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Jointly Building Belt and Road towards SDGs

Project Report

Strengthening National Policy Capacities for Jointly
Building the Belt and Road towards the Sustainable
Development Goals

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Abbreviations

ASEAN	Association of Southeast Asian Nations	HDI	Human Development Index
BCE	before the Common Era	ICT	Information and communications technology
BRF	Belt and Road Forum for International Cooperation	ILO	International Labour Organization
BRI	Belt and Road Initiative	IMF	International Monetary Fund
CHEC	China Harbour Engineering Company Ltd.	LDC	least developed country
CMREC	China-Mongolia-Russia Economic Corridor	MoU	memorandum of understanding
CNEEC	China National Electric Engineering Co., Ltd.	OECD	Organization for Economic Cooperation and Development
CNY	Chinese yuan (renminbi)	PET	polyethylene terephthalate
CO ₂	carbon dioxide	SDG	Sustainable Development Goal
COVID-19	coronavirus disease 2019	UBTZ	Ulaanbataar Railway
DESA	Department of Economic and Social Affairs (United Nations)	UNDP	United Nations Development Programme
EAPD	Economic Analysis and Policy Division (DESA)	UNESCO	United Nations Educational, Scientific and Cultural Organization
EU	European Union	UNICEF	United Nations Children's Fund
FDI	foreign direct investment	WEFM	World Economic Forecasting Model
FTA	free trade agreement	WEFM-e	expanded World Economic Forecasting Model (DESA)
GDP	gross domestic product	WHO	World Health Organization
GNI	gross national income	\$	United States dollar
HAI	Human Assets Index	€	euro
HCI	Human Capital Index		

Executive summary

The Belt and Road Initiative and the 2030 Agenda

In 2013, the Government of China launched the Belt and Road Initiative (BRI) to link countries and seas across Asia, Europe and beyond with the aim of achieving broadened and deepened cooperation, greater prosperity, and an open world economy. The five pillars upon which the BRI was established include policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. With 140 participating countries comprising over half of the world's population and its immense scale and scope, the BRI can potentially have a global impact.

Although the BRI and the 2030 Agenda for Sustainable Development differ in nature and scope, they share a vision and a number of basic principles that are similar in many respects. The BRI has the potential to transform the lives and economies of participating countries. With under ten years left before 2030, progress towards the realization of the Sustainable Development Goals (SDGs) is not occurring at the speed or scale required, especially since the COVID-19 pandemic is continuing to undermine the prospects for sustainable growth across the globe. Aligning the implementation of the BRI with the 2030 Agenda has the potential to provide a fresh impetus and lead to tangible gains and opportunities for all countries.

The realization of the potential benefits of the BRI is not automatic. In order to harness the opportunities brought by the BRI to accelerate the achievement of the SDGs, countries need adequate capacity. In this context, the project entitled “Strengthening national policy capacities for jointly building the Belt and Road towards the Sustainable Development Goals” (also referred to as the BRI-SDGs project) aims to enhance national capacities in economic and sustainable development policy formulation, supporting countries in their efforts to better understand the implications of the BRI and SDGs and formulate policy responses to maximize benefits and mitigate possible risks. The fourteen BRI countries participating in the project include Azerbaijan, Bangladesh, Cambodia, Czech Republic, Georgia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Myanmar, Romania, Serbia, Sri Lanka and Thailand. These countries represent economies ranging from lower-middle to high income as well as different development contexts, with the group including four least developed countries (LDCs).

The project is being implemented by the Economic Analysis and Policy Division of the United Nations Department of Economic and Social Affairs (EAPD/DESA), with funding provided by the United Nations Peace and Development Fund.

BRI cooperation and investments

The present report analyses the scope and scale of BRI progress in the project countries in the light of the Initiative's five pillars.

The policy coordination mechanisms of the BRI consist mainly of bilateral agreements between China and participating countries. In addition, the Belt and Road Forum for International Cooperation provides a high-level platform for dialogue among participating countries. Differences in national definitions of what constitutes a BRI project pose challenges for cross-country or aggregate analysis. Over the course of the BRI-SDGs project, there have been initiatives to establish clearer boundaries and categories for BRI investments.

During the period of the BRI-SDGs project, the BRI has spurred large investments in facilities connectivity, primarily through infrastructure development across a variety of sectors. Transportation and logistics infrastructure predominate in BRI investments. The BRI has also served as the impetus for diverse investments in trade and trade infrastructure, mining, chemical and manufacturing industries, agriculture and agro-industries, technology transfer, energy (including renewable energy) generation and connectivity, and the development of information and communications (ICT) technology.

Two issues relevant to the unimpeded trade pillar of the BRI predominate among the project countries. First, BRI implementation has led to improvements in border trade crossing and processing and to increased trade turnover with China. Second, nearly all countries report negative trade balances with China; resource-rich countries—notably Lao People's Democratic Republic and Kazakhstan—are the exceptions.

The BRI has also had an impact on financial integration between China and participating countries. Some examples identified in the national reports include investments in the financial sector of BRI countries, including banks and stock exchanges.

BRI initiatives aimed at strengthening people-to-people bonds have consisted mainly of tourism, training, sports, and educational exchanges, grant (rather than loan) assistance, and humanitarian assistance. The BRI generally stimulated increased tourism from China until the outbreak of COVID-19 and the ensuing pandemic. BRI countries recognize that increased tourist numbers create the need for improved tourism infrastructure and capacities. Interventions that have had a visible positive impact on the daily life of communities—including work on bridges, wastewater treatment plants and city water supplies—have also been shown to make a favourable impression on visitors.

Challenges and opportunities

The present report identifies challenges, opportunities and risks associated with BRI projects across the 14 programme countries, including with regard to governance and community relations.

Some of the main challenges linked to BRI cooperation relate to trade imbalances and debt burdens. Negative trade balances with China are a predominant issue, though these have been alleviated to some extent by the large-scale foreign direct investment (FDI) brought in by the BRI. Policy gaps need to be addressed in BRI countries for trade to reach its full potential. In a number of countries, Chinese investments have become a major source of FDI, at times raising the risk of unsustainable debt.

Achieving optimal outcomes from BRI-related opportunities requires strategic planning and coordination. BRI transport investments have reduced travel times; this has already contributed significantly to expanding trade, increasing investment and generating employment, which will go a long way towards alleviating poverty. Complementary policy reforms are required to optimize the positive effects of BRI transport projects and ensure that the gains are widely shared. Therefore, sound medium-term and long-term national development plans are a sine qua non for maximizing benefits from BRI collaboration.

The BRI has drawn attention to the risks associated with large infrastructure projects. Large infrastructure investments involving debt financing entail risks to debt sustainability. Governance risks, including corruption and failures in public procurement, have been indicated in some BRI-SDGs reports. Large infrastructure projects are known for exposing countries and communities to environmental risks, and BRI projects are no exception. Large infrastructure projects are also known to increase social risks and vulnerabilities. Rigorous environmental and social assessments are necessary prior to project approval, and an oversight mechanism is needed to ensure that such assessments are not biased towards the entity implementing the project.

Good governance and effective administration are critical to the success of BRI projects. Some national reports indicate delays in the start-up of BRI projects and the disbursement of funds—and even the cancellation of projects. The size and significance of BRI projects require commensurate transparency and coordination in management and financial reporting. Data on investment and other financial commitments are often unavailable, and there are limitations to the classification and quantification of BRI investments within and across countries.

A careful assessment of relations between investors, Governments and local communities is needed to ensure that public perceptions and reactions surrounding BRI investments remain positive. Reputational risks will be incurred when political elites or large enterprises gain more from BRI projects than do local economies. The BRI-SDGs reports recommend expanding the inclusion of local companies in BRI-funded public investment projects and increasing the use of local skilled labour. Addressing the reputational risks associated with the BRI requires the effective engagement of all relevant stakeholders, in line with

international best practice. Host countries should ultimately base decision-making on coherent national development strategies.

Simulations with the expanded World Economic Forecasting Model

Overall, the findings from the simulations generated by the expanded version of the United Nations World Economic Forecasting Model (WEFM-e) show that BRI investments can have a positive impact, at least in the early years. After the initial period, whether BRI investment leads to debt distress or exacts heavy environmental costs will depend on the effectiveness of the countermeasures adopted by each country; these could be actions taken to reduce the debt to sustainable levels, enforce existing environmental legislation, or develop new laws as needed. The transparency, robustness and availability of data on BRI investments are a matter of concern; available data lack coherence and transparency in terms of the definition and the value of BRI investments for a given country.

Analysis of BRI progress in the project countries highlights the importance of clearly defining the boundaries established within the BRI cooperation framework so that better-quality data can enable adequate macroeconomic modelling and informed policymaking and decision-making.

The way forward: harnessing opportunities and managing risks

The experiences of the 14 project countries provide ideas and suggestions for harnessing opportunities related to the BRI while also managing risks that could have an impact on progress towards achieving the SDGs.

The importance of national ownership, capacity and policies stands out. These are required to maximize synergies between BRI investments and a country's progress towards SDGs focused on priorities such as decent work, gender equality, environmental protection and poverty reduction. The benefits from BRI cooperation cannot be optimized without addressing policy and institutional gaps in the host country. As an illustration, the WEFM-e simulations for one country show a worsening government debt, budget deficit and environmental situation after BRI investment inflows end, but the design and implementation of comprehensive economic and environmental policies would help mitigate these adverse effects, requiring national ownership and enabling policy frameworks.

Assessment of the scope of BRI projects and activities is key. Using the WEFM-e simulation tool would enable policymakers and local experts to critically assess the impact of BRI-linked investments—including the impact of BRI activities on selected SDGs—using an organized, quantitative approach. Countries would be able to examine BRI activities from the perspectives of both economic growth and sustainable development, taking into account potential secondary effects. Local capacity could be built through the training of local experts and the establishment of an online platform through which these experts could use the WEFM-e independently.

Effective planning, coordination, risk management, and monitoring and evaluation could resolve many of the constraints identified in BRI cooperation. Planning for BRI activities, including cross-sectoral planning, must begin from the project inception stage. Countries need to identify niches for investment where the BRI could optimally contribute to sustainable growth and development. Policy reforms that enhance the positive impact of these investments or mitigate the negative impact should be identified at the planning stage, and risk identification and risk management should also be initiated at this stage. Monitoring and evaluation—including social, environmental and other key impact assessments—need to be planned as an integral part of the projects. The WEFM-e simulations highlight debt risks, pointing to the need for careful monitoring of the debt incurred in BRI projects and the application of adjustment mechanisms for debt sustainability.

Transparency, communication and public perceptions need to be addressed. Adopting best practices in transparency would strengthen BRI cooperation. Some BRI-SDGs national reports mention that the Government lacks mechanisms for the transparent dissemination of data on BRI projects, and this has at times fuelled public dissatisfaction with the BRI. Good governance practices such as open and transparent public procurement could mitigate this risk, as could adherence to international norms around transparency, good corporate governance, and international development cooperation.

The findings from the BRI-SDGs project validate and emphasize the critical importance of institutional capacity, especially for policy and planning. This is the key factor in determining the success of BRI projects. In order to optimize their gains, countries must have the institutional capacity to make appropriate policy decisions and to plan, coordinate and manage BRI cooperation within the context of coherent and harmonized national development plans. Without such institutional capacity, there will be no complementarity and far less synergy between the BRI and national socioeconomic development plans and policies.

The meetings and processes related to the BRI-SDGs project helped strengthen and deepen engagement between policymakers and experts from participating countries. The intercountry exchanges fostered by the project and the cross-pollination of ideas and lessons learned are a start, providing stakeholders with valuable information they can use within their own national contexts. Strengthening institutional capacity, however, will require longer-term investments and targeted capacity development efforts. The recommendations provided in this project report can enhance the role of the BRI in building back better, ensuring a green and resilient recovery from COVID-19, and achieving the SDGs.

1 Background and rationale

1.1 The 2030 Agenda and the Belt and Road Initiative

1.1.1 *The 2030 Agenda*

The 2030 Agenda for Sustainable Development, adopted by all States Members of the United Nations in September 2015, sets out a plan of action for people, planet, prosperity, peace and partnership (United Nations, General Assembly, 2015). There are 17 Sustainable Development Goals (SDGs) that form the core of the 2030 Agenda, which calls for all countries to come together in a global partnership to end poverty and other deprivations, improve health and education, reduce inequality, and spur economic growth while tackling climate change and working to preserve the world's oceans and forests.

The 2030 Agenda builds on decades of work by countries and by the United Nations. Its carefully negotiated language of vision, principles, goals, targets and indicators has been informed by previous international commitments and progress achieved thus far.¹ Throughout, the United Nations Department of Economic and Social Affairs (DESA) has played a key supporting role in the realization of important development milestones. Today, DESA is the Secretariat for the annual High-level Political Forum on Sustainable Development, which is the central United Nations platform for follow-up and review of the SDGs.

The 2030 Agenda has a comprehensive scope, spanning the economic, social and environmental components of sustainable development. Its broad scope and scale require collective action within the framework of a commensurate range of partnerships. Realizing the objectives articulated in the 2030 Agenda will require the synergy and integration of efforts made by individuals, societies, countries and regions, framed by a vision that is ambitious yet rooted in pragmatism and lessons learned from past decades.

With just under ten years left before 2030, progress towards achieving the SDGs is not being made at the speed or on the scale required. World leaders at the SDG Summit in September 2019 “called for a Decade of Action and delivery for sustainable development and pledged to mobilize financing, enhance national implementation and strengthen institutions to achieve the Goals by the target date of 2030, leaving no one behind” (United Nations, n.d.(c)). The scale and ambition of the 2030 Agenda require intensive global engagement that brings together Governments, the private sector, civil society, the United Nations system and other actors and mobilizes all available resources. The implementation of the 2030 Agenda and the

¹ These include *Agenda 21* (Rio de Janeiro, 1992); the Millennium Declaration and the Millennium Development Goals (New York, 2000); the 2015 Paris Agreement on climate change; the 2015 Sendai Framework for Disaster Risk Reduction; the 2015 Addis Ababa Action Agenda of the Third International Conference on Financing for Development; the 1972 Stockholm Declaration and Action Plan for the Human Environment; the *Report of the World Commission on Environment and Development: Our Common Future* (Brundtland Report), adopted by the United Nations General Assembly in resolution 42/187 (December 1987); the 2002 Johannesburg Declaration on Sustainable Development and the Plan of Implementation of the World Summit on Sustainable Development; and “The future we want” (Rio+20, 2012).

achievement of the SDGs will require concrete actions, including the strengthening of international cooperation, at the global, regional, national and subnational levels by all stakeholders.

