

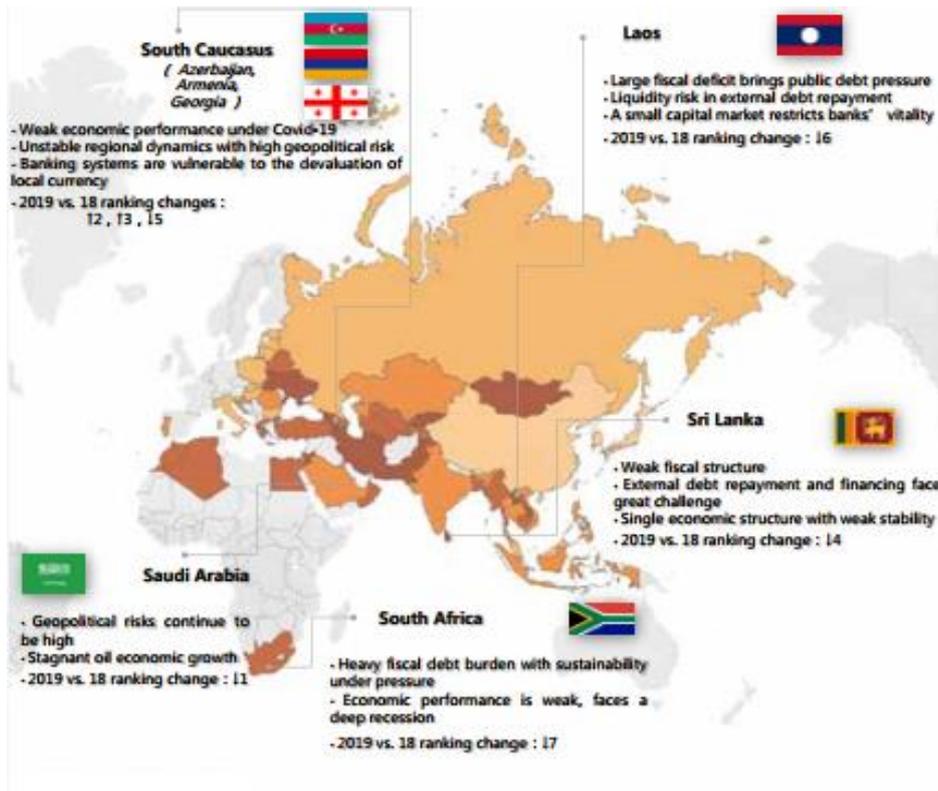
Credit Risk Report on Countries along the Belt and Road (2020)

China Chengxin International Credit Co., Ltd.

Rating-Agentur Expert RA GmbH

VIS Group of Companies

Risk Map of Countries along the Belt and Road¹



¹ CCXI classifies the overall risk into five levels, namely Very Low, Low, Medium, High and Very High. Different colors represent different levels of risks. The darker the color, the higher the overall risk level of the country in 2019.

Following the publication of the Country Risk Report along the Belt and Road in 2017-19, CCXI co-released the Country Risk Report along the Belt and Road (2020) in association with RAEX-Europe and VIS. This series of report set out to provide a professional interpretation of country risks along the Belt and Road on an annual basis, and the number of countries covered increases to 57 in the 2020 edition. This report also presents the impact of COVID-19 on the countries along the Belt and Road, the outlook on post-pandemic investment environment, and provide an analysis of the connectivity between China and these countries, with a view to helping enhance market forecasts and effectively identify the risks and investment opportunities in these countries.

- **Looking at the risk profile of countries along the Belt and Road in 2019, these countries generally showed an escalation in overall risk due to the global economic slowdown and the coronavirus pandemic, while the number of countries with medium or higher risk levels has increased significantly. From a regional perspective, Central Asia, South Caucasus and South Asia still bear higher risks than other regions.**
- **Against the backdrop of the coronavirus outbreak and global trade frictions, countries along the Belt and Road generally face the pressure of economic downturn, currency depreciation and rising debts, thus their economic risks are on the rise.**
- **The post-pandemic recovery would show significant variations across countries along the Belt and Road, given the disparities in economic structure, pre-pandemic growth trend, policy space and reform process. Economic risks and fiscal debt risks are expected to remain high and some countries may find it difficult to mitigate external risks in the short term.**
- **China generally has a high degree of connection with countries along the Belt and Road with remarkable disparities among regions, while the ties could be especially close with countries in the ASEAN, Central Asia and East Asia. In the post-pandemic era, the connectivity between China and the B&R countries should enhance. RCEP will further cement China's relations with ASEAN and East Asian countries, but its ties with other countries in the region tend to diverge.**

■ Part One: Risk Performance of Countries along the Belt and Road and Road

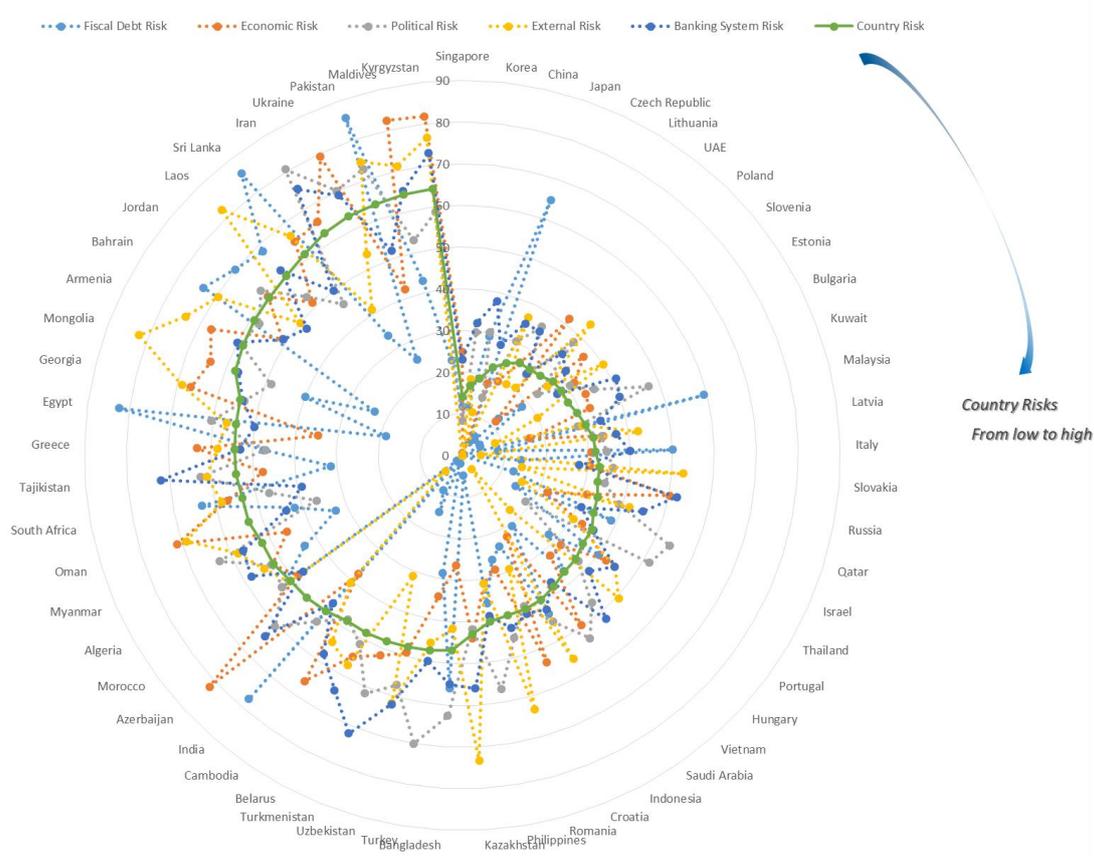


Fig. 1: Risk Scores Assigned to Countries along the Belt and Road²

Following the publication of the *Country Risk Report along the Belt and Road* in 2017-19, CCXI co-released the *Country Risk Report along the Belt and Road (2020)* in conjunction with VIS and RAEX-Europe. This series of report continues to provide a professional interpretation of country risks along the Belt and Road. The number of covered countries increases to 57 in the 2020 edition. This report is based on the latest data as of the end of 2019 and incorporates the most updated economic outlook for 2020-2021, so as to enhance the accuracy of forecasts on the overall risk dynamics among countries along the Belt and Road.

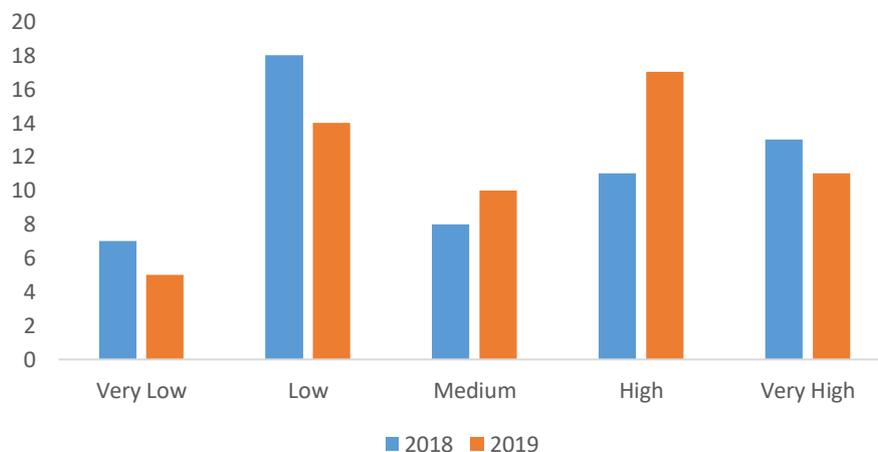
² Figure 1 is a comprehensive analysis of 2019 data and the forecast data for 2020 and 2021. / The score takes into account the data of 2019 and the country's economic growth in 2020 and 2021.

