



China’s “One Belt, One Road” Initiative: Economic Issues

President Xi Jinping of the People’s Republic of China (PRC or China) in 2013 launched an ambitious and multifaceted foreign economic policy initiative—*One Belt, One Road*—to expand China’s global economic reach and influence. In 2015, Beijing changed the English name to the *Belt and Road Initiative (BRI)*, possibly to deflect from its focus on developing China-centered and controlled global ties in a hub and spoke format. In October 2020, the Communist Party of China’s Central Committee reaffirmed the effort’s central role in national economic development and securing China’s supply chains. A January 2021 White Paper, *International Development Cooperation in the New Era*, issued by China’s cabinet, highlights the initiative’s role as a platform for China’s global commercial activity.

Scope and Objectives

One Belt, One Road aims to develop China-centered and -controlled global infrastructure, transportation, trade, and production networks. While initially focused on Asia, Europe, and Africa, the scope has become global and encompasses over 100 countries, including the United States. It includes a land-based Silk Road Economic Belt, a 21st Century Maritime Silk Road, and a Digital Silk Road that seeks to promote overseas China’s information and communications technology (ICT) supply chain, including hardware, and optical cable and satellite networks. The initiative also emphasizes economic policy coordination, trade and investment facilitation, dispute settlement, tourism, student and personnel exchanges, and cooperation in research and development, standards, media, and health.

One Belt, One Road focuses on infrastructure, and related supply chain, transportation, technology and financial integration that expands the use of China’s credit information system and currency. Projects in energy (supply, generation, and transmission), ICT, manufacturing (industrial parks and trade zones), and transportation (rail, roads, ports, and airports) look to vertically integrate China’s production supply chains, technology and service infrastructure, and transportation networks. The initiative seeks to expand China’s state firms’ presence overseas, create new markets for China’s goods and services, and secure access to foreign sources of agriculture, energy, and strategic commodities required for China’s economic development and policies. Projects also aim to develop China’s interior regions, employ Chinese workers overseas, and offload excess industrial capacity. China is focusing on global collaboration in health, research, and standards setting in response to the COVID-19 pandemic, a focus on basic research in the 14th Five-Year Plan (2021-2025), and implementation of the *China Standards 2035* strategy.

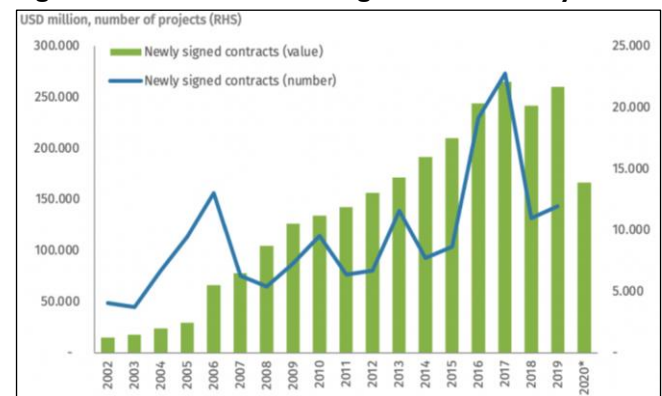
China’s Investment and Financing

China has emerged as a top global investor and financier as its companies have moved offshore to access raw materials,

commodities, and energy; acquire foreign capabilities; and build infrastructure. China’s overseas development finance between 2008 and 2019 is estimated to have totaled \$462 billion, rivaling \$469 billion in World Bank lending over the same period, according to Boston University’s Global Development Policy Center. China’s global outward FDI stock is estimated to have risen from \$34.7 billion (0.5% of world total) in 2001 to \$2.1 trillion (6% of world total) in 2019. The United States accounted for \$7.7 trillion, or 22%, of global outward FDI stock (down from 32% in 2001.)

China’s state banks—including China Export-Import Bank, China Development Bank—state firms, and government guidance funds (e.g., the Silk Road Fund), undertake a large share of China’s overseas lending and investment. China’s payments appear to bypass the host country. The Chinese government typically pays its firms onshore in China for the projects they implement, while host governments pay the Chinese government for the project. These projects are neither assistance—China’s loans are typically not offered interest-free and tend to be issued at, or near, market terms—nor truly commercial, because repayments are often backed by collateral commitments (e.g., lease rights, minerals, or commodities) made to the PRC government, which in turn absorbs much of the commercial risk for Chinese firms. Recipients of collateral commitments may include state firms designated by the PRC government that were not party to the original transaction.

Figure 1. China’s Overseas Signed Contracts by Value



Source: Rhodium Group with data from China’s Ministry of Commerce through October 2020.