In 2020, progress towards the SDGs suffered a major setback from the impact of the coronavirus disease 2019 (COVID-19). On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a pandemic, and as it has swept across the globe it has had a serious impact on lives and economies. The scale of the pandemic and the rate of spread are frightening; some 83 million cases and more than 1.8 million deaths were reported for 2020, and by the end of January 2021 the numbers had soared to more than 102 million cases and 2.2 million deaths (WHO, 2021). Globally, growth slowed down or contracted as Governments imposed a range of containment measures restricting mobility and economic activity. Trade plummeted and even bottomed out, picking up to a certain extent for health supplies and equipment.

In response to the COVID-19 pandemic, the United Nations General Assembly adopted resolution 74/270 of 2 April 2020, calling for global solidarity to address the crisis in all its dimensions. In the resolution, the General Assembly recognizes that the “pandemic requires a global response based on unity, solidarity and renewed multilateral cooperation” and emphasizes the need for “a coordinated global response to the pandemic and its adverse social, economic and financial impact on all societies” and for “a sustainable and inclusive recovery”. The Secretary-General of the United Nations has issued a call to “build back better” — to support and facilitate the transition towards a sustainable economy as envisioned in the 2030 Agenda and the Paris Agreement (United Nations Web TV, 2020).

1.1.2 The Belt and Road Initiative

China has emerged in recent decades as a critical stakeholder in global sustainable development. China is not only the world’s most populous country, but also the world’s second largest economy and a key engine of growth and trade. The direction of its future development and the degree of its commitment to the provision of global public goods can have a significant impact on the entire world.

In 2013, China launched the Belt and Road Initiative linking countries across Asia, Europe and beyond. That year, President Xi Jinping visited Central Asia and South-eastern Asia, where he proposed the initiative of jointly building the Silk Road Economic Belt and the twenty-first century Maritime Silk Road—which together came to be known as the Belt and Road Initiative, or BRI (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, 2015). At the China - Association of Southeast Asian Nations (ASEAN) Expo in 2013, Chinese Premier Li Keqiang noted that development in China could not only benefit the Chinese people, but also bring about more development and market opportunities for ASEAN countries and other nations around the world. The Premier also emphasized that this was but a new chapter in the long history of the maritime Silk Road that China and South-eastern Asia had opened over 2,000 years ago (Li, 2013). The overland Silk Road is likewise rooted in ancient history (see box 1).

Box 1. The Silk Road

The Silk Road was not a single road but rather an ancient network of trade routes established formally during the Han Dynasty of China. The Silk Road network linked the regions of the ancient world in commerce from around 130 years before the Common Era (BCE), when the Han Dynasty officially opened trade with the West, to 1453, when the Ottoman Empire boycotted trade with the West and closed the routes (Mark, 2018). General Zhang Qian from China was the man often credited with opening up the first route from China to the West in the second century BCE (UNESCO, 2021). These routes developed over time according to shifting geopolitical contexts.

The maritime routes have always held a significant place in the history of China. Before the third century BCE, a Chinese marine culture started to grow, centred around harbour cities such as Quanzhou (Fujian Province) on the south-eastern coast of China. Located at the mouth of the Jin River, Quanzhou became the centre of several maritime roads. From the Qin Dynasty (221-206 BCE) on, navigation started to occupy an essential place in politics, diplomacy, culture and the economy. Helped by astronavigation and the monsoon drive, Chinese navigators started to travel to other regions of Asia. Quanzhou became an important centre for trade between China and distant regions, especially during the Tang Dynasty (618-907). (ibid.)

Figure 1. The Silk Roads: a historical perspective



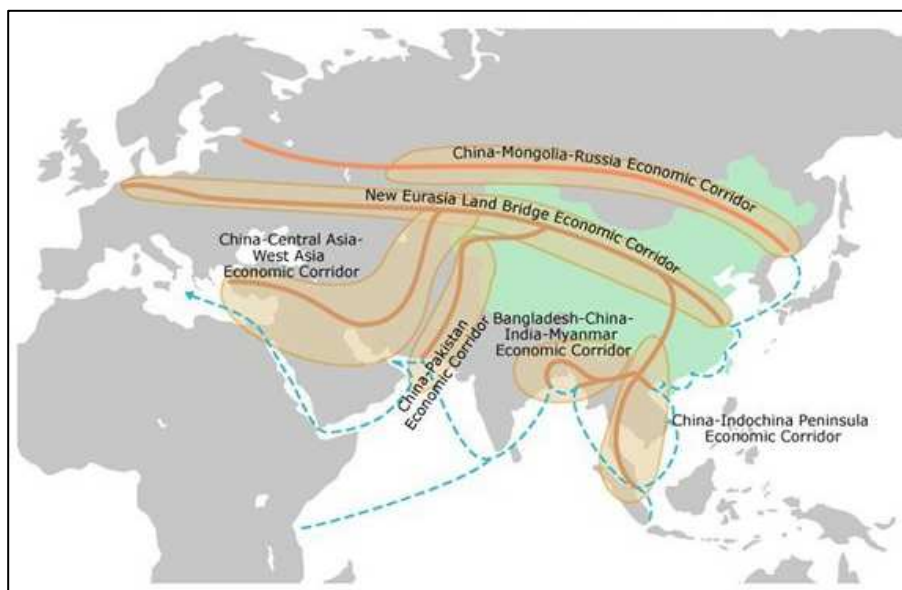
Source: UNESCO (2021).

The vast trade networks of the Silk Roads were used for more than just merchandise and commodities. Population movements along the routes brought about the widespread transmission and development of knowledge, ideas, religions, cultures and beliefs, influencing the history and civilizations of the Eurasian peoples. Many of the cities along the Silk Roads developed into centres of culture and learning. (ibid.)

The BRI is intended to create an open, inclusive and balanced regional economic cooperation architecture. The primary objectives of the Initiative are to enhance the economic prosperity of the countries along the Belt and Road, to promote cooperation and exchange between different countries, and to strengthen peace, development and cultural understanding. For the BRI to meet the interests of all stakeholders, the countries along the Belt and Road will need to better integrate and coordinate development strategies and economic policies and to broaden and deepen regional cooperation. The BRI embraces the current drive towards economic globalization (including a global free trade regime and an open world economy) and increased cultural diversity and digitalization. (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, 2015)

The BRI promotes connectivity between Asia, Europe and Africa and their adjacent seas—and the network continues to expand. The BRI connects Eastern Asia to Europe and encompasses countries with huge potential for economic development. The Silk Road Economic Belt focuses on bringing together China, Central Asia, the Russian Federation and the Baltic region of Europe; linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and Western Asia; and connecting China with South-eastern Asia, Southern Asia and the Indian Ocean. The twenty-first century Maritime Silk Road extends from the coast of China to Europe through the South China Sea and the Indian Ocean along one route, and from the coast of China through the South China Sea to the South Pacific along the other. On land, the Initiative takes advantage of international transport routes, relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms. At sea, the Initiative focuses on jointly building smooth, secure and efficient transport routes connecting major seaports along the Belt and Road (ibid.). The reach of the Initiative continues to grow; “formerly centred on the broader Eurasian continent, BRI has since 2017 expanded to include the African continent, portions of Latin America, Oceania, and the Arctic Ocean” (Rolland, 2019).

FIGURE 2. MAP OF THE BELT AND ROAD INITIATIVE



Source: Hong Kong Trade Development Council (2016).

The BRI is taking shape alongside various efforts to enhance infrastructure connectivity and finance connectivity in the region. These include the Australia-Japan-United States Trilateral Partnership for Infrastructure Investment; Connecting Europe and Asia: the EU Strategy; and various bilateral and multilateral financing mechanisms provided by international development lending institutions such as the World Bank and Asian Development Bank.

Infrastructure investment along the Belt and Road focuses on six economic corridors (OECD, 2018):

- (a) The **New Eurasia Land Bridge Economic Corridor** involves rail transport from China to Europe via Kazakhstan, the Russian Federation, Belarus and Poland, reaching a number of coastal ports in Europe. The rail routes offer rail-to-rail freight transport as well as the convenience of “one declaration, one inspection, one cargo release” for any cargo transported.
- (b) The **China-Mongolia-Russia Economic Corridor** includes rail links and the development of the Steppe Road in Mongolia, which will connect with the land bridge.
- (c) The **China-Central Asia-West Asia Economic Corridor** links Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, Turkmenistan, the Islamic Republic of Iran and Turkey. The Corridor runs from Xinjiang in China to join the railway networks of Central Asia and Western Asia before reaching the Mediterranean coast and the Arabian Peninsula.
- (d) The **China-Indochina Peninsula Economic Corridor** links Viet Nam, Thailand, Lao People’s Democratic Republic, Cambodia, Myanmar and Malaysia. The Corridor links countries along the Mekong River through nine cross-national highways, connecting east and west and linking north to south. It also involves an international rail line running from Nanning to Hanoi and introduces air routes to several major South-eastern Asian cities.
- (e) The **China-Pakistan Economic Corridor** links the city of Kashgar in landlocked Xinjiang with the deep-water port of Gwadar in Pakistan.
- (f) The **Bangladesh-China-India-Myanmar Economic Corridor** connects India and China through Myanmar and Bangladesh via road, rail, water and air linkages.

The BRI has five stated goals or priorities (National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, 2015):

- (a) **Policy coordination** means supporting the implementation of large-scale cooperation projects and arriving at negotiated, mutually beneficial solutions.
- (b) **Facilities connectivity** means improving the cross-border connectivity and quality of infrastructure in the areas of land, sea and air transport, information and communications technology (ICT), and energy.
- (c) **Unimpeded trade** means facilitating investment and trade cooperation and, to this end, eliminating barriers, promoting cross-border e-commerce, and servicing trade support systems. The BRI has identified a wide range of mutual investment areas and recognizes that Chinese enterprises should boost local economies, increase local employment, improve local livelihoods, and assume social responsibility for protecting local biodiversity and the eco-environment.

- (d) **Financial integration** means deepening cooperation in areas such as currency stabilization, investment and financing systems, credit information systems, financial regulations, and financial risk early-warning and crisis management.
- (e) **People-to-people bonds** means strengthening public support for the Initiative. To this end, the BRI is committed to promoting a range of cooperation activities and exchange programmes in the areas of culture, sports, education,² media, volunteerism, tourism, health, employment, research, science and technology, and public administration. Increased cooperation, communication and exchange can also contribute to the institutional strengthening of public, legislative and political bodies and to poverty reduction efforts.

The BRI has the potential to exert considerable leverage over—and thus have a significant impact on—the global economy. In June 2019, the 71 countries geographically situated along the six overland BRI economic corridors were collectively estimated to account for over 30 per cent of global gross domestic product (GDP) and 60 per cent of the world population (World Bank, 2019). By January 2021, 140 countries had joined the BRI by signing a memorandum of understanding (MoU) with China (Nedopil Wang, 2021). From 2013 to June 2020, China invested about \$755 billion in BRI countries (ibid.), including in the creation of thousands of jobs (Park, 2018).

² China provides 10,000 government scholarships to the countries along the Belt and Road every year.

1.2 The BRI-SDGs project

Tangible opportunities can be realized by aligning SDG and BRI implementation. The scale and scope of both the 2030 Agenda and the BRI are ambitious. The BRI can and should be positioned as an accelerator for the SDGs and the expansion of global public goods. The planning, monitoring and evaluation of BRI implementation will need to be addressed from a perspective aligned with the architecture of the goals, targets, and indicators that constitute the 2030 Agenda.

There is a substantial overlap between the five BRI priorities and the SDG framework. The 2030 Agenda complements the BRI by providing a unified framework for advancing sustainable development. Aligning the BRI with the 2030 Agenda creates a firm foundation for enhancing global development cooperation, addressing environmental and social risks, building policy coherence and social cohesion, facilitating effective dialogue among stakeholders, and bolstering national capacities. Working to strengthen the complementarity between the BRI and SDGs can lead to a win-win outcome. A genuine commitment to realizing the long-term sustainable development objectives embodied in the 2030 Agenda will likely allow the BRI to transcend short-term commercial or political interests and garner positive support from the citizens of participating countries (Horváth, 2017).

Realizing the vision and transformation potential of the BRI requires the mitigation of associated risks. Participating Governments need to make strategic policy choices that will allow them to manage environmental, social, reputational, sustainability and other risks associated with BRI-related activities. Depending on the sector and country, policy reforms may be needed even in the pre-investment phase to maximize net gains. For instance, it would be wasteful to build and maintain a transport corridor linking neighbouring countries if their trade policies are not conducive to doing business. Gains from agglomeration and transport corridors will encourage investment in their catchment areas, but investments must be structured in a way that supports inclusive growth and does not exacerbate inequities.

Risk mitigation and complementary reforms require the strengthening of institutional capacities. Institutional capacity is needed to assess risks, design risk scenarios for decision makers, and forecast trends in more than one sector. The potential benefits deriving from the BRI are not automatic and require adequate capacity and policy frameworks to ensure that investments are oriented towards the realization of the SDGs. In 2018, EAPD/DESA launched a multi-year, multi-country project³ to enhance national capacities in designing coherent and integrated macroeconomic, social and environmental policies aimed at accelerating progress towards SDG achievement; the 14 BRI countries participating in the project include Azerbaijan, Bangladesh, Cambodia, Czech Republic, Georgia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Myanmar, Romania, Serbia, Sri Lanka and Thailand. The project, entitled "Strengthening national policy capacities for jointly building the Belt and Road towards the SDGs" (hereinafter referred to as the BRI-SDGs project), has the following two objectives (United Nations, n.d.(a)):

³ The project is funded by the 2030 Agenda for Sustainable Development Sub-Fund of the United Nation Peace and Development Trust Fund.

- **Strengthened capacities of national policymakers and officials to analyse and formulate more integrated policies**, including through the use of modelling tools such as the WEFM-e;
- **Strengthened and deepened engagement for policy analysis and policy dialogues** among policymakers and experts from the participating countries along the Belt and Road, including engagement with international organizations.