❑ Overall Risk Escalated in Countries along the Belt and Road

Countries along the Belt and Road generally showed an escalation in overall risk due to global economic slowdown and the coronavirus pandemic³. The number of countries with medium or higher risk levels has increased significantly. As shown by the overall risk scores assigned to countries along the Belt and Road in 2019, developed countries including Singapore, South Korea and Czech show lower risks, while Kyrgyzstan, Maldives, Ukraine and Iran render a profile with higher risks. As the latest economic growth forecasts were factored into the country risk assessment in 2019, countries along the Belt and Road generally show economic downturn and a rise in overall country risk against the backdrop of the coronavirus outbreaks and global trade frictions. Of the 57 countries along the Belt and Road, 38 or 67% of countries have a country risk in the level of medium or higher, markedly outnumber the 2018 record of 56%, while 19 or 33% of countries have a risk level of low or very low, a smaller proportion than 2018.

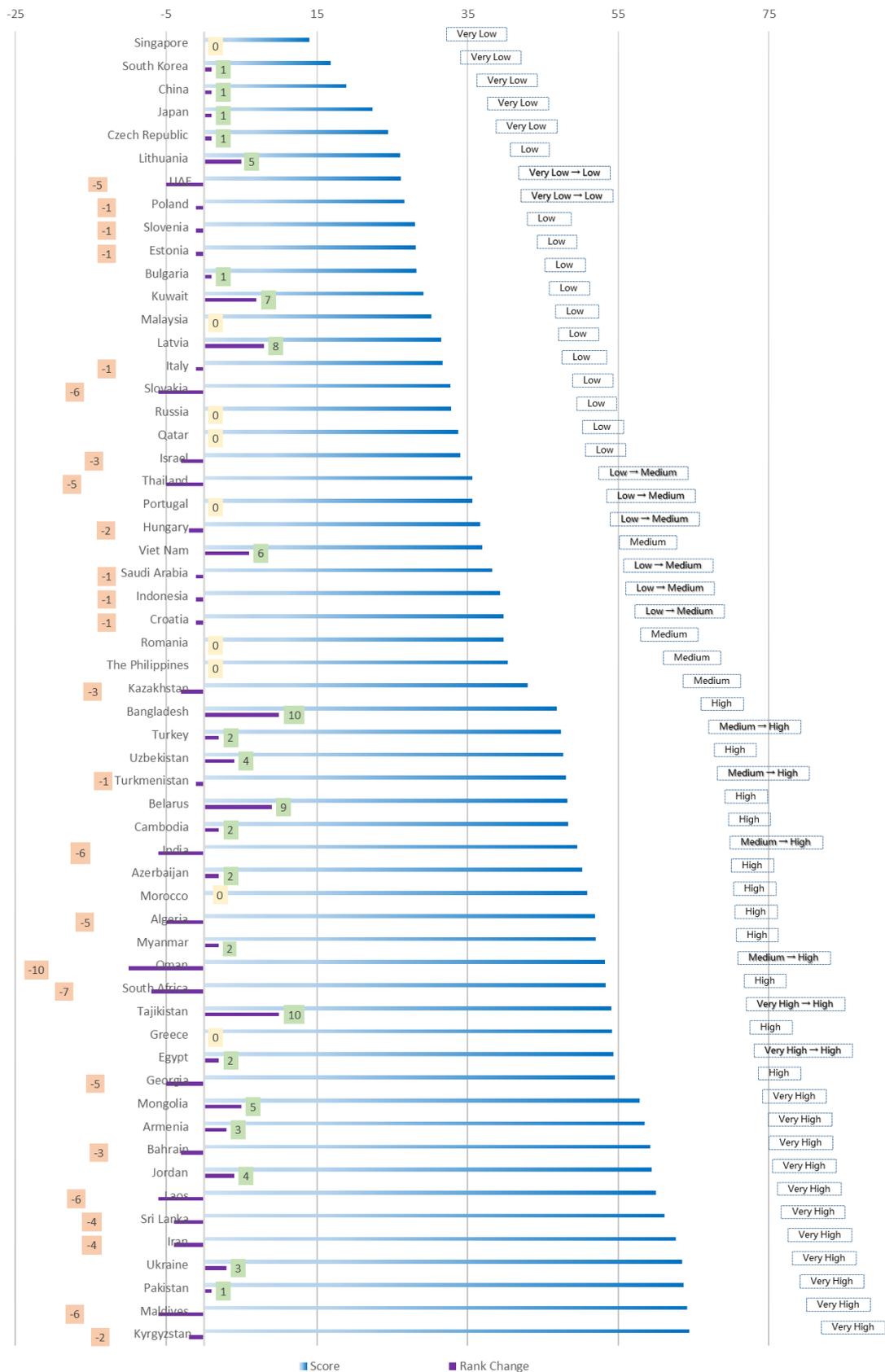
14 countries show a change in risk level, including 12 countries with a rising risk level. Specifically, risk score ranking of both Bangladesh and Tadjhikistan have moved up, manifesting improved risk profile. Oman, India and Laos rank significantly lower than before. Middle East countries such as Oman and Saudi Arabia have their economic growth and public finance rely heavily on crude oil exports. Oil price slump in the context of the COVID-19 pandemic has squeezed the current account and battered the oil sector of the economy and also sent a ripple to the non-oil sectors, resulting in economic downturn and mounting fiscal pressure. Moreover, the continuing buildup in deficits in recent years has pushed up the demand for financing and eroded into the fiscal buffers. Thus, the overall country risk has escalated significantly. Southeast Asian economies such as Laos and Thailand are shrinking under the COVID-19 shock with a decline in foreign exchange reserves and mounting pressure brought by short-term external debt, delivering a rise in their country risk.

Fig. 2: Distribution of Country Risk Levels among Countries along the Belt and Road (2019 vs. 2018)



³ Country risk scores for 2019 have factored in the latest economic growth forecasts.

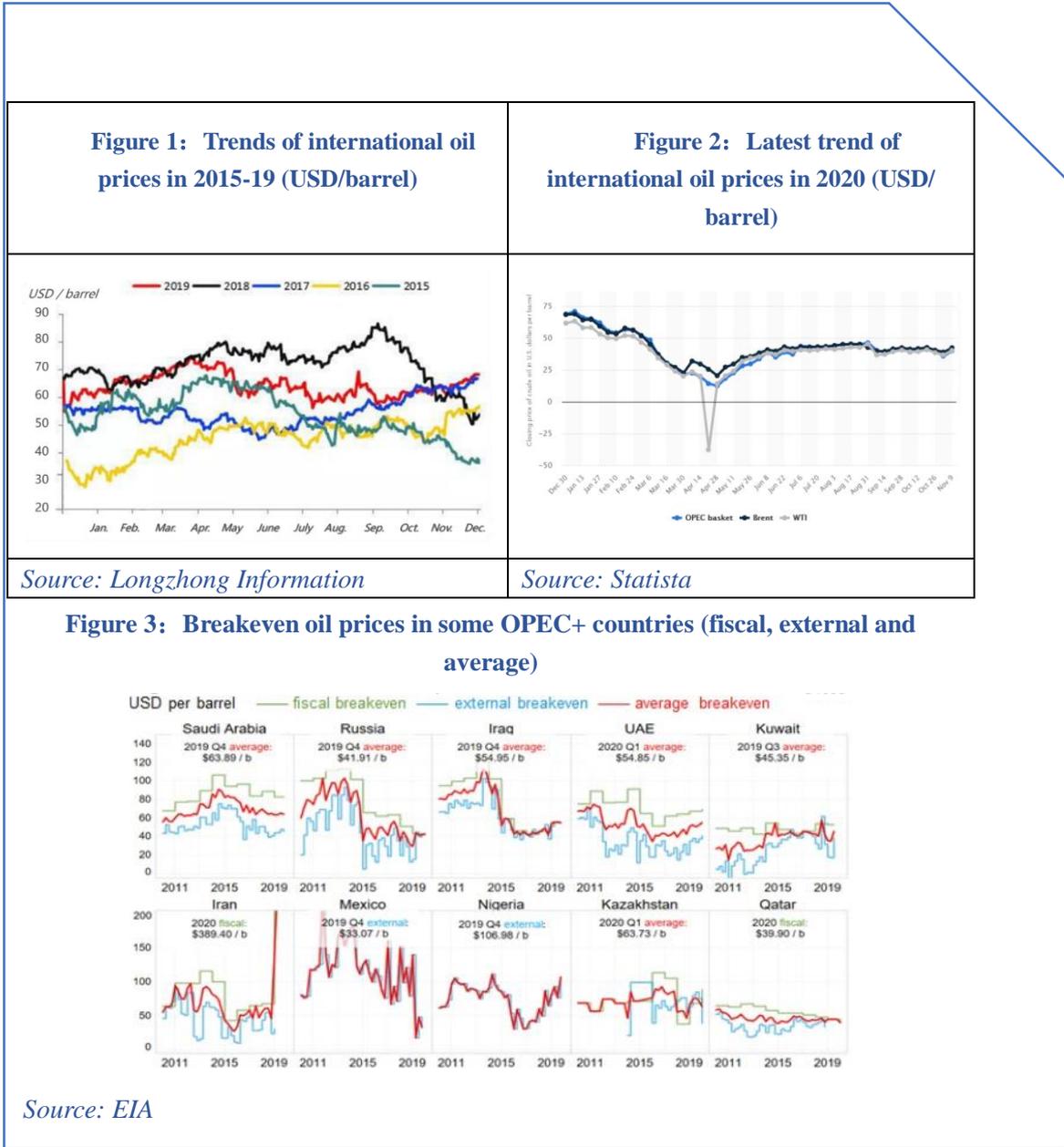
Fig. 3: Changes in Risk Scores, Rankings and Risk Levels of Countries along Belt and Road (2019 vs. 2018)



The oil price slump squeezed the current account of oil exporting countries, dragging down their economic and financial performance

The year 2019 began with a rise in international oil price due to the effective production cuts. However, the oil price had been delivering a highly volatile trend since the second quarter till the end of the year given the combined effect of escalating trade frictions and geographical incidents. The 2019 average settlement price of Brent crude oil recorded USD64/barrel, a slight rise from 2018, while the production cut generally squeezed the oil accounts of Gulf Cooperation Council (GCC) countries, raising the fiscal debt risk and economic risk in the Middle East. In March 2020, supported by its low fiscal breakeven price (only above USD40/barrel), Russia rejected the production reduction initiative proposed by Saudi Arabia, and the breakdown of OPEC+ negotiations triggered a price war in the oil market. At the end of April, the Brent oil price once fell below USD20/barrel, and it follows that a new production cut agreement reached in May managed to become some boost to the market. However, the spread of COVID-19 has further weakened the recovery momentum. The oil price has been remaining beneath the breakeven level for most crude oil exporting countries throughout the year, aggravating their financial stress and weighing on non-oil sector growth. Meanwhile, their current account deficits are weakening the external solvency, driving the Middle East risk trend upward.

