistan. The economic and trade exchanges as well as the investment cooperation have been continuously facilitating, including the Kyaukpyu Industrial Park and Deepwater Port project[6] in Myanmar, the Sihanouk Special Economic Zone project[7] in Cambodia, and the China-Malaysia "Two Double-Park" project[8]. These projects not only offer a number of job opportunities, but also encourage the development of bilateral trade. In addition, the progression of the Belt and Road Initiative has also supported the infrastructure construction in the Southeast Asian countries by providing necessary funding, technology and manpower. The completion of a series of infrastructure projects, represented by the Jakarta-Bandung High-speed Railway project, China-Laos Railway project, Thai-Chinese Railway project, and China-Myanmar Oil and Gas Pipeline project, will not only be beneficial for the sustainable development of the countries where they are located, but also impose great influence on strengthening the interconnectivity and economic and trade exchanges among countries in the region.

At the same time, the Belt and Road Initiative has also faced more practical challenges, while being turned from a proposal into a reality. It cannot be denied that some projects incurred losses or were unable to repay loans, due to insufficient study of feasibility, lack of communication on bilateral appeals, and poor supervision for project execution. These projects brought negative effects and even made some people question the original motivation of the Initiative. Take the Port of Hambantota in Sri Lanka as an example. Due to

[6] The Kyaukpyu Special Economic Zone is located in Rakhine State, the western Myanmar. It borders the Bay of Bengal and passes through the main line connecting Africa, Europe and India. It is one of the three special economic zones planned and built by the Myanmar government. On December 30, 2015, the CITIC Consortium won the bid for the Kyaukpyu Industrial Park and Deepwater Port project. The industrial park project covers an area of 1,000 hectares and is planned to be constructed in three phases. Construction started in February 2016. The deepwater port project consists of two port areas, that is, Maday Island and Yabye Island, with a total of 10 berths. It is planned to be constructed in four phases that last 20 years.

[7] The Sihanouk Special Economic Zone is one of the first overseas economic and trade cooperation zones that have passed the evaluation of the Ministry of Commerce and the Ministry of Finance of China. It is mainly engaged in the textile and garment, hardware & machinery, light industrial appliance, and other industries, and also integrates the functions of export processing zones, and business zones, and living zones.

[8] It means the China Malaysia Qinzhou Industrial Park and the Malaysia China Kuantan Industrial Park. It is an exemplary project for both the cooperation between the two countries and the collaboration under the Belt and Road Initiative.

the poor management after the Port put into operation, the profits were not enough to pay for loans, increasing the government's debt repayment pressure. It turned out that, the Sri Lankan government transferred the operational and management rights of the Port to China Merchants Port Holdings Co., Ltd., with the term of franchise lasting 99 years. Since then, the Port of Hambantota has become a typical case of the "debt trap" related to the Belt and Road Initiative. China has also been accused of coercing Sri Lanka to hand over the operational rights of the Port. Take the Malaysian East Coast Railway project as another example. Since the project did not fully consider the different conditions of Malaysia and China, there were some doubts about its actual needs and rationality. Failed to create more jobs, it was repelled by local people.

Looking into the future, the implementation of the Belt and Road Initiative should focus more on increased cooperation with the B&R countries, based on their specific conditions and international standards, and increase effort on risk control and information disclosure. The foundation of B&R is the cooperation as well as the mutual benefit; thus, in order to achieve double-win situations, it is necessary to focus on the feasibility and profitability of projects, and the demands of partners and the risks they may face as well. Based on specific problems incurred, the projects in B&R should be constructed more precisely and meticulously. To be more specific, detail-oriented operation and thorough consideration are required from the feasibility study and risk control prior to the implementation to the project supervision and funding support during the construction. It is difficult to avoid the situation where huge capital investment cannot be recovered, if the feasibility of a project cannot be discussed soundly, or market prospects and financing risks cannot be considered adequately. On the other side, in order to fully understand the possible benefits and risks, detailed communication and negotiation before hand between China and other parties are also significant. The subsequent implementation of projects will face great risks if China fails to fully demonstrate the actual benefits and potential risks that a project could bring to local people, or China doesn't adequately investigate the management ability as well as affordability of local partners. In order to reduce the risks arising from project operations and dispel the external doubts, the Belt and Road projects in the next phase will be carried out in a way better aligned to international standards, including competitive bidding for projects, public research on possible impacts of project, and information transparency.