This project report captures the progress achieved by the end of the pilot phase. Fourteen national reports were prepared based on BRI-SDGs project activities and the experiences of the participating countries, following an outline provided by DESA. The reports analyse national development and SDG strategies, BRI activities in the respective countries, and the findings from the WEFM-e simulations and, on the basis of this analysis, articulate policy options and strategies that can help them maximize benefits and avoid risks.

2 National contexts

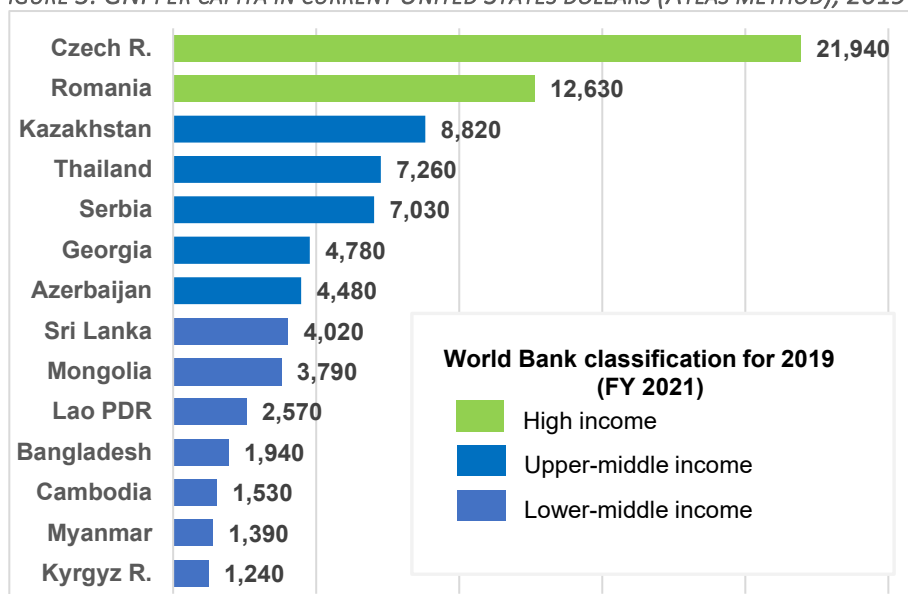
Section 2.1 provides an overview of the project countries using data from international databases to enable broad comparisons.⁴ Section 2.2 summarizes the development and SDG context in each country based on the BRI-SDGs national reports as well as some international sources. Understanding the broader context for each of the 14 project countries is critical to assessing the role of the BRI in providing pathways to achieving the SDGs.

2.1 Overview of the 14 project countries

2.1.1 Economies

The project countries represent economies ranging from lower-middle income to high income (Figure 3), and four of them—Bangladesh, Cambodia, Lao People’s Democratic Republic and Myanmar—are classified as least-developed countries (LDCs) (United Nations, n.d.(b)). Industry and services are the main contributors to GDP in some of these countries; others have workforces that operate primarily in the agricultural sector (including forestry and fishing), yet the contribution of agriculture to GDP is relatively small, indicating low productivity (see Figure 4 and Figure 5).

FIGURE 3. GNI PER CAPITA IN CURRENT UNITED STATES DOLLARS (ATLAS METHOD), 2019

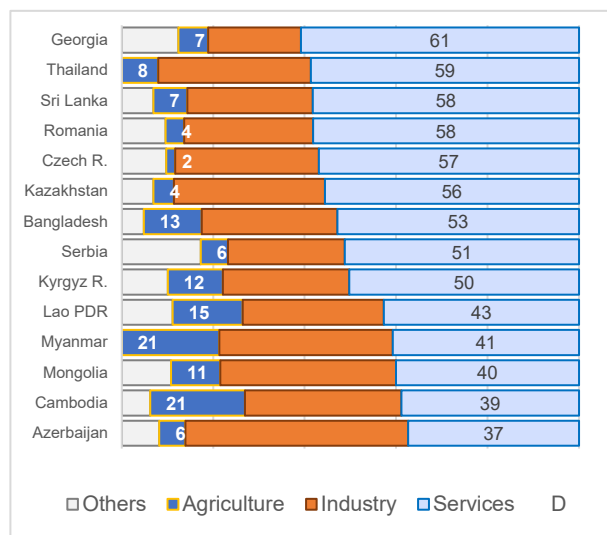


Source: World Bank, [World Development Indicators](#).

Note: Following the establishment of income categories based on 2019 data for fiscal year 2021, Sri Lanka was reclassified by the World Bank from an upper-middle-income to a lower-middle-income economy.

⁴ With data provided in the BRI-SDGs national reports not always comparable or standardized, a decision was made to rely on international data from established sources that have undergone quality checks. International databases used include those maintained by the United Nations Department of Economic and Social Affairs, International Labour Organization, United Nations Children’s Fund, World Health Organization, and World Bank.

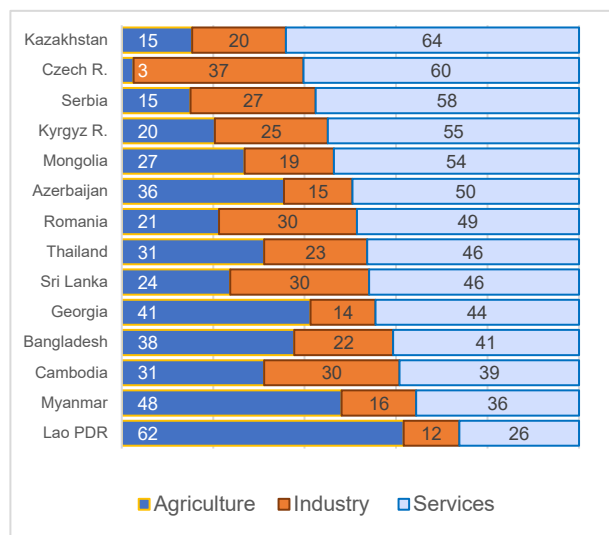
**FIGURE 4. SECTORAL SHARE OF VALUE ADDED, 2019
(PERCENTAGE OF GDP)**



Source: World Bank, World Development Indicators.

Notes: Percentages do not total 100 in some countries; for these, the difference has been computed and designated as “others”. This is likely due to classification differences under national accounting systems. No attempt has been made to normalize to 100 per cent. Data for Myanmar are for 2018.

FIGURE 5. PERCENTAGE OF TOTAL EMPLOYMENT BY SECTOR, 2020

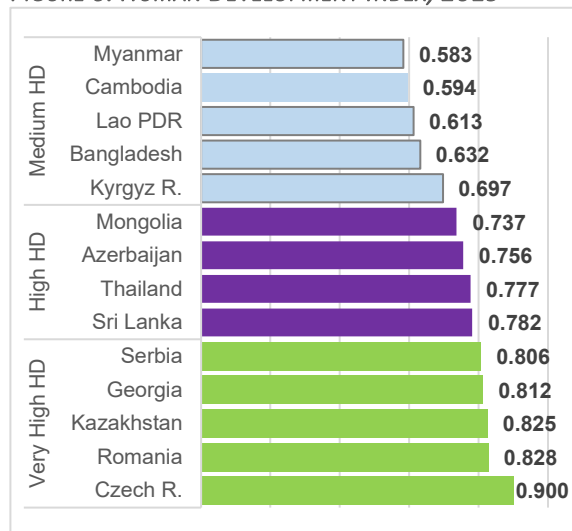


Source: World Bank, World Development Indicators from the International Labour Organization modelled estimate.

2.1.2 People

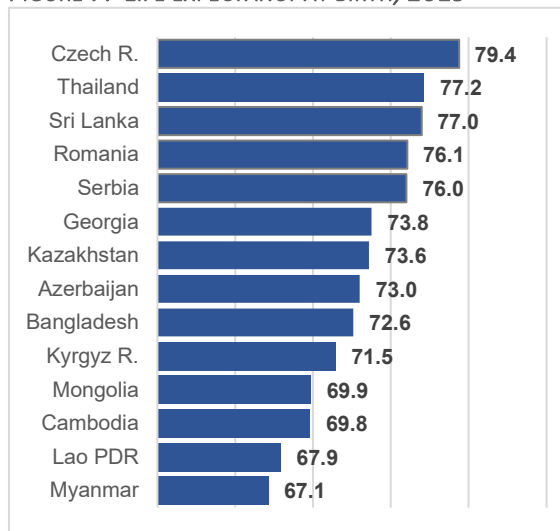
Human development is an important factor in sustainable economic growth and is linked to well-being. Based on their respective Human Development Index (HDI) values, the 14 project countries are classified as having medium to very high levels of human development (see Figure 6). This composite index has three dimensions: a long and healthy life, represented by life expectancy at birth (see fFigure 7Figure 7Error! Reference source not found.); knowledge, represented by expected years and mean years of schooling (see fFigure 8Figure 8); and a decent standard of living, represented by gross national income (GNI) per capita (seeFigure 3) (UNDP, 2020).

FIGURE 6. HUMAN DEVELOPMENT INDEX, 2019



Source: UNDP (2020).

FIGURE 7. LIFE EXPECTANCY AT BIRTH, 2019



Source: UNDP (2020).

High levels of human development are not always linked to high income; they also derive from the implementation of appropriate policies. Certain project countries, such as Sri Lanka, the Kyrgyz Republic and Georgia, have a much higher human development status than other countries of comparable income (reflected in a high relative value when HDI rank is subtracted from GNI per capita rank); conversely, there are those that have lower levels of human development than other countries of comparable income (see Figure 9).

FIGURE 8. MEAN AND EXPECTED YEARS OF SCHOOLING, 2019

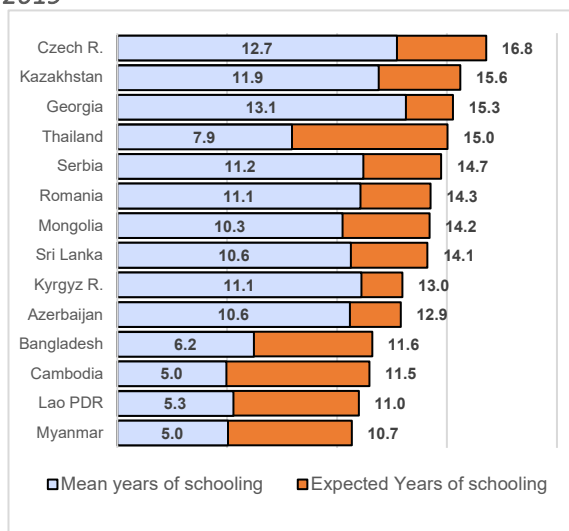
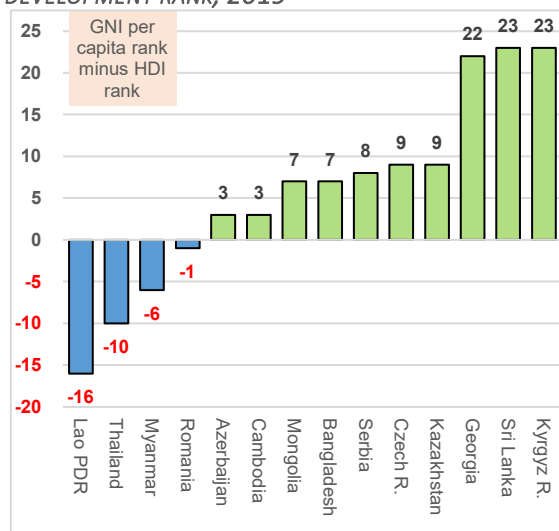


FIGURE 9. INCOME PER CAPITA RANK MINUS HUMAN DEVELOPMENT RANK, 2019



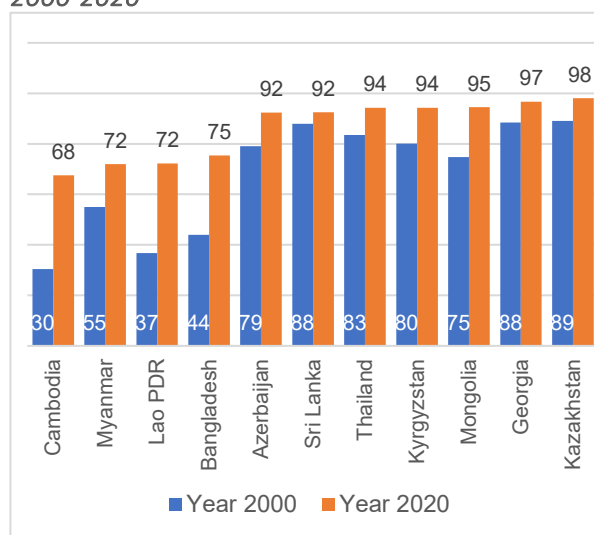
Source: UNDP (2020).

Source: UNDP (2020).

The 14 project countries may also be examined from the perspective of the Human Assets Index (HAI) (see fError! Reference source not found.). This is a composite index developed by DESA based on six key indicators that contribute to building human assets in a country: under-five mortality rate, maternal mortality ratio, prevalence of stunting, gross secondary school enrolment ratio, adult literacy rate, and gender parity index for gross secondary school enrolment. The HAI is one of three components used by the United Nations to determine a country's development status (United Nations Committee for Development Policy Secretariat, 2020). Human assets are vital to ensuring sustainable development and long-term economic growth. Healthy and well-nourished children, education, gender equality, and functional literacy are essential for strengthening human assets.

Human capital is closely linked to productivity and GDP. The Human Capital Index (HCI), developed by the World Bank Group, provides a relative measure of human capital that a child born today can expect to acquire by age 18 based on the health and education situation in a particular country.⁵ In countries in which the HCI is lower than 0.50 (as is the case for Myanmar, Bangladesh and Lao People's Democratic Republic), a child born today is projected to be less than half as productive at age 18 as another 18-year-old that has had the benefit of full health and a complete education. The HCI is linked to how much income a country can generate; an HCI score of 0.50 means that the GDP per worker could be twice as high if the country had reached the relevant health and education benchmarks (see fFigure 11) (World Bank, 2020b).