In terms of economic performance, IMF predicts that the overall Middle East economy will shrink by 4.1% in 2020, of which oil exporters would experience a negative growth of -6.6%, and oil importers – which usually rely on tourism and expatriate household income – a downturn of 1.0%. Saudi Arabia, the largest economy in the region, suffers from ongoing oil-sector stress that translates into a short-term economic stagnation and financial fragility, but it boasts stronger economic resilience than most other major economies. Saudi Arabia has sped up the track of recovery since September as the COVID-19 epidemic abated in the domestic realm. IMF predicts Saudi Arabia's economy to shrink by 5.4% in 2020 and to expand by 3.1% in 2021, a performance that leads the regional recovery. In terms of oil price trend, Brent oil price has been struggling around the level of USD40/barrel since June, about USD2 to USD3/barrel higher than WTI oil price. The average price of Brent oil in 2020 recorded USD43.21/barrel, a decrease of 32.66% from 2019. IMF expects a weak recovery to USD46.7/barrel in 2021. For the time being, as the epidemic continues to spread, another round of slowdown in global economic activities along with massive increase in crude oil inventories remain the largest inhibitors faced by international oil prices. Meanwhile, the recovery dynamics and risk profile of the Middle East could also depend on the evolution of Covid-19 in the global realm.



South Asia, South Caucasus and Central Asia still pose higher risk than other regions

The risk ranking of regions along the Belt and Road remains relatively flat. The regional risk ranking of Eastern Europe has improved, mainly because the betterment of current account position drives down the external risk. Moreover, given the relatively stable growth of the Eastern Europe economy, which is less vulnerable to COVID-19 impacts, the economic risk is relatively limited. Likewise, the regional risk is subdued by the recovery in some countries that were once in crisis, such as Ukraine. Southeast Asia ranks lower than before, given that the economies are hit by the COVID-19 shock with

a decline in foreign exchange reserves and mounting pressure from short-term foreign debt service. It follows that the overall regional risk is on the rise. South Asia posts the highest risk among the eight regions discussed in this report. The South Asian economies are fiscally weak, structurally unsound and faced with various levels of reform dilemma, which gives rise to subdued economic growth along with striking fiscal debt risk and external risk. In addition, different countries in one single region could deliver divergent performances in risk control, in which countries in Southeast Asia, Eastern Europe and Middle East and North Africa (MENA) display more divergent profiles, whereas countries in South Caucasus and Central Europe reveal minor disparities, a pattern that is consistent with the previous year.

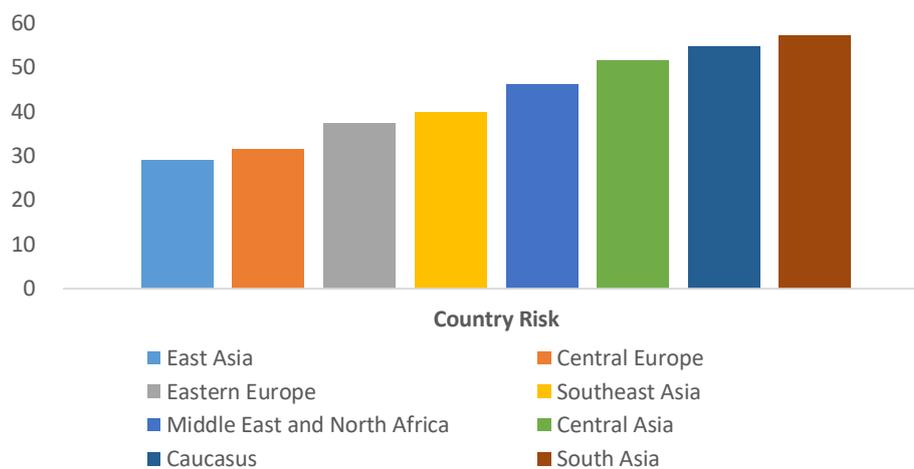


Fig. 4: Regional Risk Scores along the Belt and Road

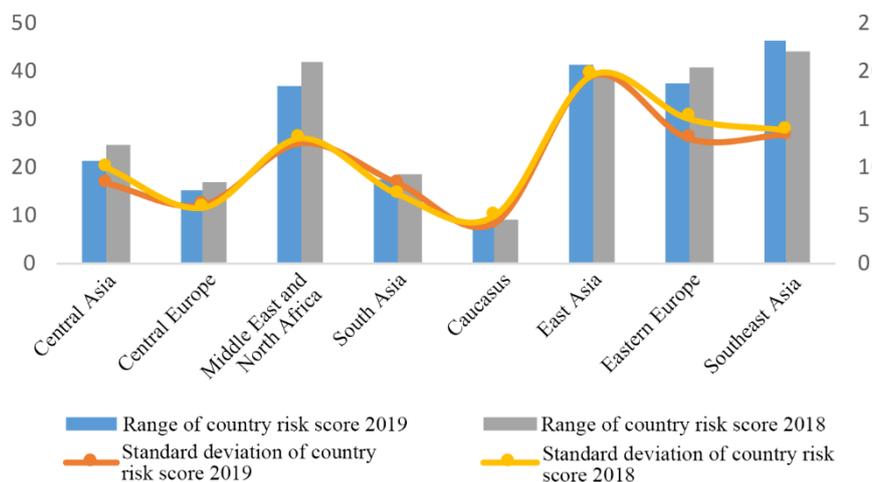


Fig. 5: Regional Risk Disparities along the Belt and Road

The COVID-19 weighed on Sri Lanka's economy, with high refinancing demand that pushes external risks significantly higher

Sri Lanka's economy has been slowing down in recent years. The economy had not fully recovered from the terrorist attacks in 2019 when COVID-19 outbreak hit the country. Under heavier downward pressure posed by the coronavirus, Sri Lanka's economy will finish 2020 with a contraction. Sri Lanka has a small economy with a relatively high per-capita income level in the region. Its economic development depends on the service industry represented by tourism (representing 62% of GDP). The agricultural sector accounts for less than 10% of GDP but employs 25% of workers in the country, extremely susceptible to climate factors. After the end of its civil war in 2009, Sri Lanka's economic growth averaged 5.3% annually from 2010 to 2019, recording a peak of 9.1% in 2012. Since 2012, Sri Lanka's GDP growth weakened on slowing investment and consumer spending amid political turbulences and weather extremities. Sri Lanka's tourism sector suffered a major setback due to the April 2019 terrorist attacks with a continuing spillover of negative effects. The annual economic growth was dragged down to 2.3% in the year. The COVID-19 outbreak has disrupted Sri Lanka's economic recovery, fiscal reform and political transformation in 2020, and sharply increased the downward pressure on Sri Lanka's economy. The economy is projected to contract by 0.5% in 2020.

Sri Lanka has a high foreign debt ratio and a huge demand for refinancing. The COVID-19 shock has further aggravated its financial and external stresses in the short term and pushed the sovereign risk higher. Sri Lanka's government has been facing the "twin deficits" problem for a long time. Its principal source of financing is international capital markets. Interest income accounts for more than 60% of government revenue and foreign debt takes up more than 60% of total government debt. With a weak public finance capacity, therefore, Sri Lanka has huge demand for refinancing and big external risk exposures. In spite of its effective COVID-19 containment, Sri Lanka faces such problems as economic weakness, tightening financing channels, currency depreciation and capital flight in the context of a shrinking world economy and highly volatile global financial markets. Its USD-denominated sovereign bonds recorded the worst performance among Asian sovereign bonds this year. Domestic and foreign factors have aggravated the challenges faced by Sri Lanka. The country has come under a major pressure to serve massive short-term foreign debts.

Fig. 1: Sri Lanka's GDP Growth and Sectoral Growth in 2003-2019



Source: ADB, Compiled by CCXI

Looking forward to 2021, Sri Lanka's economic recovery and external risk will remain under great downward pressure under the combined effect of domestic and foreign factors. Sri Lanka has limited space for monetary and fiscal policies and can hardly cover the coronavirus-inflicted economic loss under sustained downward economic pressure. Its government debt ratio will gradually exceed 100%. In addition, the uncertainty in COVID-19 developments and restoration of foreign demand will remain a drag on Sri Lanka's economic recovery. Given the low comparison base, Sri Lanka's economic growth is expected to rebound to 3.5% or higher in 2021, with the medium-term economic growth weaker than potential value.

The Nagorno-Karabakh conflict in the South Caucasus has come to a halt without a political agreement, yet it took a high toll on the economy, while the current account balances worsened

The region of the South Caucasus includes Georgia, Armenia and Azerbaijan. These territories, especially Azerbaijan and Georgia, are key in the China-Central Asia-West Asia Economic Corridor, which connects East and West. The Baku-Tbilisi-Kars railroad, which opened in 2017, is the main B&R project and it has already increased the importance of the region as it will increase the introduction of Chinese goods into Europe. The country risk score for the South Caucasus region showed an overall decline, but the position of the region in the ranking deteriorated. This was mainly due to an expected higher negative impact from the coronavirus crisis as compared to other countries included in the ranking. The economic structure of the countries continues to diverge as natural resources availability is quite different. Azerbaijan is highly oil-dependent while Armenia is highly dependent on remittances from abroad and Georgia is a more diversified economy, while also having substantial external exposure. The region as a whole showed solid economic growth in 2019 due to different factors, such as an increase in prices of oil and other commodities, strong external demand and steady private and public consumption. However, we have already seen the economies of the region perform negatively due to the adverse effects from the pandemic. The region has been generally affected by reduced domestic consumption due to the lockdown measures imposed, lower external demand translated in less exports and a steep decline in tourism.