China’s outward FDI levels peaked in 2016, but its government statistics show that cross-border contracts have been more stable (**Figure 1**). China’s use of onshore financing and special purpose investment vehicles complicates the ability to track activity. Some analysts anticipate headwinds for China in 2021 due to rising debt levels in many countries in response to the COVID-19 pandemic and an inability to commit to new infrastructure. China’s interest in offshoring excess capacity and

expanding overseas, and its ability to fund its firms, however, may continue to drive certain projects.

China's State Firms

China's strategic investments are typically state-sponsored and aim to advance China's economic and foreign policy goals. A handful of China's state firms operate and control most projects. Many of these firms are funded by—and report directly to—the central government. They include, among others, China Harbor and its subsidiary China Harbor Engineering, CRRC, State Grid, China Three Gorges, and shipping giant COSCO. China's projects also strategically position national champions such as Huawei, ZTE, and Alibaba, in part by establishing technology and infrastructure platforms, architecture, and systems built to China's standards. Alibaba's internet project in Malaysia, for example, provides a foundation on which China will offer data/cloud, e-commerce, and financial services. Projects appear to seek interconnection and interoperability in transportation (e.g., rail gauges), energy (e.g., power grid), and communications (e.g., 5G), allowing China potential control of sensitive infrastructure and related services. Projects in cobalt, lithium, and nickel, support China's battery and electric vehicle industrial policies.

U.S. Concerns

Some observers point to the economic benefits of China's investments in developing countries while others charge that China is introducing unsustainable debt obligations and opportunities to gain concessions. China tends to extend the duration of its loans, rather than forgive debt repayment, which creates long-term financial dependencies. In 2017, when the Sri Lankan government was unable to repay Chinese loans, China Merchants Port Holdings Company, Ltd., acquired a majority stake in the firm that operates Sri Lanka's Hambantota port and the right to operate the port for 99 years. Credit and loan terms are generally opaque and China tends to settle agreements bilaterally. China's opacity in lending came to a head in 2019 when the U.S. government questioned whether International Monetary Fund relief for Pakistan might be used to repay China.

Some Members have expressed concern that *One Belt, One Road* projects advance China's commercial, geopolitical, and strategic goals while undercutting the economic role and political influence of the United States and multilateral institutions. Multilateral institutions collaborate with China to undertake some *One Belt, One Road* projects. They may set better terms for host countries—including model procurement practices that allow non-PRC firms to participate—but may advance China's goals. Some observers have expressed concern that China is undercutting the operations and principles of international financial institutions and question whether China should have leadership roles in these organizations.

China's investments in strategic sectors and infrastructure have prompted governments in the United States, Australia, Canada, Europe, India, and Japan, among others, to increase scrutiny of these deals. Some defense analysts are concerned that projects could be dual use in nature. Under its military-civil fusion program and *China Standards 2035* initiative, China is seeking to develop standards that

promote civilian and military interoperability. This potential overlap of military interoperability and state control could make foreign civilian facilities like ports available for China's military use. China, for example, initially signed a commercial lease in Djibouti through a Chinese bank but then developed a military base on the property. China's projects appear to be developing alternatives to U.S.-controlled networks and standards. Technology and financial networks could facilitate China's use of its currency or digital currency. China's Beidou satellite network provides an alternative to U.S. GPS navigation technology. Overland transportation offers alternative trading routes to U.S.-controlled sea lanes.

Trade Principle of Reciprocity

Reciprocity is a core principle of the global rules-based trading system in which countries extend commensurate market access terms. China is expanding overseas in many sectors that domestically remain heavily restricted or closed to foreign investors (e.g., construction, engineering, transportation, communications, and financial services). China does not offer reciprocal market access for the rights it secures in other countries. China instead creates openings in foreign markets through offers of deal-ready state financing and integrated project delivery through a consortium of firms, which can be attractive to governments seeking to fast track project approvals. Projects may facilitate trade, but often on China's terms and through the supply chains it controls.

U.S. Response

Congress enacted the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, P.L. 115-254) to create the U.S. International Development Finance Corporation (DFC) and increase support for quality market-oriented infrastructure projects that are financially sustainable and include environmental and social safeguards. In January 2021, the DFC reportedly agreed to help Ecuador repay its debt to China in return for Ecuador's agreement to exclude China's firms from its 5G networks. The U.S. government has sought to promote alternatives to China through a Blue Dot Network for infrastructure financing that it coordinates with Japan and Australia. Since August 2020, the U.S. government has sanctioned several PRC state firms that build and operate *One Belt, One Road* projects through actions that targeted their role in building military infrastructure in the South China Sea. Looking ahead, Congress might also examine:

- China's presence in U.S. production, transportation, energy, and communications networks and investments in the Western Hemisphere;
- Whether new trade rules or groupings are necessary to influence the networks China is developing; and
- Whether new standards, investment, or procurement rules ought to discipline certain investment behavior.

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