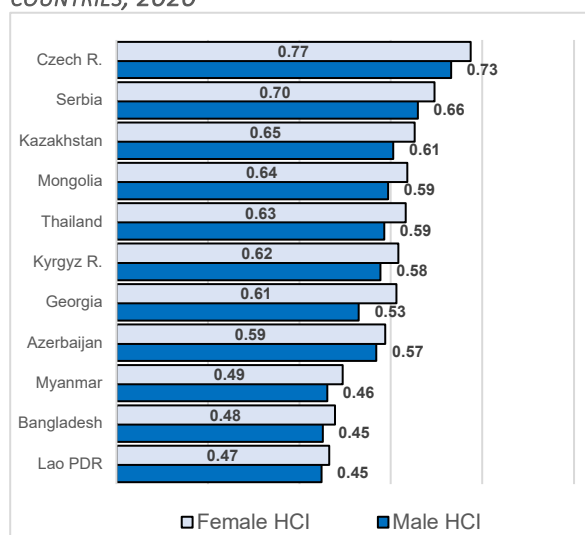
FIGURE 10. HUMAN ASSETS INDEX, SELECTED COUNTRIES, 2000-2020



Source: United Nations Committee for Development Policy Secretariat (2020), Time series estimates of the LDC criteria, 12 April 2020.

Note: Data for the Czech Republic, Romania and Serbia were not available.

FIGURE 11. HUMAN CAPITAL INDEX, SELECTED COUNTRIES, 2020



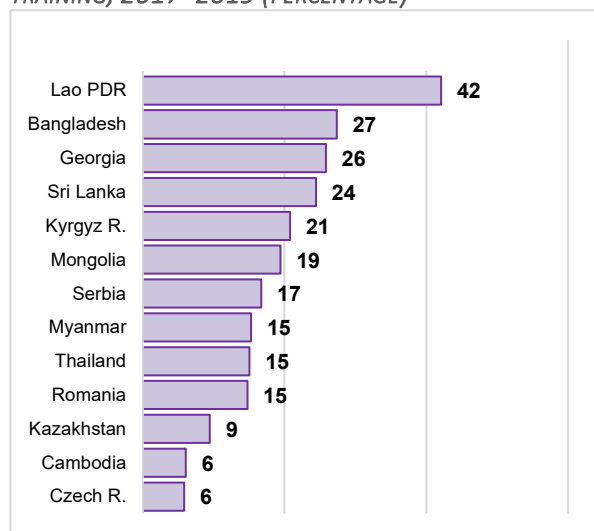
Source: World Bank (2020b), Human Capital Project.

Note: Data for Cambodia and Sri Lanka were not available.

⁵ The HCI reflects the following components of human capital: the probability of survival to age five, a child's expected years of schooling, harmonized test scores as a measure of the quality of learning (combined with years of schooling to obtain learning-adjusted years of school), the adult survival rate (share of the 15-year-old population that will survive to age 60), and the proportion of children who are not stunted.

Young people are key in efforts to build human capital. There are a number of indicators that capture the status of youth within a particular national context. The percentage of youth not in education, employment or training reflects a country's quality of education, its ability to respond to labour market demands, the strength of its economy, and youth access to education and skills development (see fFigure 12). Young people tend to be early adopters of digital technologies and are among those most affected by a country's efforts to improve Internet connectivity and the development of ICT skills. The percentage of the population with access to the Internet in the past three months is an indicator of a country's progress in this regard (see fFigure 13).⁶

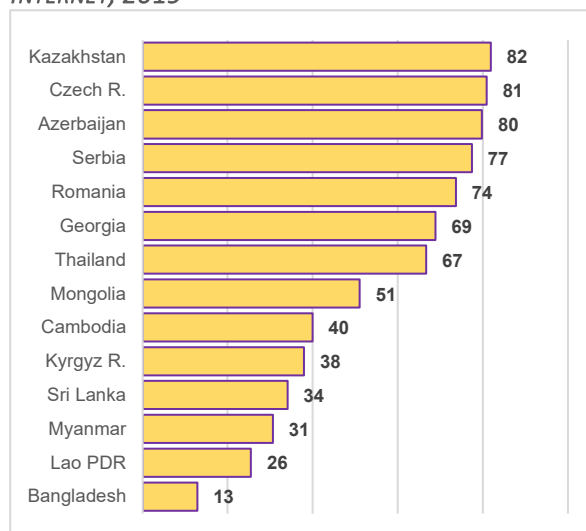
FIGURE 12. YOUTH NOT IN EDUCATION, EMPLOYMENT OR TRAINING, 2017–2019 (PERCENTAGE)



Source: World Bank, World Development Indicators from International Labour Organization modelled estimates.

Note: Data on Azerbaijan were not available.

FIGURE 13. PERCENTAGE OF THE POPULATION USING THE INTERNET, 2019



Source: World Bank, World Development Indicators.

⁶ The Internet can be accessed through devices such as computers, mobile phones, personal digital assistants, game consoles and digital (smart) televisions.

2.1.3 Environment

The sustained well-being of people is closely linked to the state of the environment. In any country, the risk of environmental degradation is higher when the economy is heavily reliant on natural resource rents.⁷ Governments are increasingly aware of this and are making efforts to reduce dependence on natural resources such as forests, freshwater and marine resources, and mineral and hydrocarbon resources. Among the 14 project countries, Mongolia, Azerbaijan, Kazakhstan and the Kyrgyz Republic have the highest natural resource rents as a percentage of GDP, followed by Lao People's Democratic Republic and Myanmar (see f

Figure 14).

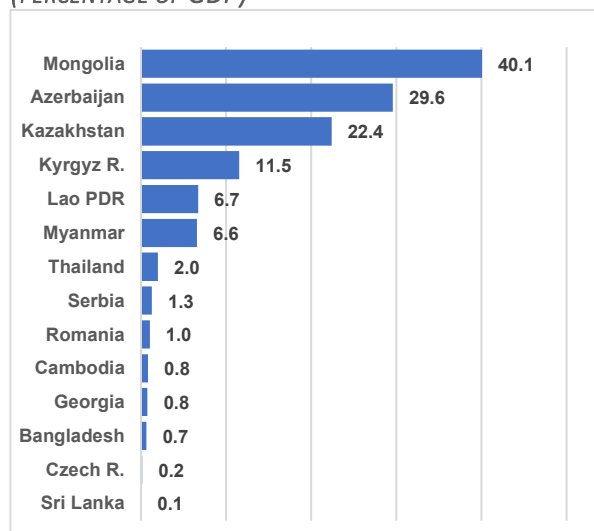
The shift from the indicator that includes access to basic drinking water services (SDG indicator 1.4.1) to the new indicator on the proportion of the population using safely managed drinking water services (SDG indicator 6.1.1) presents measurement challenges. Three of the project countries—Myanmar, Thailand and Sri Lanka—have no comparable national data available for the new indicator.⁸ Nonetheless, countries are endeavouring to measure this indicator, which takes into account the nature of the water source, the health of the environment, and the institutional capacity to manage and deliver safe drinking water. For this indicator, the Czech Republic ranks first among the project countries, followed by Kazakhstan and Romania. As fFigure 15 illustrates, all countries have data showing high coverage of basic drinking water services (included in indicator 1.4.1),⁹ but this comes with no guarantee of water quality, which is a genuine concern since significant contamination with *Escherichia coli* (*E. coli*) is a common risk (Bain and others, 2014).

⁷ Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents and forest rents (World Bank, n.d.(b), [World Development Indicators](#)).

⁸ The [WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene](#) is the primary source for SDG indicator 6.1.1., which reflects the percentage of the population using safely managed drinking water sources (improved sources free from faecal and priority chemical contamination, accessible on premises, and available when needed).

⁹For less developed countries, SDG indicator 1.4.1. (access to basic drinking water services) is used; this refers to the use of drinking water from improved sources, but the water is not tested for quality, and countries with over 95 per cent coverage for this indicator have been found to have high rates of *E. Coli* contamination. For all the BRI countries, achievement rates for this indicator are above 80 per cent, and many have achieved near-universal coverage. (Improved water sources include piped water, boreholes or tubewells, protected dug wells, protected springs, and packaged or delivered water.) (WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene, n.d.)

FIGURE 14. TOTAL NATURAL RESOURCES RENTS, 2018
(PERCENTAGE OF GDP)



Source: World Bank, World Development Indicators.

FIGURE 15. PERCENTAGE OF THE POPULATION USING
SAFELY MANAGED DRINKING WATER SERVICES AND BASIC
DRINKING WATER SERVICES, 2017



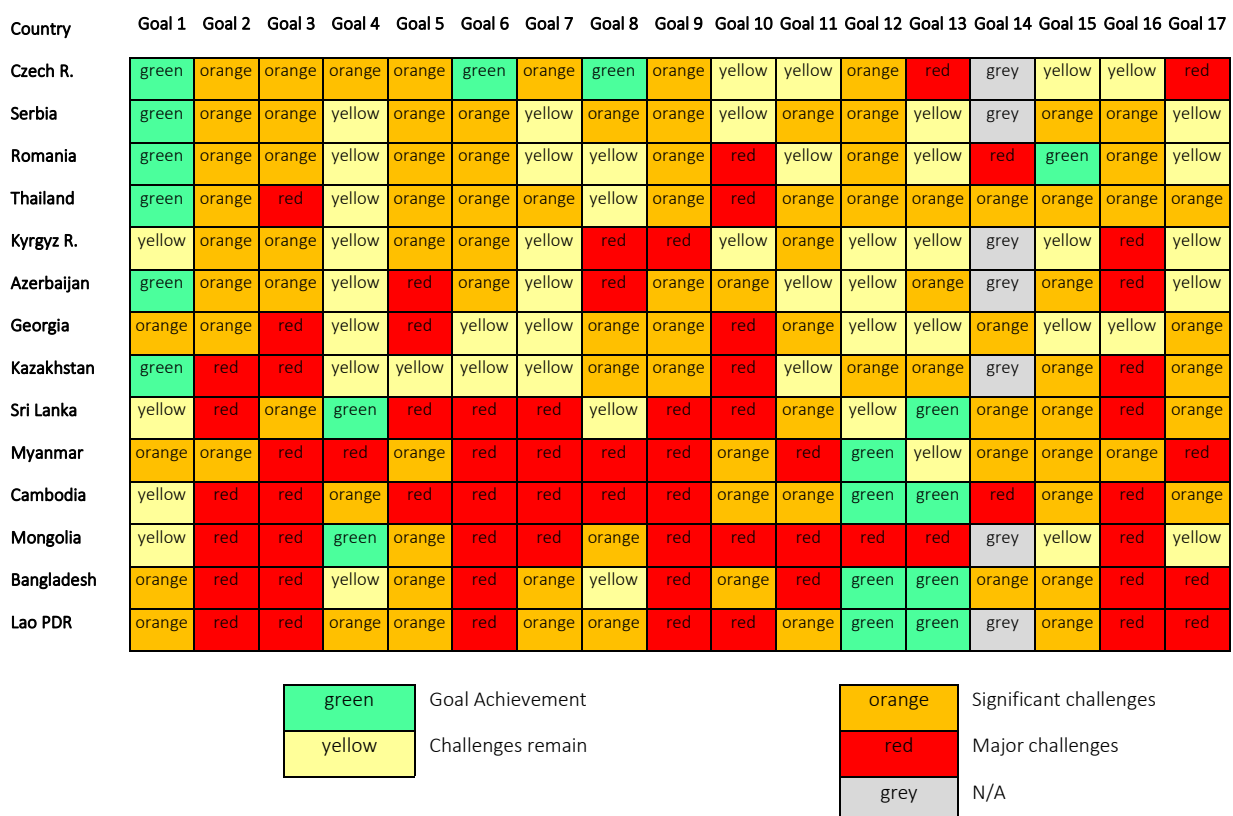
Sources: WHO and UNICEF, WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene; UNICEF, UNICEF Data Warehouse.

2.1.4 Progress towards the SDG

Comparing progress towards SDG achievement across countries is challenging. Differences in how SDGs are interpreted, the attendant complexities of the SDGs (including the use of distinct sets of indicators), the lack of comparable data, and differences in national contexts and starting points present particular challenges.

The SDG Index represents an effort to assess and rank the performance of countries and to summarize trends in relation to individual SDGs and across all 17 SDGs. This is a composite index calculated from publicly available data from the United Nations system and other sources. The 2020 SDG Index covers 166 countries and consists of 115 indicators—85 global indicators and 30 indicators added specifically for countries that are members of the Organization for Economic Cooperation and Development (OECD). The procedure for calculating the SDG Index includes censoring extreme values from the distribution of each indicator, rescaling the data to ensure comparability across indicators, and aggregating the indicators within and across SDGs (see fFigure 16) (Sachs and others, 2020).

FIGURE 16. 2020 SDG DASHBOARD FOR THE 14 BRI-SDGS PROJECT COUNTRIES

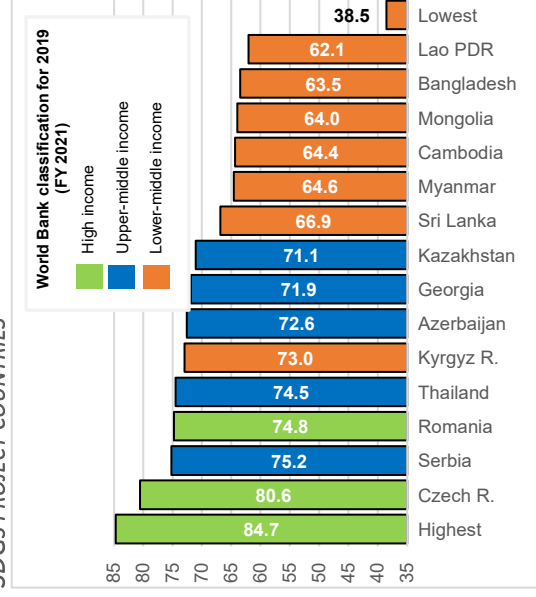


Source: Sachs and others (2020).

Comparison of SDG Index values and rankings shows that higher-income countries generally perform better, but not always (see fFigure 17). For example, the Kyrgyz Republic, Serbia and Thailand are performing better in terms of SDG progress than might be expected from their income levels. The Kyrgyz Republic, with the lowest income per capita among the 14 countries, ranks above three upper-middle-income economies in SDG progress. Within the project group, eight countries (Czech Republic, Serbia, Romania, Thailand, Kyrgyz Republic, Azerbaijan, Georgia and Kazakhstan) score higher than the Index median; in fact, the Czech Republic scores in the ninetieth percentile. The remaining project countries (Sri Lanka, Myanmar, Cambodia, Mongolia, Bangladesh and Lao People’s Democratic Republic) score below the median value of 68.7 (see fFigure 18); however, none are in the bottom quintile.