Given the strike of the pandemic, we anticipate the fiscal stance of the whole region to deteriorate as a result of a sharp contraction in tax revenues and additional expenditures to cushion the negative effect of the crisis. The banking sector remained relatively stable, but we expect profitability to go down and asset quality to deteriorate. As a result of high external exposure in this region, we expect depressed oil prices, low external demand and reduced inflows of foreign funds, to translate into wider current account deficits in 2020 for Armenia and Georgia, while Azerbaijan will go from a substantial surplus in 2019 to a deficit in 2020. Political risk in the South Caucasus region remains high, and it is dominated by the evolvments regarding the Naka conflict, which still has lingering concerns in terms of political accords. According to the latest agreement signed by Armenia, Azerbaijan and Russia, a complete cease-fire would take place in the Naka region from November 10, and the Russian peacekeeping forces are expected to stay for at least five years. However, geopolitical dynamics in this region still deserves some constant attention.

Note: The economic risk score in 2019 has factored in the forecasts for 2020-2021.

Fig. 1: Real GDP Growth Rates of the Three Caucasus Countries

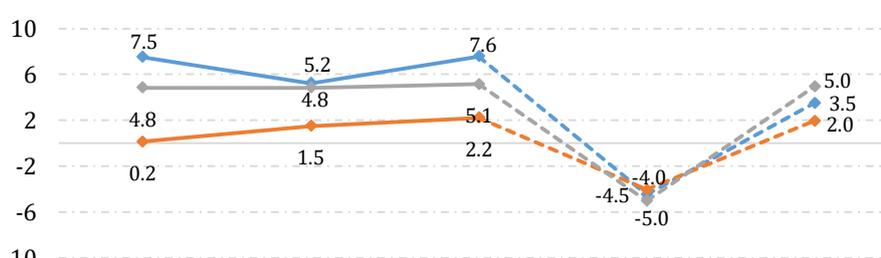


Fig 2: Maps before vs. after Cease-fire in Nagorno-Karabakh, South Caucasus

Before start of war



After signing of cease-fire agreement



Source: BBC, Compiled by CCXI

❑ Countries along the Belt and Road shows a significantly higher economic risk amid the COVID-19 pandemic

Against the backdrop of coronavirus outbreaks and global trade frictions, countries along the Belt and Road are generally faced with the pressure of economic downturn, currency depreciation and rising debts. Their economic risk and public debt risk have risen significantly, and the external risk of some economies is also a concern.

The outbreak of COVID-19 has had a profound impact on the global economy in 2020. Its speed of transmission and economic fallout are beyond expectations. From the perspective of sub-factor risks, the political risk and banking system risk are still prominent among countries along the Belt and Road. As the latest forecast data for 2020 was factored into the economic risk scores of countries along the Belt and Road in 2019, countries along the Belt and Road generally show economic downturn and a significant pickup in economic risk against the backdrop of coronavirus outbreaks and global trade frictions. These countries have generally introduced large-scale fiscal and monetary reliefs to improve people's livelihood, reduce economic losses and ease the liquidity pressure of financial markets. As a result, the longer-term debt burden and limited policy space will worsen the public debt stress and pose a severe challenge to some countries that were already on track for economic slowdown with limited policy space before the coronavirus outbreak. In addition, emerging market countries are facing the

pressure of export slowdown and currency depreciation, and their current accounts have generally deteriorated. The external risk of some emerging economies (such as Sri Lanka and Laos) has increased significantly, which also deserves attention.

From a regional perspective, Central Europe and East Asia show the most balanced risk performance with lower sub-factor risk. South Asia is fiscally weak, structurally unsound and stagnant in reforms, with its economic growth dented by the COVID-19 impact, showing the highest fiscal debt and external risks. South Caucasus shows the highest economic and political risks. Central Asia poses the highest banking system risk.

Fig. 6: Sub-factor Risk Scores of Countries along Belt and Road

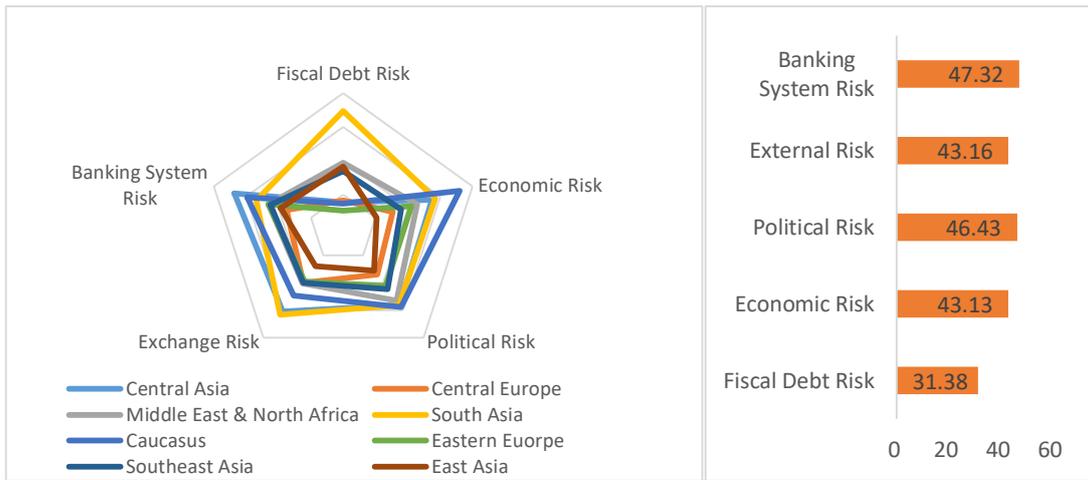
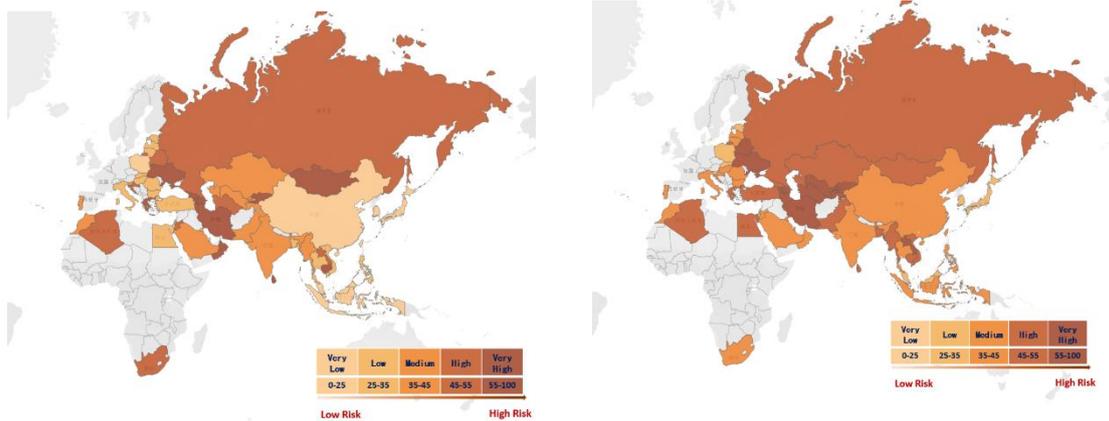
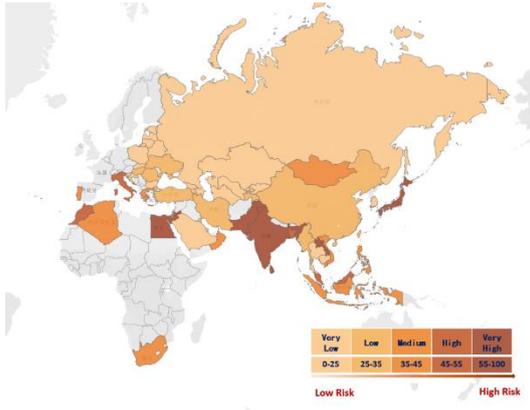


Fig. 7: Distribution of Secondary Factor-based Risk in Countries along the Belt and Road

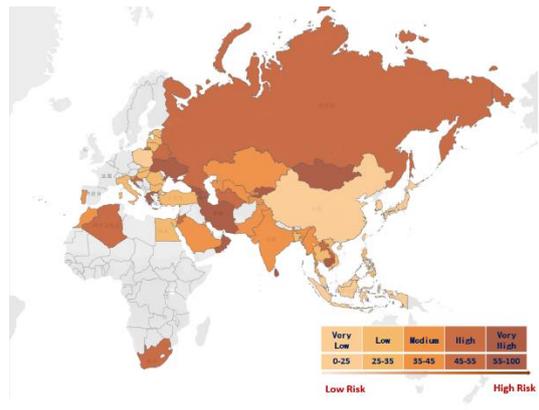


Distribution of Economic Risk

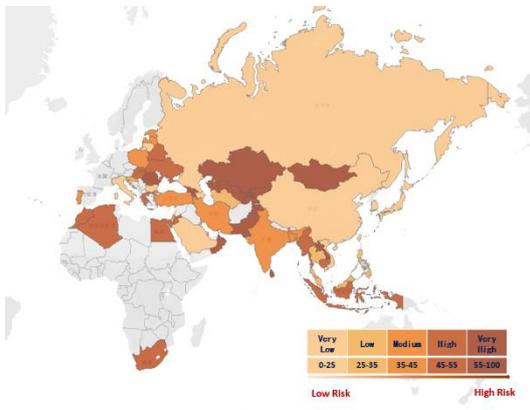
Distribution of Banking System Risk



Distribution of Fiscal Debt Risk



Distribution of Political Risk



Distribution of External risk

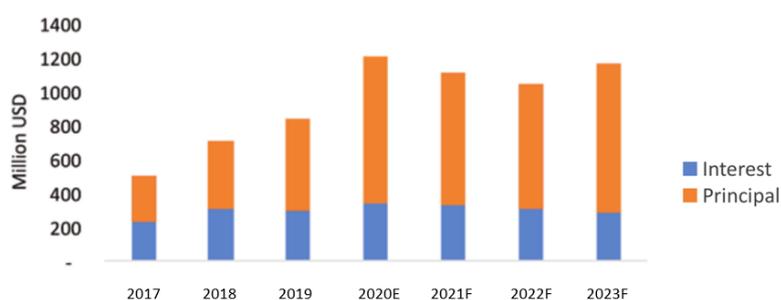
Laos' economy is shrinking amid the COVID-19 pandemic, with mounting pressure of short-term foreign debt servicing

Laos is fiscally stressed as its economy, which relies too much on resource exports and infrastructure investment, is shrinking amid the COVID-19 outbreak. Laos is one of the “least developed” countries in the world, with its per capita GDP less than USD3,000, ranking ninth in the ASEAN and 127th worldwide. Its economy is dominated by agriculture, export of mineral resources and tourism. In recent years, the Lao economy has remained on track for growth thanks to the government’s efforts to set up special economic zones, attract foreign direct investment and expand infrastructure investments (mainly hydropower stations and railways) and improve the labor market. Lao’s economic growth averaged 6.8% from 2013 to 2019, but has slowed down in recent years. The development model focused on infrastructure investment has huge demand for fiscal expenditure. Moreover, many export-oriented enterprises are on the verge of bankruptcy due to the coronavirus outbreak. The economy is facing a contraction. These factors, coupled by the contiguous low prices of commodities that weighed on government revenue, have kept the Lao government fiscally stressed.