Based on this, effectively identifying the risk characteristics of the B&R countries is an essential task for the Belt and Road Initiative. Under the policies and environmental constraints of the destination countries, the core issue of the B&R projects is still how to maximize the profits from the huge investment and capital operation. Efficient capital management, screening of projects and the allocation of investment all require risk estimation and identification. A large number of countries are distributed along the Belt and Road which are diverse in terms of the degree of development, the investment environment, trade barriers, and access requirements. Besides, they are also exposed to complex regional security risks and geopolitical risks. Devising differentiated investment strategies under different risk conditions has become the most imperative challenge being faced by Chinese companies and investors who want to go global. For example, most Central and Eastern European countries feature emerging, potential, yet small markets with less demand. In addition, these markets rely heavily on the EU rather than China. So within the framework of the Belt and Road Initiative, China and Central and Eastern European countries should take more advantage of the close cooperation. In Southeast Asia, some countries will see their ruling parties or core political departments turn their power to others, which becomes a major obstacle affecting the construction of the local Belt and Road projects. For example, after Duterte's administration took office in the Philippines, it has pursued a significantly eased policy towards China, and so substantial progress has been made in its transportation infrastructure by promoting the Belt and Road projects. In Malaysia, however, Mahathir, after assuming his post, announced to cancel or re-examine a number of B&R projects that had been approved by the former government. Consequently, the progression of the Belt and Road Initiative in Malaysia has been hindered. Moreover, local sentiment for the Initiative was marked by doubts. In addition, most countries in Southeast Asia are export-oriented economies, which heavily rely on foreign capital. With the background of the ever-tightening international financing environment, it is also necessary to pay attention to the risks of these countries in terms of exchange rate fluctuations, unstable financial markets, and worsened external solvency. Moreover, although the Belt and Road Initiative has achieved remarkable results in South Asia, the overall development is still lower than expected. Geopolitical factors and country risks are two core constraints. Among all the investments China has made under the Belt and Road Initiative, those in South Asia may spark the most serious geopolitical tensions. Due to the lack of the Indian support, both the Bangladesh-China-India-Myanmar Economic Corridor and the China-Nepal-India Economic Corridor, overall progress has been slower than expected. At the same time, despite the weak infrastructure in South

Asia, its market offers great potential. However, on account of its generally weak financial strength, and strong dependence on external environment, the region carries very high overall risks. Therefore, to promote the Belt and Road projects there, China needs to prudentially consider the fiscal tolerance of local governments as well as the estimated comprehensive profits and risks of these projects.

Investment strength evaluation of corporations along the B&R (ISG/ES)

Infrastructural development has played a pivotal role in the growth which Asia has experienced in recent years. It is imperative that further upgrading of the existing infrastructure stock is continued in order to maintain growth momentum within the region. The demand for infrastructure across Asia and the Pacific far exceeds current supply, according to a recent Asian Development Bank (ADB) report, 'Meeting Asia's Infrastructure Needs'. The report finds that more than $26 trillion will be needed between 2016 and 2030, or $1.7 trillion a year, to deliver infrastructure that supports robust growth and is resilient to climate change.

It would require concerted efforts, not only at the governments level but also with an eager participation of the private sector, to keep up with the required pace. Currently, most of the funding for infrastructural development across Asia is provided by the public sector unlike the developed economies where private sector played a leading role during the developing times. In case of Asian emerging economies, the restricted role of private sector is also evident from the shallowness of the regional local currency debt market which is largely concentrated in government bonds.

Recently, long-term investors that primarily seek increase in enterprise value over the investment horizon have been laying higher emphasis to Environmental, Social and Governance (ESG) factors while estimating their investment growth. An OECD report on 'Investment governance and the integration of environmental, social and governance factors' published in 2017 cites the following:

- Good ESG performance is a sign of efficiency and that companies that perform well on ESG criteria will also perform well on operational and financial criteria;
- A positive correlation (found) between corporate environmental responsibility and long-term stock performance;
- Analysis from HSBC suggests that companies with improving ESG scores outperform the broader equity market, especially in emerging markets;
- MSCI KLD 400 Social Index …(that also) screens for ESG criteria, outperformed the S&P 500 by 0.5%;
- There is a robust relationship between corporate social responsibility (CSR) and credit ratings, such that firms with good CSR scores obtain lower financing costs;
- Companies that scored well on ESG criteria tended to be more profitable and grow faster than their peers

With the enhanced emphasis internationally, towards ESG factors in investment evaluation, China Chengxin International Credit Rating Company Limited (CCXI), VIS Group of Companies (VIS) and Islamic International Rating Agency (IIRA) have introduced an innovative assessment tool – ISG/ES Grading System. The product is developed to primarily supplement investment activities under China's Belt & Road Initiative, identifying prospective investments in and out of China. The methodology provides a rank system appraising the investment strength and prospects of a particular player within a jurisdiction-specific industry group. The underlying principle of ISG/ES methodology lies in the ability of a company to create economic and social value over the long-term.

While assigning ISG/ES, business risk and financial strength/ investment prospects of a company are determined with added assessment on governance framework, environmental accountability & social responsibility.

This initiative would provide value addition for investors/stakeholders to enable long-term cross-border equity investment, ease the path for cross listing, and deepen the capital markets. It is also expected to facilitate Economic Corridors related activities which may further strengthen trade relations through better accessibility. Through a comprehensive ISG/ES grading approach and related research, this methodology seeks to address a broad range of potential investors – lenders, private and public investors, venture capitalists, etc., by facilitating informed and effective investment decision-making, not just confined within a single country but extending beyond borders along the B&R.

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