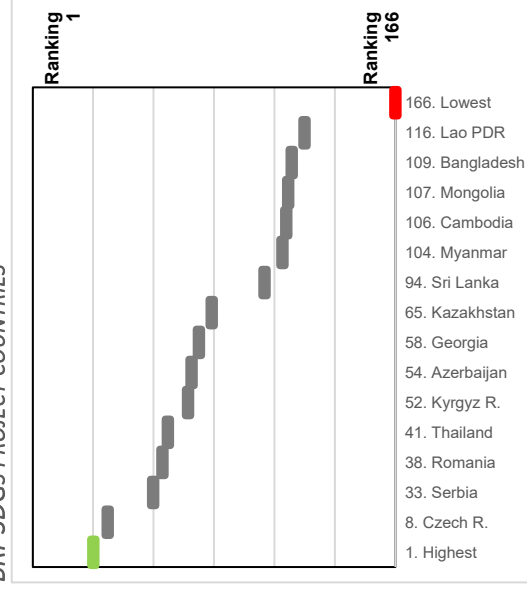
Countries with a lower SDG Index generally have challenges relating to multiple SDGs. These challenges tend to be linked to underdevelopment and inequity—in particular SDGs 2 and 3 and SDGs 5 through 10, relating to nutrition, health, gender, water and sanitation, energy, employment, infrastructure, and inequalities. Among these, SDG 9 has a direct relationship with infrastructure investments for the BRI—especially the trade and transport component (see fFigure 19 and Figure 20).

FIGURE 17. 2020 SDG INDEX SCORES FOR THE 14 BRI-SDGS PROJECT COUNTRIES



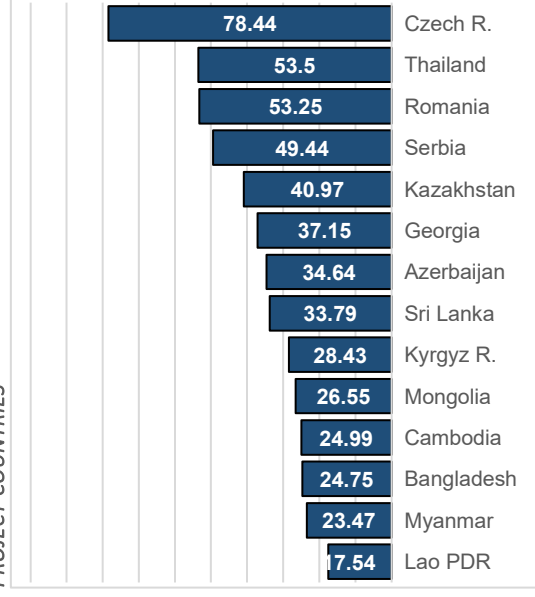
Source: Sachs and others (2020).

FIGURE 18. 2020 SDG INDEX RANKINGS FOR THE 14 BRI-SDGS PROJECT COUNTRIES



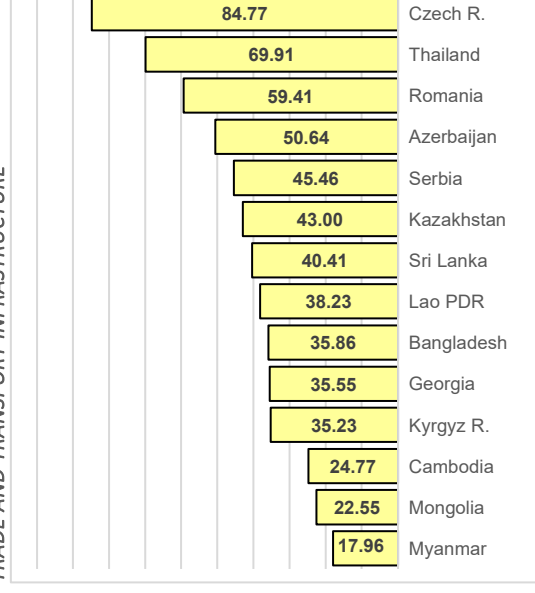
Source: Sachs and others (2020).

FIGURE 19. SDG 9 INDEX SCORE FOR THE 14 BRI-SDGS PROJECT COUNTRIES



Source: Sachs and others (2020).

FIGURE 20. LOGISTICS PERFORMANCE INDEX: QUALITY OF TRADE AND TRANSPORT INFRASTRUCTURE



Source: Sachs and others (2020).

2.2 Development contexts

Azerbaijan. To achieve inclusive and sustainable growth, Azerbaijan is prioritizing economic diversification away from the hydrocarbon sector. Due to its strategic location at the transcontinental crossroads, Azerbaijan aspires to become a transport and economic hub in Central Eurasia and a platform for transport projects along the Central Asia Regional Economic Cooperation corridors. Low oil prices, COVID-19 lockdowns, and cuts in remittances due to slowdowns in the Russian Federation and Turkey contributed to a 2.7 per cent contraction in GDP in the first half of 2020, despite a fiscal stimulus equal to 4.3 per cent of GDP, which limited the contraction (Asian Development Bank, 2020). The country's national strategy—Azerbaijan 2020: Look into the Future—aims to turn Azerbaijan into a knowledge-based economy, increase the country's competitiveness, and diversify its economic structure (Azerbaijan, 2020). A review of SDG progress in Azerbaijan shows major challenges linked to SDGs 5, 8 and 16, though Azerbaijan is doing well in poverty reduction (SDG 1) and scores relatively high in the Logistics Performance Index (part of SDG 9), which indicates the quality of trade and transport-related infrastructure (Sachs and others, 2020).

Bangladesh. In Bangladesh, rapid progress in reducing poverty and sustaining economic growth has come with challenges (United Nations, n.d.(d)). The supply of infrastructure and services has not kept pace with the country's rapid urbanization and rising demand for energy and transport infrastructure. The spread of COVID-19 reduced GDP growth to around 5.2 per cent in fiscal year 2020, down from 8.2 per cent growth in fiscal year 2019 (Asian Development Bank, 2020). Development targets are articulated in the national strategies, Vision 2021 and Vision 2041. Bangladesh has a relatively low SDG Index as a result of major challenges linked to SDGs 2, 3, 6, 9, 11, 16 and 17 (Sachs and others, 2020). Another challenge is the country's high vulnerability to climate change (SDG 13).

Cambodia. Growth in Cambodia has been driven mainly by garment exports and tourism. Economic diversification “will require fostering entrepreneurship, expanding the use of technology, and building new skills to address emerging labour market needs” (World Bank, 2020d). Cambodia also continues to have a serious infrastructure gap and would benefit from greater connectivity and investments in rural and urban infrastructure. The COVID-19 pandemic has had a significant impact on the economy, depressing tourism, the services sector, and garment, textile and footwear exports. GDP growth for 2020 is expected to be negative (-4.0 per cent) (Asian Development Bank, 2020). The national planning and policymaking framework comprises Vision 2030, Vision 2050, the Cambodian Sustainable Development Goals framework (2016-2030), the Government's five-year Rectangular Strategy, and the corresponding National Strategic Development Plans (2019-2023 and 2024-2028). The SDG Index for Cambodia highlights several major challenges, notably in relation to SDGs 2, 3, 5, 6, 7, 8, 9, 14 and 16 (Sachs and others, 2020).

Czech Republic. The Czech Republic is highly industrialized and has a relatively well-developed infrastructure in the roads, railways, energy and telecommunications sectors. The economy relies primarily on manufacturing (cars and electronics), heavy industry, and technologically advanced agricultural sectors. Having an economy with an exceptionally high share of manufacturing in GDP poses risks (United Nations, 2020, Czech Republic). This has been apparent during the ongoing COVID-19 pandemic; the manufacturing sector, in particular car production, has been hit heavily by the decline in global demand. In 2020, domestic demand, tax revenues and exports all dropped, and GDP contracted by an estimated 6.5 per cent (IMF,

2020). Growth in the long term will require industries with higher added value based on new technologies and thus significant investment in human capital and corresponding changes in fiscal and structural policies. Highway networks, high-speed railways, a train port, and renewable energy are possible areas for BRI investment, though no action has yet been taken in this regard (United Nations, 2020, Czech Republic). The national plan, a strategic framework referred to as Czech Republic 2030 and based on the 2030 Agenda, sets objectives and identifies areas for improvement. The Czech Republic ranks highest among the 14 project countries and eighth globally in the 2020 SDG Index, having made significant progress towards achieving most SDGs. Major challenges are flagged for emissions under SDG 13 and for partnerships (notably, official development assistance as an OECD Development Assistance Committee country) under SDG 17 (Sachs and others, 2020).

Georgia. Economic reforms in Georgia have led to poverty reduction and improved living standards over the past decade. However, the COVID-19 pandemic is believed to have reversed some of these gains, with 2020 estimates indicating a 5 per cent contraction in GDP growth for the year (Asian Development Bank, 2020). The national development strategy, Georgia 2020, is the country's main planning instrument. Georgia has identified four SDGs that could be aligned with the BRI: SDG 7 (energy), SDG 8 (labour), SDG 9 (infrastructure), and SDG 10 (inequality) (United Nations, 2020, Georgia). The SDG Index for the Czech Republic is above the median, though major challenges remain for SDGs 3, 5 and 10 (Sachs and others, 2020).

Kazakhstan. Kazakhstan is strategically located and has vast mineral resources and substantial oil and gas reserves (Global Business Reports, 2015). The oil sector accounts for almost 25 per cent of GDP (Absametov and others, 2019), and reforms in recent years have made mining more attractive to investors (Yerkebulanov and others, 2020). Along with mineral and hydrocarbon resources, the major exports of Kazakhstan include wheat, textiles and livestock. Sluggish productivity growth and increased dependence on commodities led to reduced growth even before the COVID-19 pandemic struck in early 2020, and the impact of COVID-19 only exacerbated the downturn, with the result that GDP growth shrank from 4.5 per cent in 2019 to -3.2 per cent in 2020 (Asian Development Bank, 2020). To support a resilient and sustainable economic recovery and attract much-needed private investment, further reforms and diversification are needed (World Bank, n.d.(a)). The country's long-term and medium-term plans include Kazakhstan 2050, the Strategic Development Plan through 2020, the Plan of the Nation: 100 Concrete Steps to Implement Five Institutional Reforms, and several regional and sectoral plans (United Nations, 2020, Kazakhstan). The 2020 SDG Index score for Kazakhstan is just above the median value; its rank is 65 among the 166 countries covered. Major challenges have been identified for SDGs 2, 3, 10 and 16 (Sachs and others, 2020).

The Kyrgyz Republic. The Kyrgyz Republic is a landlocked country, and its economy is heavily reliant on agriculture, mineral resources and foreign remittances. National statistics show that the agriculture sector makes up 25 per cent of GDP and provides around 30 per cent of employment, while foreign remittances from immigrant workers account for around 30 per cent of GDP. Gold constitutes 25 per cent of industrial production and 48 per cent of exports.¹⁰ The country has significant potential for expansion of the

¹⁰ As reported in the Kyrgyz Republic BRI-SDGs project report, based on the 2017 *Bulletin of the National Bank*

agriculture sector, hydroelectricity production, and tourism industry development but needs to work on strengthening its human capital if this potential is to be realized. The COVID-19 pandemic and the consequent lockdown and border trade disruption were largely responsible for driving GDP growth down from 4.5 per cent in 2019 to an estimated -10 per cent in 2020 (Asian Development Bank, 2020). The country's Vision 2040 outlines key priorities in political, economic and social development and includes short-, medium- and long-term objectives. For its income level, the Kyrgyz Republic is placed relatively high in the 2020 SDG Index—higher than some upper-middle-income economies—with a rank of 52 among the 166 countries covered. However, major challenges remain for SDGs 8, 9 and 16 (Sachs and others, 2020).

Lao People's Democratic Republic. The high and stable economic growth this country has experienced over the past two decades has been largely resource driven and capital intensive, with heavy reliance on mining and hydropower electricity. The strong growth in labour productivity¹¹ has had a limited positive impact on agricultural labourers and will translate into benefits only if the economic growth can create a sufficient number of decent employment opportunities with fair remuneration (Lao People's Democratic Republic, 2018). The country's Vision 2030 and Ten-Year Socio-Economic Development Strategy (2016-2025) provide comprehensive guidance for the ninth Five-Year National Socio-Economic Development Plan (2021-2025) and beyond. Lao People's Democratic Republic has localized the SDGs and integrated them into its national planning framework since 2016 and has also added SDG 18—lives safe from unexploded ordnance—as its own national SDG (UNDP in Lao PDR, 2016). Its SDG Index score of 62 translates into a rank of 116 out of 166 countries—the lowest among the 14 BRI-SDGs project participants. SDGs 2, 3, 6, 9, 10, 16 and 17 have been identified as major challenges (Sachs and others, 2020).

Mongolia. The economy in Mongolia is heavily dependent on the mining sector, which accounts for about one fourth of GDP, 83 per cent of total exports, and about 30 per cent of government budget revenues (United Nations, 2020, Mongolia). GDP growth averaged 7.9 per cent from 2010 to 2018, dropping slightly to 5.2 per cent in 2019 (World Bank, n.d.(b)). Lower external demand for commodities—linked to the COVID-19 pandemic—caused GDP growth to decline to -2.6 per cent in 2020 (Asian Development Bank, 2020). Mongolia has one of the lowest population densities in the world at two persons per square kilometre, and the scattered and nomadic population patterns make the provision of affordable and efficient transport infrastructure and services difficult. Mongolia will require massive investment in transport infrastructure development not only to support economic growth but also to achieve the SDGs. The country's national development framework comprises Vision 2050 in three phases (2020-2030, 2031-2040 and 2041-2050), the Green Development Policy (2014-2030), and the Mongolia Sustainable Development Vision 2030. Mongolia is among the five project countries with relatively poor performance in the 2020 SDG Index. The SDG dashboard shows that it is on track for SDG 4 (education), but major challenges remain for SDGs 2, 3, 6, 7, 9, 10, 11, 12, 13 and 16 (Sachs and others, 2020).

of the Kyrgyz Republic. Note that national statistics differ from international statistics. GDP differences are likely due to different methods used for national accounts systems.

¹¹ Labour productivity is a reflection of the total volume of output (measured in terms of GDP) produced per unit of labour (measured in terms of the number of employed persons or hours worked) during a given reference period—or in simpler terms, GDP per person employed (International Labour Organization, n.d.).