In addition, Laos has a large foreign debt burden. As the two major sources of foreign reserve accumulation, the expanding current account deficit and the slowing FDI inflows have led to a drop in Laos’ foreign reserve, exposing the country to bigger foreign debt service pressure and higher liquidity risk in the short term. With a small domestic capital market, the Lao government relies more on external financing to support its infrastructure investment, evidenced by its public-sector foreign debt representing 53% of GDP. Under a big pressure to serve foreign debts, the Lao government is estimated to repay USD900 million of outstanding principal and interest in 2020 and about USD1.1 billion in 2021-2023 (about 55% of its average annual revenue). However, Laos has limited foreign exchange reserves of merely USD1 billion. With an expanding current account deficit and plummeting FDI inflow due to the coronavirus, the Laos foreign exchange reserves have been further reduced, expected to fall to USD740 million at the end of the year, which is only enough to cover the import demand of less than four months. In the short term, the external debt payment pressure and debt liquidity risk of Laos are very high. Moreover, the weakening of the global economy and investor confidence amid the pandemic will also push up the financing cost of the Lao government in the international market.

Looking forward to 2021, Laos’ economy is expected to rebound as the pandemic eases and the macroeconomic situation improves, and to see a FDI influx again and a narrowing current account deficit, which is conducive to the buildup in foreign exchange reserves. According to World Bank data, the outstanding principal and interest will decrease over 2021-2022. Thus the debt service pressure on Laos will get relieved.

Fig.1 : Laos’ Debt Service Expenditure in 2017-2023 (Estimated)

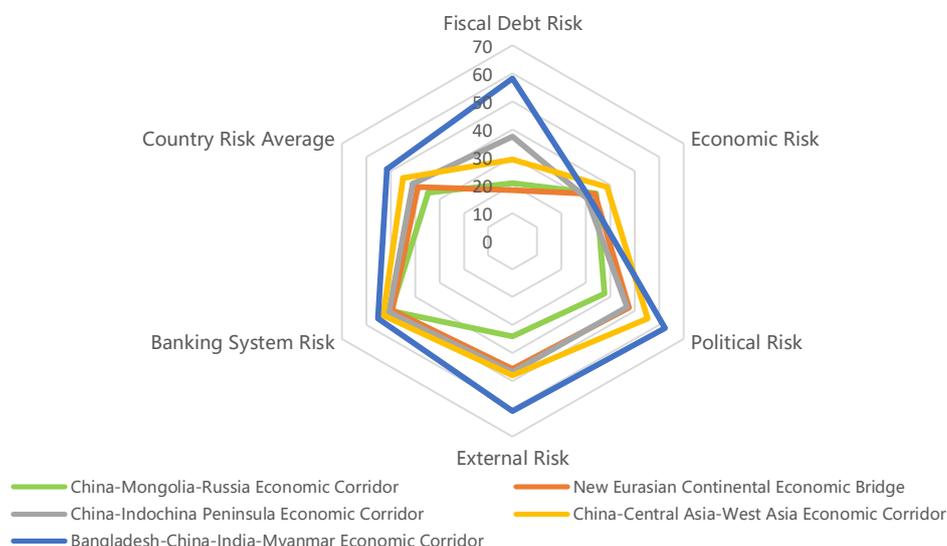


□ The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor have seen outstanding cooperation achievements, yet the region still face prominent risk

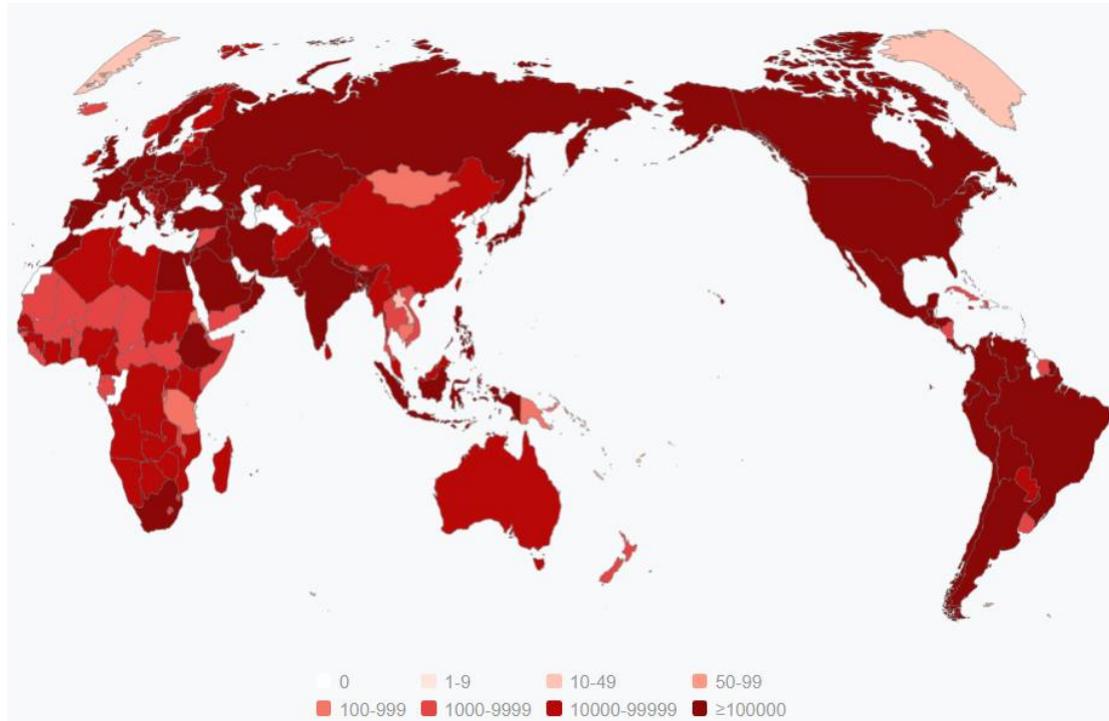
“Six corridors and six channels serving multiple countries and ports” is the main framework for cooperation under the Belt and Road Initiative. “Six corridors” refers to the six major international economic cooperation corridors, namely, the New Eurasian Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan and Bangladesh-China-India-Myanmar economic corridors. According to this strategic plan, the risk report classifies 57 countries into five categories for statistical analysis. The radar chart of sub-factor risk distribution is shown below (all data include China).

The three countries covered by the China-Mongolia-Russia Economic Corridor generally enjoy strong fiscal profile and have strong governmental ability to regulate the exchange rate. The region has the lowest political risk and external risk, and altogether the lowest country risk. The New Eurasian Land Bridge Economic Corridor covers major European countries and some countries in Central Asia, Middle East and South Asia, with a total of 26 countries. The regional risk is relatively low, especially the fiscal aspects and banking system enjoy the best performance among BRI belts. The China-Indochina Economic Corridor covers seven countries, namely China, Vietnam, Laos, Cambodia, Myanmar, Thailand and Malaysia. This region has a lower economic risk and a slightly higher public debt risk, with other sub-factor risks basically at the average level. The China-Central Asia-West Asia Economic Corridor covers five countries in Central Asia, ten countries in the Middle East, three countries in the South Caucasus and three countries in North Africa, showing higher economic and fiscal debt risks. The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor cover parts of South Asia and Southeast Asia, involving five countries, with outstanding cooperation achievements and yet still prominent overall country risk. As for sub-factor risks, this region also shows higher fiscal debt risk, political risk, external risk and banking risk than other regions.

Fig. 8: Risk Distribution among Economic Corridors along the Belt and Road



■ Part Two: Country Risk Outlook along the Belt and Road amid the COVID-19 Pandemic



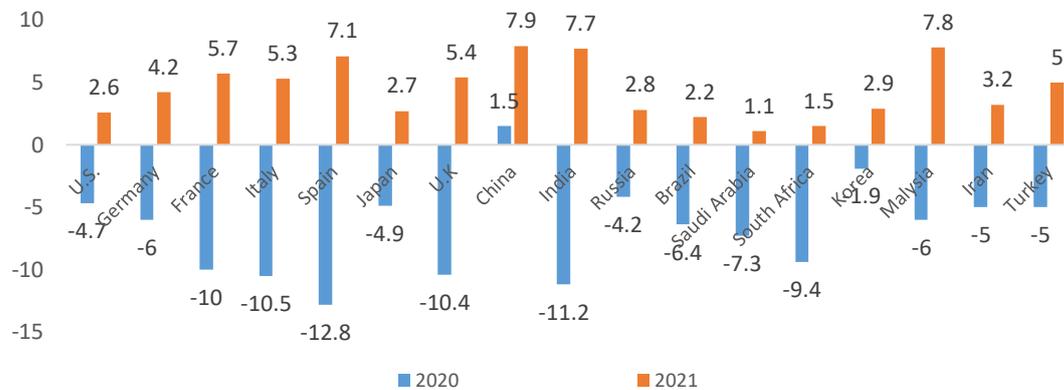
Source: Wind

Fig. 9: COVID-19 Global Spreads Schematic Map (as of November 30)

The COVID-19 weighed heavily on global consumption, trade and foreign investment. Despite a global-wide pickup since the third quarter, the post-pandemic recovery is likely to vary significantly across countries, given differences in economic status when hit by the pandemic, economic structure, policy space to boost recovery, etc. The US economy, which has improved somewhat since the third quarter, are facing key challenges such as coronavirus shock and trade tensions, with poor pandemic control casting a shadow over the recovery prospects. Joe Biden's policies would provide the US economy with a booster shot as it recovers from the global coronavirus recession, yet the heavy debt burden still poses a high fiscal debt risk. Japan saw its recession worsened by the COVID-19. As the "state of emergency" was ended and the massive stimulus gradually took effect, the Japanese economy started to show signs of improvements at the end of the second quarter and is likely to stage a modest recovery. The pandemic has exacerbated the risk profiles of the BRIS countries, whose ongoing reforms are frustrated to various degrees by the impairment of people's livelihood and escalation in external challenges. Among them, underpinned by strong risk resilience, Russia's economy are coming to stabilize, with the lingering impact of COVID-19 and the future trend of oil price still uncertain. South Africa, India and Brazil post more significant economic and fiscal debt risks given the coronavirus outbreak, all with the risk skewed to the upside in the future. In the context of the

COVID-19 spread and commodity price decline, emerging market economies showed divergent performances given varying levels of effect in coronavirus containment efforts and degrees of external shock, while they generally manifested signs of recovery after lockdowns were lifted.

Fig. 10: Estimated Growth Rates of Major Economies



Source: IMF, Compiled by CCXI (forecasts in October 2020)

As to B&R countries in the post-epidemic stage, it is expected that EM economies in Southeast as well as Central and Eastern Europe would recover quickly given the sound growth momentum and amenable policy space. Oil-exporting countries in Central Asia and MENA, with heavy reliance on energy exports, would still see endure some noticeable damage. South Asian countries, with the most prominent risk exposure, could face certain challenges in economic recovery.

- **Country risks will become divergent in Central and Eastern Europe.** As to Central European countries, the three Baltic countries, Romania and Bulgaria, this group are adversely affected by the coronavirus-inflicted severe recession in Europe, which are negative for their investment and import/export profiles. The COVID-19 lockdown has weakened consumption and is expected to pose a challenge to these economies. However, their country risks are stabilizing thanks to solid economic foundation, high growth potential and sound fiscal position. Ukraine's recovery may be disrupted by the pandemic and domestic political tensions. However, the solidified economic foundation and capital support from the global community as well as the ongoing reforms could help withstand risks. In Belarus, crisis around the domestic election and political turbulence have driven up the political risk, while its heavy dependence on Russia also has led to low economic stability, leading to a higher country risk.
- **Southeast Asian economies also generally went into a downturn amid the pandemic. However, as the pandemic gets largely contained in the region (except Indonesia and Philippines) and these countries rendered relatively sound growth momentum and policy room before the epidemic broke out, their track of economic recovery is stronger than global average.** Southeast Asian countries have introduced economic stimulus packages targeting on public

health safety, consumption smoothing and economic rehabilitation. However, most countries in the region have a narrow tax base, and the ongoing stimulus packages has added to the pressure on fiscal position. Some countries show a mounting risk of short-term external debt repayment. Overall, Southeast Asian countries post a smaller number of infection cases than other regions, and thanks to the sound growth momentum, effective virus containment and massive stimulus packages, they have shown a turnaround in leading sentiment indices, with economic activities generally staged a stronger recovery than the global average. As the global economic activity is recovering gradually, trade is expected to rebound, while tourism is unlikely to recover in the short term due to mobility restrictions. Under the scenario that Southeast Asian countries could effectively contain local epidemics in the year and the stimulus packages manage to provide material support for economic recovery, these countries would have a bright outlook for 2021 and are likely to return to positive growth.

- **Central Asian countries have heavy reliance on major trade partners and foreign capital inflows, rendering more significant impact brought by the pandemic.** Russia's economic recession, epidemic situation and lockdown measures, as well as the decline in oil price, have weighed on the economic activity, exports and remittance flows in Central Asian countries. In the post-pandemic era, the economic recovery in Central Asia will still be dominated by the price trend of commodities and the recovery process of Russia. Kyrgyzstan and Tadjikistan could see a very high public debt level, which would constrain the fiscal flexibility in tackling shocks. Although Uzbekistan's debt burden is on the rise, it is expected to remain at an appropriate level. As for external liquidity, the current account deficit will feel the pressure posed by shrinking trade and remittance flows amid the COVID-19 pandemic. As Central Asian countries are highly dollarized in general, banks are still vulnerable to any sharp depreciation in local currencies. As for geopolitical risk, the risk of political instability in Kyrgyzstan is more prominent, which may hurt the economic performance along with the COVID-19 impact and become a drag on economic recovery. Meanwhile, some due attention should be paid to its general election in January 2021.

- **Oil exporters in Middle East are suffering from dual impacts of the COVID-19 spread and the oil price slump caused by the collapse of OPEC+ production cut talks. The sharp contraction in oil-sector performance, coupled by surging COVID-19 spends, have abruptly widened the budget deficit and undermined their fiscal strength.** In addition, the current account deficit has morphed into the surplus build-up. The quick weakening of such indicators, such as foreign exchange coverage, also become a potential source of pressure. Together these changes softened their foreign solvency. Following the drastic economic downturn in the second quarter, however, the year-on-year contraction in oil production and economy has been gently slowed down starting from the third quarter. According to related indicators such as PMI indices, the non-oil private sector is gradually

firming up. Saudi Arabia is recovering faster and leading the regional economic rebound. Moreover, the main crude oil exporters show better economic and fiscal performances than non-crude oil exporters. As the re-break of coronavirus began in late September and again weighed on crude oil demand, adequate attention should be paid to the prosperity of crude oil export in these countries and the relevant economic and fiscal effects. The crude oil market is now in a weak balance, and the pandemic situation and the OPEC+ cut game in the fourth quarter of 2020 and the following year would be key variables to dynamics of the oil price and economic recovery in this region.

- **South Asian countries, with relatively weak profiles and large exposure to external risks, have been hit harder by the COVID-19 compared with other regions, and their economic recovery process will face certain challenges.** When the COVID-19 outbreak occurred, Pakistan just undergone a period of tight macro-policies intended to address the “twin deficits”, which has already weakened the economic and fiscal positions of Pakistan. Sri Lanka was on the track of economic recovery, fiscal reform and political transformation when hit by the pandemic. The pandemic outbreak has sharply increased the downward pressure on both economies, further softening their fiscal capacity and pushing their refinancing risk higher. Generally speaking, South Asian countries enjoy very limited fiscal and monetary policy space. Although the two economies have different drivers for economic development, for Sri Lanka depends heavily on tourism and other foreign demands while Pakistan rely on domestic consumption, both sovereigns will face challenges as evolvement of the global pandemic remain uncertain. It is worth mentioning that Sri Lanka’s debt structure is unbalanced given years of relying on financing channels such as the international sovereign debt market. Continued economic stress will further increase its refinancing risk and external risk and pose challenges to the country’s economic recovery.

For countries along the Belt and Road, economic and fiscal debt risks will be high while the fiscal recovery will be slower than economic recovery in the following period. The risk divergence is increasing among these countries. As countries along the Belt and Road are mostly developing countries, the shrinking domestic and foreign demands, a prevalent economic inactivity or even a recession, will further drive up the fiscal deficit and debt burden. The prices of crude oil and other commodities are expected to remain low because of subdued global demand. Therefore, some commodity-exporting countries are facing economic and fiscal difficulties. Consequently, rising economic and fiscal debt risks are widely seen in the Belt and Road countries, and a full recovery of fiscal performance may also take longer than economic recovery. Countries that are heavily dependent on foreign capital, such as Sri Lanka and Turkey, may sink into a liquidity crisis that is typified by currency depreciation, major drop in foreign exchange reserves and rising risks of foreign debt servicing. However, impacts on global capital and financial markets are offset by monetary easing, and remains moderate risks, which has not yet turned into a systemic

risk in the banking system. But in the future, the lengthy economic and fiscal recovery could erode the asset quality and profitability of banks. In countries, such as India and Italy, extra attention should be paid to the impact of changing economic and fiscal positions on the banking system. On that basis, given the national disparities in economic structure, pre-epidemic development trends, policy space and reform process, tracks of post-pandemic recovery will become further divergent.

CCXI believes that the pandemic will reshape the global political and economic landscape, which would further highlight the strategic significance of the Belt and Road Initiative. Growth trends of the global economies are already divided before COVID-19 outbreak, and would become further divergent after the coronavirus shock. Against the backdrop of de-globalization, marked by an escalation in the US-China conflict, the divergence in economic trends and the reshape of political landscape will profoundly change the post-pandemic international community. We assess that developed countries will face a power reshuffle, BRICS still struggle in external and domestic troubles and emerging markets will be embroiled in another economic-political shunt. In the post-pandemic era, how to drive economic growth with domestic strength, how to address the debt burden pushed higher by the pandemic, and how to prevent the re-shoring of international industrial chains will become more fundamental issues. In the context of the COVID-19 pandemic, the Belt and Road Initiative will rise as a stronger driving force for trade and investment. In the post-pandemic era, on the one hand, countries along the Belt and Road generally face the arduous task of pursuing economic recovery and structural reforms. On the other hand, the US-China confrontation will become the new normal. Against a backdrop of universal economic and fiscal debt risk bump caused by the pandemic, Belt and Road will project much more significance to China and to the world.

■ Part Three: China and the Belt and Road Initiative in the Post-pandemic Era

Since the cooperation initiative of Silk Road Economic Belt and the 21st Century Maritime Silk Road was proposed in 2013, China has been deepening its economic and trade cooperation with countries along the Belt and Road by boosting the freedom and facilitation in trade and investment and pursuing higher level of opening-up. As of November 11, 2020, China had signed 201 Belt and Road Initiative cooperation documents with 138 countries and 31 international organizations.