Myanmar. The location of Myanmar is of significance for the BRI, as it offers the landlocked western provinces of China direct access to the Indian Ocean. The country is heavily reliant on agriculture, with nearly half of its workforce engaged in that sector. Myanmar has seen its economic growth decelerate, and it is falling behind its ASEAN neighbours. Economic growth averaged 7.7 per cent for the period 2010-2015 (World Bank, n.d.(b)) but slowed to an average of 6.4 per cent between 2016 and 2019 if the year-end figure for 2019 (6.8 per cent) is taken into account (World Bank, 2020c). The COVID-19 pandemic has taken its toll on the country, with GDP growth falling to an estimated 1.8 per cent in 2020 (Asian Development Bank, 2020). The Myanmar Sustainable Development Plan, released in August 2018, is a framework for guiding the country's progress towards the SDGs until 2030. The 2020 SDG Index places the country in the second-to-lowest quintile (Sachs and others, 2020); Myanmar still faces major challenges relating to SDGs 3, 4, 6, 7, 8, 9, 11 and 17. Civil conflict and severe weather events are likely to pose risks to growth and development in the near term.

Romania. Romania is a high-income member of the European Union but remains below the European average in terms of socioeconomic indicators. The country's GDP per capita (\$12,092 in 2019) is about one third of the corresponding average (\$37,106) for the European Union as a whole.¹² Romania has a higher total fertility rate (1.76) than the European Union average (1.54 in 2019), as well as a higher rate of adolescent births (World Bank, n.d.(b)); however, about a fifth of Romania's total population resides abroad,¹³ and the country is facing a strong demographic decline due to emigration. Growth assumptions for 2020 indicated a 5.7 per cent shrinkage in the economy due to the impact of the COVID-19 pandemic (World Bank, 2020a). The country's Sustainable Development Strategy 2030 provides a framework that is integrated with the SDGs. For BRI projects in Romania, the following SDGs have been identified as the most relevant: SDG 1 (poverty), SDG 8 (employment and growth), SDG 9 (infrastructure and innovation), SDG 10 (inequalities), SDG 11 (cities), and SDG 17 (partnerships) (United Nations, 2020, Romania). Romania has the third highest 2020 SDG Index among the 14 project countries. Major challenges remain for SDG 10 (inequalities), as shown by the Gini index of 45.8 per cent, and for SDG 14 (fishing practices and clean water) (Sachs and others, 2020).

Serbia. Serbia is heavily dependent on fossil fuels for energy production. Electricity production in Serbia relies mainly on coal (69 per cent) but is also sourced from hydropower (27 per cent) (International Energy Agency, 2018). The GDP growth rate in Serbia was 4.2 per cent in 2019 (World Bank, n.d.(b)), but the economy was affected by the COVID-19 pandemic the following year. The immediate negative impact on the population and the economy was buffered by a large fiscal package of around 13 per cent of GDP, which staved off a large increase in unemployment. The year-on-year GDP contraction of 6.4 per cent in the second quarter of 2020 was less pronounced than the corresponding contraction in neighbouring countries (World Bank, 2020a). Serbia scores high in the 2020 SDG Index, second only to the Czech Republic, ranking 33 out of 166 countries. The 2020 SDG dashboard indicates no major challenges but reflects some moderate challenges remaining for SDG 13 (energy-related CO₂ emissions) and SDG 17 (government spending on health and education as a percentage of GDP) (Sachs and others, 2020). The dashboard

¹² In constant 2010 United States dollars (World Bank, n.d.(b)).

¹³ United Nations (2020), Romania; see also Stefanescu (2019).

highlights significant challenges for SDG 8 (full and productive employment and decent work for all). Serbia will need to direct particular attention towards addressing structural unemployment and youth unemployment; the latter stood at 30 per cent in 2018 (United Nations, 2020, Serbia).

Sri Lanka. The level of human development is much higher in Sri Lanka than in other countries of comparable income. The country's solid economic growth, averaging 5.6 per cent during the period 2008-2017 (World Bank, n.d.(b)), was accompanied by policies that led to significant poverty reduction, with the national poverty headcount ratio declining from 15.3 per cent in 2006/07 to 4.1 per cent in 2016 (Sri Lanka, Ministry of National Policies and Economic Affairs, 2017). In comparison with its neighbours, Sri Lanka has been successful in minimizing the spread of COVID-19; however, the pandemic has still had an adverse impact on the economy. Both the tourism sector (which had been on the verge of recovery from the bombings) and the export sector have been badly affected. Designated an upper-middle-income economy in 2019, Sri Lanka was reclassified as lower-middle income in 2020.¹⁴ The country's GDP growth for 2020 was estimated at -5.5 per cent (Asian Development Bank, 2020). The national policy framework—articulated in the Vistas of Prosperity and Splendour, annual budgets and sectoral development plans—is aligned with the SDGs. The 2020 SDG Index for Sri Lanka is just below the median value of 68.7. While the country is on track in education (SDG 4) and climate change action (SDG 13), it still faces major challenges linked to SDGs 2, 5, 6, 7, 9, 10 and 16 (Sachs and others, 2020). The country is also struggling with more frequent natural disasters and growing debt (United Nations, 2020, Sri Lanka).

Thailand. Over the past decade, annual economic growth in Thailand has averaged 3.6 per cent (World Bank, n.d.(b)). China has played an increasingly prominent role in the country's economy in terms of trade and investment. The 20-year National Strategic Development Plan (2017-2036) serves as the master plan for transforming Thailand into a developed economy and aligning all 17 SDGs accordingly; this plan is currently supported by the twelfth National Economic and Social Development Plan (2017-2021). The country transitioned from its traditional agrarian base to the second and third stages of economic development—involving greater industrialization—and is now moving to the fourth stage, which focuses on innovation and technology-based industry. Thailand 4.0 is a national economic strategy intended to guide the transition from traditional industries to innovative modern industries and digitalization, which is expected to enhance the country's competitiveness. This process will involve industrial upgrading and the establishment of new and higher-value-added industries (United Nations, 2020, Thailand). The COVID-19 pandemic caused an economic contraction in Thailand, with GDP growth dropping from 2.4 per cent in 2019 to an estimated -8 per cent in 2020. Exports of goods and services declined, and international tourist arrivals plunged, dragging down services and related businesses (Asian Development Bank, 2020). Thailand scores relatively high in the 2020 SDG Index, ranking 41 out of 166 countries, with major challenges identified only for SDG 3 (health, in particular tuberculosis and traffic deaths) and SDG 10 (inequalities, reflected in a high Gini index of 40.9 per cent) (Sachs and others, 2020).

¹⁴ In 2019, the gross national income per capita for Sri Lanka was \$4,020 (World Bank, n.d.(b); World Bank, 2021).

3 Analysis of BRI progress in the project countries

3.1 Overview

The BRI-SDGs national reports provide most of the information on BRI cooperation in this chapter, with other sources duly noted. The subsections below assess the scope and scale of BRI progress in the project countries in relation to the Initiative's five pillars—policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

3.1.1 *Cooperation framework and policy coordination*

The policy coordination mechanisms of the BRI consist mainly of bilateral agreements between China and participating countries. The national reports for the BRI-SDGs project include relevant data and information for the respective countries. Reference is made to bilateral diplomatic agreements, including MoUs confirming each country's status as a participant in the BRI.

Evaluating BRI progress requires that the boundaries established for BRI cooperation be clearly defined. Most project countries engaged in cooperation activities with China before the BRI was launched—some from decades back. In order to assess the positive and negative impacts and progress of the BRI in the project countries, BRI cooperation should be evaluated separately from any previous cooperation with China. This approach is highlighted in the Sri Lanka BRI-SDGs report. China has been involved in infrastructure development in Sri Lanka for many years, with some projects commencing before the launch of the BRI in the fall of 2013; therefore, BRI projects are defined as those initiated after late 2013. Potential criteria for identifying investment activities as BRI projects are articulated country by country based on data availability and history. For instance, the Kazakhstan BRI-SDGs report states as follows:

- The project should be publicly identified in the host country and by the Belt and Road Forum for International Cooperation (BRF) as a BRI project. "The BRF is the highest-level platform for Belt and Road cooperation", bringing together "all parties concerned ... to build consensus and adopt plans for future cooperation. ... China and other participating countries have in recent years set up platforms for multilateral cooperation on port, shipping, finance, taxation, energy, culture, think tank, the media and other areas and launched initiatives on a green Silk Road and a clean Silk Road." (Yang, 2019)
- The project should be wholly or partially funded by one or more BRI financial institutions, with those institutions acknowledging that they are funding a BRI project. Included in this group are the Asian Infrastructure Investment Bank, the New Development Bank, and the Multilateral Cooperation Center for Development Finance (all multilateral institutions set up by China) (Calabrese and Chen, 2020), as well as the Export-Import Bank of China, the Silk Road Fund,¹⁵ and other funding institutions and mechanisms linked to the BRI.
- The project has to have been initiated after the 2013 declaration on the establishment of the BRI.
- The project may be implemented and financed either bilaterally (between China and another country) or multilaterally (involving one or more additional parties).

¹⁵ For more information on the Silk Road Fund, see <http://www.silkroadfund.com.cn/enweb/23773/index.html?previePc=true>.

Over the course of the BRI-SDGs project, various research initiatives have also addressed the issue of identifying and categorizing BRI investments. The Global Development Policy Center's China Overseas Development Finance Database,¹⁶ for example, requires double verification by Chinese and host country sources, which provides a relevant and corroborated data set that can be used for further analytical research.

3.1.2 Facilities connectivity: infrastructure and investments

Over the period of the BRI-SDGs project, the BRI has served as the impetus for large investments, primarily in infrastructure, across a variety of sectors. Depending on the country situation and the nature of the infrastructure project, many of the investments in this area also enhance trade—the third pillar of the BRI.

3.1.2.1 Transportation

As indicated in the country summaries below, transportation and logistics infrastructure predominate in BRI investments.

- **Azerbaijan.** BRI investments support the logistics and trade development provisions of the country's Strategic Road Map by accelerating the improvement of the national transport and freight infrastructure and the adoption of related tariff policies on transit cargo transport, transshipment and related services. The Government of Azerbaijan has strengthened domestic and regional logistics networks by constructing six Baku cargo terminals, six international airports, the Alat trade port in the Free Economic Zone, a cargo fleet in the Caspian Sea, the Baku-Tbilisi-Kars railway (commissioned in 2017), and the Absheron Logistics Centre. The Baku-Tbilisi-Kars railway crosses Azerbaijan, Georgia and Turkey and is the shortest transportation route between China and Europe. The railway contributes significantly to the facilitation of Atlantic-Pacific intercontinental rail connections extending between the United Kingdom and China. In 2018, 19 trains successfully shipped cargo from China to Central Europe using the Baku-Tbilisi-Kars railway. Freight volumes handled by Azerbaijan are already substantial and are expected to increase.
- **Bangladesh.** BRI-supported projects include the upgrading of the Chattogram seaport and the establishment of an economic and industrial zone in that area, as well as the construction of road and railway lines linking Chattogram Port with Kunming (*Xinhua*, 2019b). China has been building friendship bridges with Bangladesh since 1986—starting long before the BRI was launched. In 2014, Bangladesh and China initiated a joint project to build a road and rail bridge across the Padma River—the largest infrastructure endeavour ever undertaken in Bangladesh. The road portion, which costs \$3.87 billion, is being funded by the Government of Bangladesh and is being built by China Railway Major Bridge Engineering, a State-run company. The Government of China “agreed to finance 85 per cent of the cost of the \$4.8 billion rail portion through a loan to Bangladesh” (Radio Free Asia, 2020). Other BRI transport projects being implemented include the Karnaphuli River Tunnel.
- **Cambodia.** The seaport city of Sihanoukville has emerged as the focal point of cooperation between Cambodia and China. Sihanoukville Port, the only international deep-sea port in Cambodia, handled more than 90 per cent of the country's total container traffic in 2017 (Kha, 2019). The four-lane, 190-km Phnom Penh-Sihanoukville Expressway connecting the Port and the

¹⁶ For more information on the Database, see <https://www.bu.edu/gdp/chinas-overseas-development-finance/>.

capital of Cambodia is scheduled to be completed by 2023. This will enhance connectivity within Cambodia and beyond, improving logistical efficiency and reducing trade costs.

- **Georgia.** Transit through Georgia offers the shortest transport route between China and Europe. It takes up to 10 days for block trains from ports in eastern China to reach Georgia. Since 2015, the main destinations for Chinese cargo have been Georgia, Turkey, Ukraine and Italy. Regular train service from the Port of Lianyungang to Istanbul was launched on 28 November 2018.
- **Kazakhstan.** Rail and road connectivity projects are part of the Nurly Zhol State Infrastructure Development Program. Kazakhstan is a part of the Western Europe-Western China international transit corridor. From the Port of Lianyungang, this route takes only 10 days overland to the borders of European States, while it takes 45 days by sea. This corridor allows transit transport to and from China not only through the Russian Federation, but also through Uzbekistan and the Kyrgyz Republic. Over the period 2015-2019, Kazakhstan completed almost all of its part of the corridor (which will extend 2,787 km through Kazakhstan alone). As a result of this project, a number of national roads were built or repaired. Other BRI investment projects include the dry port KTZE-Khorgos Gateway, the Khorgos-East Gate Special Economic Zone, the Kuryk seaport on the Caspian Sea, the Kazakhstan terminal in the Lianyungang seaport, and the modernization of the Aktau seaport.
- **Kyrgyz Republic.** The Export-Import Bank of China is providing hundreds of millions of dollars in loans for the construction of the North-South highway and for the rehabilitation of the Bishkek-Naryn-Torugart road, Osh-Sarytash-Irkeshtam road, Osh-Batken-Isfana road and Bishkek-Balykchy road. Plans are under way for the building of new railways, highways, pipelines and logistics infrastructure. With BRI support, the country has set its sights on constructing a multimodal regional transport corridor that will connect China, Uzbekistan, Tajikistan, Kazakhstan and Afghanistan through the Kyrgyz Republic.
- **Lao People's Democratic Republic.** The BRI is considered one of the Government's strategies for transforming Lao People's Democratic Republic from a geographically disadvantaged landlocked country into a "land-linked" one. To this end, the construction of the Lao-China Railway, initiated in 2016, is the top priority for BRI cooperation, as it will establish a key connection with other South-eastern Asian countries through the Kunming-Singapore High Speed Rail Link, also known as the Pan-Asia Railway Network. Lao People's Democratic Republic has already started construction on its part of the Railway—not waiting for Thailand and Malaysia to begin work on their sections. In April 2019, China, Thailand and Lao People's Democratic Republic signed a memorandum of cooperation on the construction of a railway bridge to connect Thailand with Vientiane in Lao People's Democratic Republic. By July 2019, construction was reportedly 72.8 per cent complete—including the bridge in Luang Prabang Province, which at 1,458.9 metres is one of the two longest bridges on the Mekong River. Another important BRI-related investment project is the four-lane Vientiane-Vang Vieng highway, which extends 109.1 km and will cost around \$1.3 billion (*Xinhua*, 2019c).
- **Mongolia.** The China-Mongolia-Russia Economic Corridor (CMREC) is an integral part of large-scale cross-border development efforts being undertaken in the three countries—the Steppe Road (later called the Development Road) in Mongolia, the Belt and Road Initiative in China, and Eurasian Economic Association activities in the Russian Federation. A feasibility study on upgrading the central railway corridor developed by Ulaanbataar Railway (UBTZ), a joint venture of Mongolia and the Russian Federation, has already been completed. While the CMREC will generate significant economic benefits for Mongolia, it will deliver even greater benefits for the Russian Federation and China (Kumagai, Gokan and Keola, 2018). Several road construction projects are currently being implemented by the Government of Mongolia, including a four-lane,

two-way road extending 20.9 km from Ulaanbaatar to Nalaikh close to the centre of the Corridor, funded through a soft loan of \$36 million from China. The Ulaanbaatar-Khushigt Valley road, the first highway in Mongolia, was financed through a \$140 million investment loan from China; construction began in 2016 and was completed in 2019.