China's Trade with countries along the Belt and Road has expanded in recent years. From 2013 to 2019, China's trade in goods with countries along the Belt and Road⁴ rose from USD1.04 trillion to USD1.34 trillion. Of these countries, the largest trade partners to China are Vietnam, Malaysia, Russia, Thailand, Singapore and India. In 2019, China recorded USD1.90 trillion in total trade in goods with 138 countries that signed Belt and Road cooperation documents, representing 41.5% of China's global trade in goods.

Fig. 11: China's Trade with Countries along the Belt and Road has Expanded in Recent Years



Source: Ministry of Commerce

China's investment in countries along the Belt and Road has moved steadily forward in recent years. China's direct investment in countries along the Belt and Road totaled USD18.69 billion in 2019, up 4.5% year-on-year. As at the end of 2019, China's total direct investment in Belt and Road countries stood at USD179.5 billion,

⁴There are 65 countries along the Belt and Road, including Mongolia in East Asia, 10 ASEAN countries, 18 countries in West Asia, eight countries in South Asia, five countries in Central Asia, seven countries in the Commonwealth of Independent States (CIS) and 16 countries in the Central and Eastern Europe. To date, 138 countries have signed Belt and Road cooperation documents, far beyond the scope of countries along the Belt and Road.

accounting for 8.2% of China’s total outward FDI. The main destinations of FDI include Singapore, Indonesia, Russia, Laos, Malaysia and Kazakhstan. As to overseas project contracting, countries along the Belt and Road are China’s core destinations. Contracts signed with these countries in 2019 totaled USD154.89 billion, accounting for 59.5% of China’s new international contracts signed in the year, up 23.1% year-on-year, with a completed business revenue of USD97.98 billion, up 9.7% year-on-year.

Fig. 12: China’s Investment in Countries along the Belt and Road has moved steadily forward in Recent Years



Source: 2019 Statistical Bulletin of China’s Outward Foreign Direct Investment

To measure China’s connection with countries along the Belt and Road, this report adopts the quantitative analysis method, supplemented by qualitative analysis to measure indicators that cannot be completely quantified. Quantitative indicators include the proportions of total FDI stock from China, imports from China and exports to China. This intends to measure China’s importance to these countries in terms of funding and trade relations. Qualitative analysis is to make a comprehensive judgment based on changes in China’s FDI flows to these countries, trade structure and bilateral diplomatic relations in recent years.

In general, China generally bears a close tie to countries along the Belt and Road, yet with observable regional differences. With regard to countries covered in this report, Southeast Asia, Central Asia and East Asia are highly connected to China. Laos and Tajikistan have a large share of FDI stock from China, while Mongolia, Myanmar and Turkmenistan register a large proportion of exports to China. In addition, China is the largest market and a major investment destination for many of the multinational corporations and investment institutions based in Japan, South Korea and Singapore. Given the substantial contribution to their market opportunism and profits, China is also highly connected to these three countries. Besides, China as the world’s largest importer of commodities highly complements commodity-exporting economies, vice versa. The connection in between is generally at a high or medium level. Central and Eastern Europe and South Caucasus, are less connected to China, for their major trade and

investment partner are the EU or Russia.

Fig. 13: Exports and Investments between China and Countries along the Belt and Road

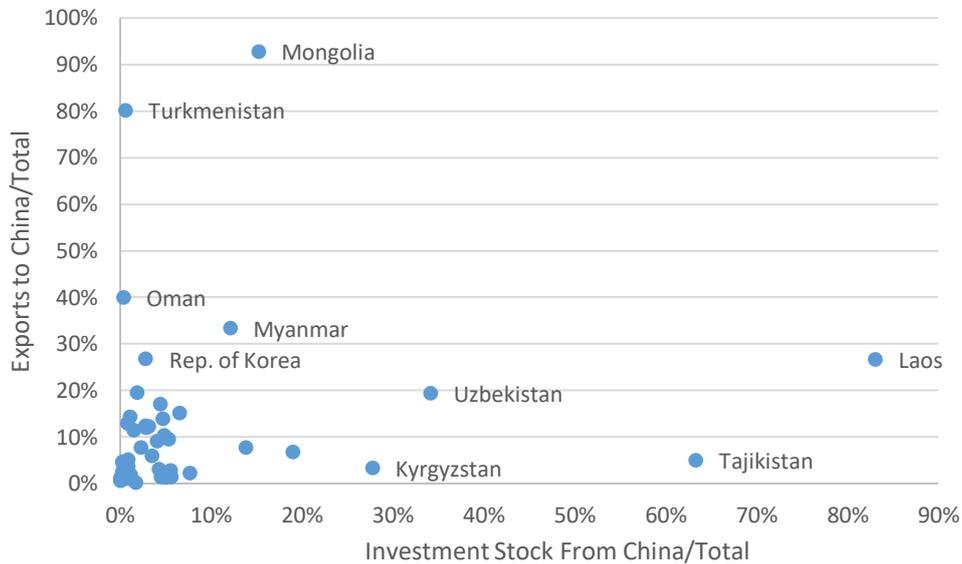
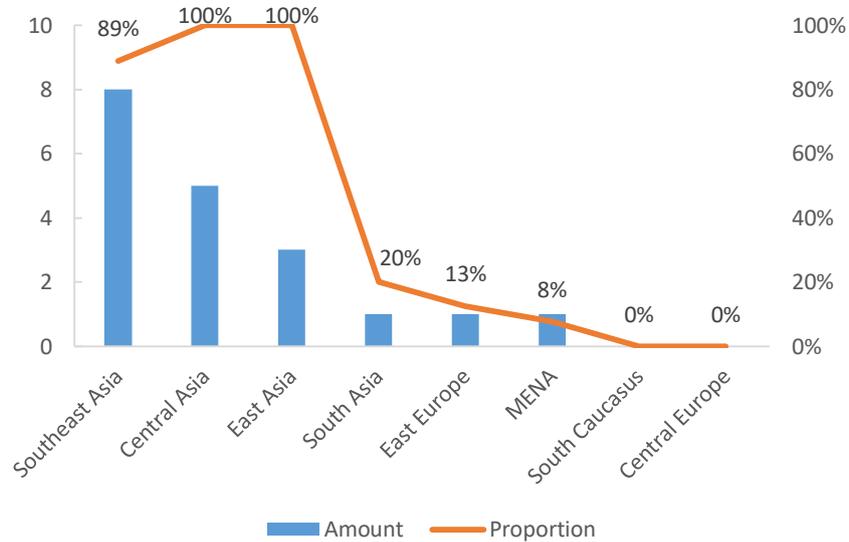


Fig. 14: Connectivity between China and Countries along the Belt and Road



China has a closer trade and investment tie to countries along the Belt and Road during the COVID-19 pandemic. Some countries issued policies to attract foreign investments, especially from China. The first three quarters of 2020 witnessed highly active trades along the Belt and Road. China’s trade with these countries totaled USD963.4 billion, down 1.02% year-on-year, but the percent share edged up by 0.2 percentage points to 29.2%, a major driver of China’s international trade. Major trade

partners are still ASEAN, Russia and India. In particular, the trade with ASEAN reached a prominent level of USD481.81 billion in the first three quarters, up 5% year-on-year, while ASEAN contributed 50.1% of the total trade along the Belt and Road. As for investment, Chinese enterprises made USD13 billion of non-financial direct investment in 57 countries along the Belt and Road in the first three quarters, up 29.7% year-on-year, accounting for 16.5% of the global volume, up 4.1 percentage points year-on-year, and the main destinations are ASEAN, Kazakhstan and UAE. As for international contracting, Chinese enterprises signed 3,478 project contracts with 61 countries along the Belt and Road during the first three quarters. The new contracts signed have a total value of USD83.71 billion, accounting for over 50% of China's new international contracts signed in the same period. In terms of policy, Indonesia has established a "fast lane" with China, gradually resumed international direct flights to reopen the economy and issued the Job Creation Law to simplify foreign investment procedures and lower the industry thresholds for foreign investment. China and Cambodia have signed a free trade agreement, which will additionally boost the China-Cambodia trade and contribute to Cambodian infrastructure projects and related Belt and Road Initiative projects.

In the post-epidemic era, China will have closer relations with East Asian and ASEAN countries under RCEP. China has a high degree of correlation with East Asia and ASEAN, and there will be huge space for cooperation in the fields of infrastructure and the digital economy. Driven by RCEP, the East Asian supply chain is bound to occupy a larger share, and cooperation between countries in high-tech industries such as semiconductors will continue to advance. Relying on China's accumulated human and technological advantages in digital construction, e-commerce, and digital infrastructure will also become new growth engines for East Asian cooperation. As the priority direction of China's neighboring diplomacy and an important partner in the joint construction of the "Belt and Road", the advantages of ASEAN and China are highly complementary. China is rich in brands, technology and capital, while ASEAN has abundant raw materials and relatively cheap labor. With the advancement of the "Belt and Road", numerous economic corridors and infrastructure construction continue to achieve breakthroughs. For example, the "China-Indochina Peninsula Economic Corridor" has made positive progress in bilateral infrastructure interconnection and cross-border economic cooperation zone construction. The Kunming-Bangkok Highway is fully connected, and the China-Laos Railway, China-Thailand Railway and other projects are progressing steadily. The deep integration of bilateral industrial chains has also led to further growth of bilateral trade and a more optimized trade structure. Thanks to the relatively sound epidemic containment of both China and ASEAN countries, the bilateral trade between the two sides had grown steadily in 2020, and ASEAN has officially become China's largest trading partner. The new demand generated by the epidemic has also prompted bilateral cooperation to gradually turn to higher value-added industrial chain, especially in the digital economy fields such as e-commerce, smart cities, big data, and 5G. The expansion of the industrial chain will create new opportunities for cooperation.

The EU-China Comprehensive Agreement on Investment (CAI) will create more opportunities for investment flows between China and the EU. There are uncertainties in the degree of correlation between China and EU, as European countries may have policy swings under the current Sino-US conflict. However, it is expected that the overall correlation between the two sides will be significantly enhanced once the agreement is implemented. The scale of investment between China and the EU is relatively low, compared with Sino-European trade and investment activities, and EU investment in China is also concentrated in only a few areas such as automobiles and chemicals. While the agreement focuses on solving the obstacles for EU investment in China. As for EU investment opportunities in China, automotive industry, banking and insurance industries, together with private hospitals and biotechnology would be the major fields. The automotive industry is expected to remain the core area of EU investment in China, thus the industry will face more fierce competition. The major EU countries, including Germany, France, Italy, etc., have strong strengths in vehicle manufacturing and auto parts, and China is the world's largest automotive market and conduct a key development in electric vehicles. Banking and insurance industries will become other attractive fields for EU investment, with some major EU countries advances in these areas, such as Germany, France, Italy, the Netherlands and Spain. Additionally, the increased openness of the EU to China would also bolster opportunities for Chinese companies to invest in the EU. China has strong competitiveness in the fields of renewable energy, communication equipment, etc. However, related Chinese companies have previously been restricted from investing in the EU or exports to the EU. Under the agreement, Chinese companies can enjoy greater market space, boosting the development of wind power, photovoltaic, 5G and other fields in China.

The degree of correlation between China and other B&R countries will diverge. Escalating demand to restore economic growth in the post-epidemic era would foster cooperation between China and many other regions and countries. We assess that the correlation between China and Central and South Asia would continue to rise from the current high level, given that these regions have urgent need for economic development, while absorbing investment from Chinese enterprises and increasing exports to China could become an important driving force for restoring economic growth in the post-epidemic era. It is expected that China and Central Asia would strengthen cooperation in infrastructure construction, agricultural production and the Internet, while China and South Asia will strengthen cooperation in energy, agriculture, transportation and other fields, and continue to unleash the potential for cooperation. Countries such as Belarus, Czech Republic and Azerbaijan are located in the key nodes of land transportation in Central Europe, and these countries could attract Chinese investment given their location advantages, and the degree of correlation between China and these countries may increase obviously. Russia is of great geographical significance to China's "Belt and Road Initiative" layout. While China continues to maintain the status as Russia's largest trading partner, steady cooperation have been going on in energy, infrastructure, and labor services between the two, and it follows that Eurasia's increasing role in the global economic landscape is opening a window for

the two states to build a regional economic community. As for China and the Gulf countries, the scale of economic and trade exchanges is relatively large, and their economic and industrial structures are highly complementary, thus the connectivity would have stable growth in the future. It is expected that the two sides would strengthen cooperation in nuclear energy, renewable energy, aerospace, high-tech, finance and other fields after the epidemic. Countries such as India – despite the high dependence on Chinese funds and products – render their economic and trade exchanges as well as diplomatic relations with China at a cold stage, given their considerations upon the China-US gaming and their own strategic demands, and the prospects are highly uncertain. Lastly, countries including the three Baltic States and Bahrain are small in size, and their main partners are neighboring countries. The degree of correlation with China is expected to remain low.

Outlook on Cambodia's post-pandemic investment environment

Cambodia will have a closer link with China and pose a low investment risk driven down by its tie to the Chinese economy. However, it is necessary to watch out for the threat posed by the opposition supported by Western forces to its political stability

Cambodia's economic growth has remained at around 7% in recent years, mainly driven by clothing export, construction and tourism. However, Cambodia's economy is small in size, simple in structure and low in per-capita income, and its cushioning capacity for economic shocks is relatively limited. The global spread of COVID-19 has dealt a heavy blow to Cambodia's tourism sector in 2020. The economic recession in major export destinations, such as Europe and the United States, has throttled Cambodia's export demand while the investment activity dominated by real estate has slowed down. As a result, Cambodia's economic growth has softened substantially in 2020. In the medium and long terms, however, Cambodia has big potential for economic growth in spite of the negative impact of EU's partial withdrawal of tariff preferences and rising labor costs on Cambodia's exports. Moreover, given the close China-Cambodia relations in tourism, investment and trade, Cambodia's economy will have strong growth momentum and low investment risk in the post-pandemic period.

China-Cambodia relations are one of the most important bilateral relations between China and ASEAN countries. First, from the perspective of FDI, China is the largest foreign investor in Cambodia. China contributed 43% of total FDI in Cambodia in 2019. At present, Chinese investments in Cambodia are concentrated in construction and real estate sectors. Second, the two countries have frequent bilateral trade activities. China's exports (mainly intermediate products) to Cambodia accounted for about 35% of Cambodia's total imports. In terms of service trade, Chinese tourists accounted for 36% of total inbound travelers to Cambodia. In addition, China is the largest creditor of the Cambodian government. By the end of 2019, China provided about 40% of foreign loans to the Cambodian government, exceeding the total loan from ADB and the World Bank. In the prevailing environment of unilateralism and trade protectionism, China and Cambodia formally signed a free trade agreement in October 2020, which highlights their strong desire to boost bilateral economic and trade cooperation. This agreement will further facilitate Chinese investments in Cambodia. In this agreement, China provides Cambodia with greater market access by cutting tariffs. For Cambodia, the increase in exports to China means less dependence on European and American countries. In addition to trade-related benefits, this agreement may also stimulate the landing of infrastructure construction and related Belt and Road Initiative projects in Cambodia.

Cambodia's geopolitical value in Southeast Asia has long been valued by China and the United States. After entering the Trump era, US-Cambodia relationship have become relatively cold, which in turn provides an opportunity for the deepening of Sino-Cambodia relationship, which have kept going deeper in recent years. At present, Cambodia's China policy shows no obvious signs of being influenced by the United States. In terms of political risks, however, it is still necessary to watch out for the long-term threat posed to the Hun Sen government by the opposition supported by the United States and other Western forces. As for other major investment risks, Cambodia is one of the countries with the most frequent seasonal changes in water resources in a year, so there is a natural disaster risk related to climate change. In addition, there are some active national NGOs led by western countries in Cambodia. As Cambodia has no well-established environmental laws or regulations, the investors in any projects that involve environmental interests may need to forge good communication and cooperation with NGOs while respecting Cambodia's local culture, policies and regulations.

Appendix

CCXI Country Risk Assessment Method

In measuring country risks, CCXI mainly adopts the quantitative analysis method. CCXI quantitatively analyzes the overall risk of a country and forecasts the future trends, supplemented by qualitative analysis to measure indicators that cannot be completely quantified. CCXI adopts the scorecard model to visually display the factors and weights considered in country risk assessment.

The country risk assessment system measures economic risk, public debt risk, banking system risk, external risk and political risk. Specifically, economic risk aims to assess the sustainability and stability of a country's economic growth, with examined factors being the diversity of economic structure, stability of economic operation and trend of economic growth. Public debt risk aims to assess the ability of a country's government to mobilize resources to repay debts, with main examined factors being the government's fiscal stability, debt burden and debt structure. Banking system risk aims to assess the stability of a country's banking system, the government's supervision over and intervention in the banking system, with main examined factors being the asset adequacy ratio and asset quality of the banking system. External risk aims to assess the matching degree of a country's external assets and liabilities, the volatility of exchange rate and the dependence on and sensitivity to foreign capital. Political risk aims to assess the risks posed by the unexpected change or succession of a country's political institutions or reform process and intensity, and the instability regarding the rule of law.

Among the above five risk factors, economic risk and political risk are most important in country risk assessment. Economic risk has a direct impact on investment income. A structurally simple and volatile economy suggests an uncertainty in economic environment, which limits the predictable investment income. Political risk often means uncertain, unsafe and inefficient policies and investment environment, which have an immediate and important impact on investment income. The country risk assessment system of CCXI is shown in the following figure:

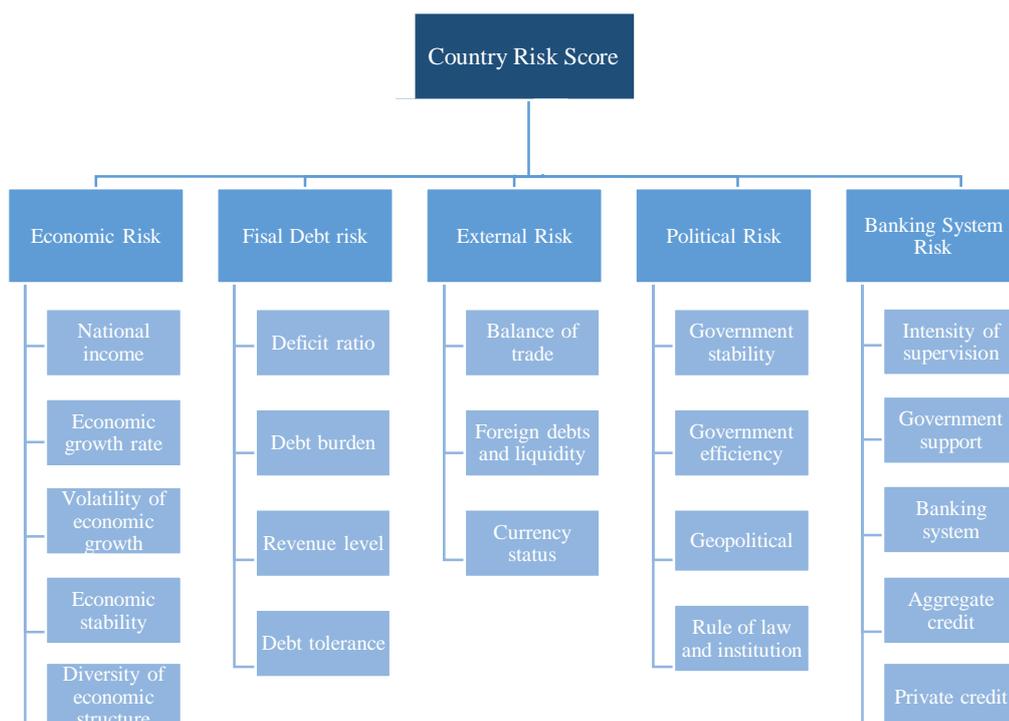


Fig. 1: Secondary Factor-based Risk Score of Countries along the B&R