- **Myanmar.** In 2018, Myanmar and China signed a 15-point MoU to establish the China-Myanmar Economic Corridor, which will run from the Yunnan Province in China through central Myanmar to the western coast on the Bay of Bengal. In 2015, the \$7.3 billion Kyaukpyu Deep Seaport project was jointly approved by the previous Myanmar Government and the State-owned CITIC Group in China; in August 2018, Myanmar renegotiated the agreement, scaling down the project and reducing the budget to \$1.3 billion (Kapoor and Thant, 2018). In October 2018, Myanmar Railways and China Railway Eryuan Engineering Group signed an MoU to conduct a feasibility study for the 431-km-long Muse-Mandalay railway. The line would connect the Kyaukpyu Deep Seaport with Kunming in China and improve access between China and the Indian Ocean. The project would also connect Mandalay with Yangon.
- **Serbia.** There are four initiatives in Serbia worth mentioning. First, the BRI and various partners (including Azerbaijani companies) are supporting the completion of the so-called Corridor XI international highway, which connects Belgrade and the country's core economic regions with western Serbia and with Bar, the main seaport in Montenegro. The central part, which is hilly and relatively difficult to traverse, is approximately 50-km long and was completed in August 2019. Another 50 km of this highway is expected to be completed by 2022. Second, the Belgrade bypass project was initiated before the official launch of the BRI, but the project work that remains will be carried out as part of the BRI. Third, the BRI is supporting the Belgrade-Budapest high-speed railway connection, which will facilitate the distribution of goods between the majority-Chinese-owned port of Piraeus in Greece and Central European markets. This high-speed railway connection will also benefit three of the five largest cities in Serbia—Belgrade, Novi Sad and Subotica. The total length of the proposed railway connection through Serbia is approximately 150 km. Fourth, BRI support for the Belgrade subway is expected to improve agglomeration externalities, especially as Belgrade is one of the rare major cities in Europe without a full-fledged subway system.
- **Sri Lanka.** The importance of Sri Lanka in the BRI stems from its strategic location near the world's busiest shipping lines and its potential to become a major maritime hub. There are three ongoing BRI projects highlighted here. First, Colombo Port City is being built on 269 hectares of land reclaimed from the sea. Construction activity commenced in 2014, reclamation work has been completed, and the first phase of infrastructure work is ongoing,¹⁷ with final completion scheduled for 2041.¹⁸ The Port City was declared open to investors in 2020 (*Sunday Observer*, 2019). By August 2019, the cumulative total capital expenditure for the project amounted to \$761.3 million (United Nations, 2020, Sri Lanka).¹⁹ Second, the Extension of Southern Expressway Project commenced in 2016, the aim being to link the country's major economic centres in the

¹⁷ Project status and information obtained from the Sri Lanka BRI-SDGs project report, based on information received from CHEC Port City Colombo (Pvt) Ltd. during key information interviews and from Sri Lanka Ports Authority, Asian Development Bank and Maritime and Transport Business Solutions (2019); see also Asian Development Bank (n.d.).

¹⁸ As noted in the Sri Lanka BRI-SDGs project report, the Colombo Port City project is being implemented under a public-private partnership between the Government of Sri Lanka and CHEC Port City Colombo (Pvt) Ltd., a wholly owned subsidiary of the China Harbour Engineering Company Ltd. (CHEC).

¹⁹ Based on information from CHEC Port City Colombo (Pvt) Ltd.

southern province with Colombo and other parts of the country. The Project involves the construction of a 96-km-long expressway from Matara to Hambantota in the southern province (ibid.; Sri Lanka, Road Development Authority, n.d.). Third is the Hambantota Port Development Project, set in a location only 10 nautical miles from the main east-west shipping lanes passing Sri Lanka; this initiative began before BRI, but the ongoing second phase of the Project is part of the BRI and includes an administrative building, a break bulk cargo terminal, a container terminal with two main line berths, a special economic zone on 15,000 acres, and an island for real estate development and marina development (Sri Lanka Ports Authority, Asian Development Bank and Maritime and Transport Business Solutions, 2019).

- **Thailand.** BRI activities include collaboration on two railway construction projects, the Nong Khai-Nakhon Ratchasima-Kaeng Khoi-Map Ta Phut seaport railway and the Kaeng Khoi-Bangkok railway. The aim is to create a dual-track system that will boost utilization and connect southern China to the recently completed special economic zone (Eastern Economic Corridor) in Thailand. The zone is intended to be used as a production hub to access the ASEAN market. At the time of writing, the railway remains under construction. Another major BRI project is the Thailand-China high-speed rail project, with an estimated total budget of around \$9.9 billion. The railway will run from Bangkok through Lao People's Democratic Republic to Kunming, China. So far, construction has started on only a short section.

3.1.2.2 Mining, chemical and manufacturing industries

The BRI has made diverse investments in mining, chemical and manufacturing industries, with activities ranging from exploration to the acquisition of mines and factories. In Kazakhstan, BRI investments include the \$5 billion purchase of an 8.33 per cent share in the development of the Kashagan oilfield, which has the ninth largest oil deposits in the world. In the Kyrgyz Republic, Chinese companies are active in the gold and bronze mining sector in the Shu area and are conducting geological exploration activities in the Osh region. In Serbia, Chinese investments include the acquisition of a copper mine in Bor, the acquisition of the Smederevo steel mill, and the launch of a large tire factory in Zrenjanin.

Some of the BRI industrial projects implemented in Kazakhstan may potentially have a positive impact on the environment. The first of these involved the modernization of the Shymkent refinery, which allowed it to meet Euro 4 and Euro 5 fuel standards while making the facilities more environmentally friendly. The \$1.8 billion upgrade also increased the refinery's annual production capacity from 5.25 million to 6 million tons. The modernization of the refinery was part of the country's national industrialization programme and was completed in two stages beginning in 2014 (*Astana Times*, 2018). The second is a waste processing project that will help address environmental problems through the recycling of polyethylene terephthalate (PET)²⁰ waste into synthetic staple fibre in the Badam industrial zone of the Turkestan region. The project was launched in 2018 and is expected to produce 50,000 tons per year of finished product (United Nations, 2020, Kazakhstan), satisfying the country's need for artificial fibre (Larionova, 2018). BRI investments have also been made in car manufacturing, including electric vehicles, under the Anhui Jianghuai Automobile Co., Ltd. (JAC Motors) brand. The environmental impact will depend on the demand for electric vehicles in Kazakhstan.

²⁰ Polyethylene terephthalate (PET) is a highly recyclable plastic resin of the polyester family.

3.1.2.3 Agriculture and agro-industries

BRI investments in agro-industries are boosting production in Kazakhstan. In Kazakhstan, the BRI is supporting the construction of an agro-industrial complex for the deep processing of flax and other crops. Kazakhstan has improved the quality of its flax and has increased production quantities, as this commodity commands high prices in Chinese markets. Kazakhstan has overtaken Canada as the world's largest producer of flax and is set to be one of the largest exporters of the seed as well (Hommel, 2020). Flax is in high demand in the international market and is one of the most important oilseed crops in the world, as it is used not only in the food industry, but also for clothing, wood, paint, and other industrial purposes. BRI investments have also been made in a plant that will have the capacity to produce up to 100,000 tons of camel milk powder per year.

The BRI is supporting agriculture-focused projects in other countries as well. The China-Romania Agricultural Science and Technology Park is a pilot project inaugurated in Romania in May 2019 to promote cooperation and the exchange of information between China and Central and Eastern European countries in the fields of agricultural science, technology and innovation. In Cambodia, BRI infrastructure support includes schemes such as the Vaico Irrigation Development Project.

3.1.2.4 Energy

In some countries, BRI investments in the energy sector have supported the building or upgrading of coal-fired power plants. In 2018/19, most of the FDI outflow from China to Bangladesh was directed to the country's power sector, with priority given to the coal-fired power plants in Chattogram and Payra. In the Kyrgyz Republic, the BRI supported the modernization of the coal- and gas-fired Bishkek power station; however, this project has garnered negative publicity (Putz, 2018). In Serbia, the construction of the 350-megawatt Kostolac B3 coal-fired power plant is the single largest energy project supported by the BRI in that country. The project, which was launched in late 2017, is mostly funded by the Export-Import Bank of China, with a minority share funded by the Serbian electric utility power company EPS (Bielotomic, 2017). The continued building and financing of coal-fired power plants poses a critical challenge to sustainable development, in particular the achievement of SDG 13.

Energy connectivity projects are also an important part of the BRI portfolio. In Bangladesh, the BRI is supporting the construction of a 220-km pipeline to carry oil from tankers in the Bay of Bengal to storage plants and a refinery on the mainland. In Kazakhstan, the BRI lent its support to the now-completed 1,310-km Kazakhstan-China gas pipeline, which is part of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline. The latter, also referred to as the Central Asia-China gas pipeline, starts in the oil and gas fields of Turkmenistan, passes through Uzbekistan and Kazakhstan, and ends in the southern provinces of China. Since 2019, the BRI has been helping with the construction of the Kyrgyz Republic-China gas pipeline, which will allow gas to be transported from Turkmenistan to China through Uzbekistan, Tajikistan and the Kyrgyz Republic.

The BRI is supporting renewable energy projects in countries in which they constitute a development priority. In Kazakhstan, joint projects include the construction of the Turgun hydropower station, a 60-megawatt-capacity wind farm in the Shelek corridor, and the Kerbulak hydroelectric station on the Ili River.

The Government of the Kyrgyz Republic and the State Power Investment Corporation in China are discussing the construction of the Kazarman chain of hydropower plants on the Naryn River, which together may represent the largest investment from China in the energy sector of the Kyrgyz Republic. The Government of Georgia has expressed its willingness to intensify renewable energy cooperation with China, mostly in hydropower, but also in solar and wind energy. The BRI-SDGs national report for the Czech Republic identifies renewable energy as an area of potential collaboration that would be compatible with national environmental goals.

3.1.2.5 Information and communications technology

The BRI is supporting the efforts of project countries to better prepare themselves for the Fourth Industrial Revolution (Industry 4.0):

- In Bangladesh, China is investing in a project worth an estimated at \$1 billion to modernize the telecommunications network and improve the country's digital connectivity. BRI support will fund the development of the national ICT infrastructure for the Info-Sarker - Phase 3 project, which aims to extend the government ICT network down to the lowest tier of administration.
- Cambodia signed an MoU in April 2019 with Chinese tech giant Huawei to build a 5G network in Cambodia. The aim is to improve the country's digital infrastructure and realize the vision of Digital Cambodia.
- China and Myanmar held their first science and technology cooperation meeting in Yangon in November 2018. Subsequently, a joint radar and satellite communications laboratory was established as part of the China-Myanmar Economic Corridor. In December 2018, the Government of Myanmar started working with Huawei to discuss the introduction of the 5G network in the country (Yhome, 2019).
- In April 2019, the Romanian Association for Smart City and Mobility signed a financing agreement with China National Electric Engineering Co., Ltd. (CNEEC) for investments worth some €500 million in smart city projects. CNEEC Board President Zhang Yanfei stated that the investment agreement represented an important step towards the development of projects that could have "a major impact in energy, environment and infrastructure" (Olescu, 2019). No concrete projects have yet been announced.

3.1.3 Unimpeded trade

Developments linked to BRI-related trade in the project countries are highlighted below.

The implementation of the BRI has led to improvements in cross-border trade processes and increased trade turnover with China and to stronger subregional cooperation. The following are some examples drawn from BRI-SDGs national reports:

- Improvements in cross-border trade processes and other trade facilitation measures led to increased trade turnover between Azerbaijan and China; in 2019, imports from China to Azerbaijan increased by 40 per cent (*Xinhua*, 2019d).
- As a founding member of the Asia-Pacific Trade Agreement, Bangladesh benefits from duty-free access to 5,074 products from China and is negotiating further access to the Chinese market under the tariff exemption scheme for LDCs under the World Trade Organization, as well as through a bilateral free trade agreement (FTA) (Siddiqui, 2019).

- Trade between Myanmar and China has increased over the past five years and now exceeds \$11.79 billion.
- Trade between China and Thailand averaged about \$59 billion between 2010 and 2015, before the two countries engaged in BRI cooperation, but increased to an average of \$72 billion between 2015 and 2019, after BRI cooperation was initiated. Average exports from Thailand to China over these five-year periods increased from \$25.38 billion to \$27.31 billion, while the country's imports from China rose from about \$33.62 billion to more than \$45.51 billion.
- BRI members have also engaged in subregional cooperation, an example being the Mekong-Lancang initiative for border facilitation and customs modernization. This BRI-related transport infrastructure project will allow both cargo and passengers to move more freely in the Mekong subregion and expand economic opportunities, especially for rural areas in Thailand, Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam. Greater benefits will be realized if the BRI can lead to the development of regional markets and regional production networks.

Nearly all of the project countries report having a negative trade balance with China. While some countries note that increased investments have made up for the trade gap, this has not been the case for all countries (including Romania and the Czech Republic).

- Exports from Azerbaijan to China total an estimated \$752 million, while the country's imports from China are worth around \$1.4 billion. Azerbaijan is unusual in terms of its investment position; its investments in China amounted to \$1.7 billion in 2019, while Chinese investments in Azerbaijan came close to \$800 million for that year (Ibrahimzade, 2019).
- China is the largest trading partner for Bangladesh, and the value of trade has been growing significantly, with bilateral trade strongly tilted in favour of China. The value of imports from China reached \$17.8 billion (31.1 per cent of total imports) in 2018/19, while the value of exports to China totalled \$945 million in 2018 (2.18 per cent of total exports) (International Trade Centre, n.d.).
- Exports from Georgia to China amounted to \$3.8 billion in 2019, while imports totalled \$9.1 billion, which translates into a negative trade balance of about \$5.3 billion against China.
- Cambodia exported \$900 million in goods to China in 2015 and imported goods worth \$4.77 billion from China in 2017. Although exports from Cambodia to China have diversified, the trade imbalance remains significant.
- Exports from the Czech Republic to China remain negligible, and the country's trade balance with China has been worsening. Chinese goods represent around 10 per cent of total imports to the Czech Republic, and this has not changed since the signing of the MoU in November 2015.
- Exports from Serbia to China have risen sharply but remain comparatively modest and are not sufficient to cover Chinese imports; the trade gap with China is sizeable and widening.
- The negative trade balance Sri Lanka has with China has been expanding over time. However, through the ongoing FTA negotiations between Sri Lanka and China, there is significant potential for expanding bilateral trade under the broad umbrella of the BRI.

Resource-rich project countries do not have a negative trade balance with China.

- Since 2015, Lao People's Democratic Republic has had a trade surplus with China. This indicates not only strong growth in Lao exports, but also strong demand in the Chinese market, especially for the country's agricultural and forestry products. Exports from Lao People's Democratic Republic to China are dominated by mining and agricultural products and include goods such as

copper ore, chemical fertilizer, rubber, maize, bananas and other fruits, forestry products, live animals and furniture. The main imports from China are value-added processed products such as machines, steel and related products, cycles and other vehicles, telecom-related products, electrical and electronic products, cables and wires, vehicle components, paper and related products, chemical fertilizer, plastic products and cement.

- China is one of the largest export destinations for Kazakhstan. Because there is high demand in China for the country's mineral, agricultural and other natural resources, the trade balance favours Kazakhstan. According to the Kazakhstan Committee on Statistics, exports to China are valued at \$5.8 billion and imports at \$4.7 billion (United Nations, 2020, Kazakhstan).

3.1.4 Financial integration

Close cooperation between financial institutions in participating countries is needed to strengthen financial integration within the BRI framework and achieve BRI goals. Only a few of the BRI-SDGs national reports adequately address this aspect of cooperation. The reports focus primarily on the purchase of shares in national financial institutions by Chinese entities, as summarized in the following:

- A Chinese consortium that includes the Shenzhen and Shanghai stock exchanges bought a 25 per cent stake in the Dhaka Stock Exchange in Bangladesh in 2018.
- The Hualing Group, the largest conglomerate in China, is involved in the financial sector in Georgia and holds 95 per cent of the shares of BasisBank.
- In Kazakhstan, the China CITIC Bank bought a controlling stake in Altyn Bank, a subsidiary of Halyk Bank, in 2018 (ibid., based on Informburo, 2019).

3.1.5 People-to-people bonds

In the present context, people-to-people bonds may be defined as all interactions that strengthen goodwill between the BRI countries and China. Tourism, sports exchanges, student exchanges, cooperation between ministries, and the provision of grant (rather than loan) assistance are all examples of activities that create connections and strengthen the BRI as a whole.

Tourism is a key component of this pillar. Prior to the onset of the COVID-19 pandemic, tourist visits from China to BRI countries were increasing.

- Azerbaijan reports that from 2017 to 2018, tourist visits from China increased by roughly 53 per cent. The State Tourism Agency in Azerbaijan is working with the Ministry of Culture and Tourism in China to have 200,000 Chinese group tourists visit Azerbaijan in the next few years (*Xinhua*, 2019a).
- Tourism from China has proven to be a significant driver of the economy in Thailand, with revenue from inbound Chinese tourists having overtaken that from Japanese and European tourists. Prior to the COVID-19 crisis, tourism and hospitality businesses such as travel agencies, hotels, restaurants and souvenir shops benefited greatly from the growing tourism. Over 10 million Chinese tourists visited Thailand in 2019, and this number is expected to increase once transportation systems in the country have been upgraded.

- The number of Chinese tourists visiting Lao People's Democratic Republic rose from 0.16 million in 2010 to 0.80 million in 2018. Chinese tourists constitute the third largest group of visitors to the country.
- The number of Chinese visitors to Mongolia increased by 8.5 and 15.1 per cent in 2017 and 2018, respectively, while Mongolian tourists to China increased by 2.7 and 43.2 per cent in the same years.
- While Serbia and China are geographically and culturally distant, the past several years have seen a sharp increase in Chinese tourist arrivals to Serbia. In 2017 alone, the number of Chinese tourists visiting Serbia surged by 167 per cent. Serbia started offering visa-free entry for Chinese visitors in 2017, and direct flights between Belgrade and Beijing were introduced the same year.
- China is the second most common country of origin for tourists in Sri Lanka, accounting for 11.3 per cent of total arrivals in 2017 (Sri Lanka Tourism Development Authority, 2018), and the numbers have been increasing rapidly in recent years.

Increased tourism requires improved infrastructure and incentives for tourists to stay longer and spend more. The Czech Republic has increased the number of flights between Prague and China since 2015, facilitating significant growth in Chinese tourist arrivals. However, revenues from Chinese tourism have been limited, as Chinese tourists spend an average of only 1.5 nights per visit (the average for incoming tourists is 2.5 nights per visit). Tourism readiness is another issue; Sri Lanka reports that its tourism industry needs to improve capacity and address human resource gaps before it can cater to increased demand.

Educational exchanges and activities are reported by many of the project countries.

- Since 2016, Azerbaijan has engaged in teacher and student exchanges and institutional collaboration with China, and China has supplied the country with ICT equipment (United Nations, 2020, Azerbaijan).
- In Cambodia, China is funding a school facility improvement project that involves the construction of 26 high school buildings and three teacher training centres.
- Scholarships granted by China to students from Lao People's Democratic Republic have increased dramatically in recent years; between 2013 and 2016, the number of scholarship students jumped from 723 to more than 9,000. In 2018 alone, more than 2,000 new Lao students travelled to China to study. A large proportion of the scholarships are provided to Lao students living in border provinces near China. Students in Luang Namtha Province, for instance, receive more than 1,000 scholarships every year.²¹ Opening up professional development opportunities has also strengthened relations between the two countries. The Lao-China Cooperation Committee reports that the number of Lao officials receiving training in China increased from 532 in 2015 to 2,391 in 2018. The topics covered during such visits have included, inter alia, economic development, finance, poverty alleviation, market access, taxation and innovation.
- A research centre—the China and Central Asia Studies Center—has been set up at KIMEP University (formerly the Kazakhstan Institute of Management, Economics and Strategic Research). KIMEP University has signed partnership agreements with 30 Chinese universities. More than 14,000 students from Kazakhstan are currently studying in China.

²¹ The Lao People's Democratic Republic BRI-SDGs project report cites a field survey conducted in the Luang Namtha and Oudomxay provinces between 9 and 15 June 2019.

- Cooperation between universities and scientific institutions in China and Mongolia has expanded rapidly in recent years. The national report confirms that 6,268 Mongolian students are studying in China, and that an intergovernmental agreement dating from 2018 is responsible for bringing 358 of these students to the country.
- Romanian students received 57 university scholarships from China over the period 2018-2020.
- China has provided Sri Lanka with university scholarships and training for government officials. In 2018, China provided 62 per cent of the short-term training opportunities afforded Sri Lanka by its development partners.

Humanitarian assistance is another way of strengthening people-to-people bonds. China has provided humanitarian aid for displaced persons in Myanmar. In 2020, China sent a team of medical experts as well as 5.3 tons of donated medical supplies to Myanmar to combat the COVID-19 pandemic.

Strengthening people-to-people connections at multiple levels is particularly beneficial. Georgia and China have created an intergovernmental commission that has worked to deepen bilateral cooperation in a wide range of areas, including trade and investment, transport, agriculture, energy, tourism, and intellectual property. The Ministry of Commerce in China and the Ministry of Economy and Sustainable Development in Georgia jointly organized three Tbilisi Belt and Road Forums (in 2015, 2017 and 2019), with 1,000-2,000 delegates from around the world attending each event. The Forums promoted networking among delegates interested in opportunities for increased cooperation in trade, investment, e-commerce, transport, energy, and digital connectivity. The import-export relationship between the two countries continues to grow, as is illustrated by the rising popularity of Georgian wine among consumers in different regions of China. The tourist market is also seeing gains; Georgia has been actively promoting tourism in China, and the number of Chinese visitors to Georgia has grown rapidly in recent years. In 2018, almost 32,000 Chinese visitors travelled to Georgia—a 75 per cent increase over the previous year.

Cultural interaction has increased but has generated controversy in some cases.

- Romania hosts four Confucius Institutes and two Confucius Classrooms (which are extensions of the Confucius Institute programme). There has been public demand for the closure of all Confucius Institutes in Romania.
- Three Confucius Institutes have been established in Kazakhstan.
- China has supported the construction and restoration of sports facilities (including the Morodok Techo National Sports Complex), the Royal Palace, and a number of temples in Cambodia.
- In Myanmar, China established the China Cultural Centre and the China Foundation for Poverty Alleviation.

The Government of China awards large grants for selected projects, which creates goodwill in recipient countries.

- The Kyrgyz Republic has received grants worth hundreds of millions of dollars. Some recent examples include a grant of \$86.5 million for the reconstruction of roads in Bishkek, a new laboratory for agricultural products, archaeological excavations, and the conservation of historical monuments. An additional \$150 million was provided to renovate more than 100 streets in Bishkek. Chinese grants funded the construction of the largest hospital in Central Asia with modern medical equipment in Osh and a national hospital in Bishkek. Grants were also provided by China for irrigation projects in the Kyrgyz Republic.
- Lao People's Democratic Republic is another country that has received sizeable grants. The Government of China announced in 2017 that it would provide 6.57 billion Chinese yuan (CNY) (\$950 million) in grants over four years (United Nations, 2020, Lao People's Democratic Republic). The Government of Lao People's Democratic Republic has already identified more than 1,100 projects to be financed by the grants; infrastructure, education and health projects account for most of the funding, but capacity-building is also covered. Chinese grants funded the construction of the modernized Mahosot Hospital, the National Convention Centre canteen and 10 new school buildings, as well as the upgrade of Road 14A. During the period 2018-2020, China became the top provider of grant money for development projects in the country, surpassing the World Bank and Asian Development Bank.
- Between 2018 and 2020, Mongolia received grants totalling CNY 2 billion (over \$300 million) for *ger* (yurt) area²² replanning and rental apartment projects that aim to reduce air pollution.

Interventions that have a visible positive impact on the daily life of communities create closer bonds. Examples of such interventions within the BRI framework include the building of friendship bridges in Bangladesh and helping Serbia with its plans to construct a wastewater treatment plant to help resolve the issue of wastewater from central Belgrade draining into the city's main rivers, the Sava and the Danube. The Export-Import Bank of China financed the Greater Kurunegala Water Supply and Sewerage Project in Sri Lanka through a \$77 million concessional loan, facilitating the provision of drinking water to the Greater Kurunegala area. Project construction was carried out by the China Machinery Engineering Corporation between 2014 and 2018. All such interventions require media promotion to bolster public awareness and support.

²² A *ger* is a traditional round felt dwelling in Mongolia. A *ger* area encompasses both *gers* and houses made of brick or makeshift construction materials. These areas are characterized by a lack of paved roads and limited infrastructure (including access to water, sanitation and heating).

3.2 Challenges and opportunities

Numerous studies have been conducted to assess the challenges, risks, opportunities and potential associated with the BRI. The present report offers a perspective drawn from the BRI-SDGs national reports as well as a review of pertinent literature. Many of the issues and problems reported are linked to a small number of underlying causes.

3.2.1 *Challenges in trade and investment*

Negative trade balances with China are an issue, though concerns have been alleviated to some extent by the scale of FDI brought in by the BRI. Serbia, for example, reports that at least part of its chronic external trade gap is covered by Chinese FDI, which has risen sharply since 2013. This surge has coincided with a growing Chinese presence in many other areas and a tightening of political ties between the two countries. In 2018, the Chinese company Zijin Mining Group invested some \$1.3 billion in RTB Bor, a State-run copper mining and smelter complex and one of the largest companies in Serbia. With its 63 per cent share, Zijin Mining assumed formal control of the company under the new name Serbia Zijin Bor Copper. The company employs a 5,000-strong local workforce. For various reasons, some of which are covered in the relevant paragraphs, negative trade balances are more of a problem in countries where little or no BRI investment has taken place.

Policy gaps need to be addressed by BRI countries for trade to reach its full potential. The BRI cannot resolve problems that are related to national policy coherence. The World Bank estimates that trade in BRI corridor economies is 30 per cent below potential and that FDI is an estimated 70 per cent below potential. This is because trade and investment policies are restrictive in many countries, and trade agreements between corridor economies tend to be shallow and fragmented (World Bank, 2019).

In a number of countries, Chinese investments have become a major source of FDI. In Bangladesh, the net FDI inflow from China was \$68.58 million in 2016/17, \$506 million in 2017/18, and \$1.16 billion in 2018/19. In Cambodia, FDI from China reached more than \$1.5 billion in 2018, accounting for 43.3 per cent of total FDI inflows. In Lao People's Democratic Republic, China is the biggest investor, with total approved investments of \$17.4 billion in 2017; for comparison, the country's GDP for the same year was \$16.9 billion (World Bank, n.d.(b)). Chinese non-concessional investment in Lao People's Democratic Republic increased to more than \$3 billion in 2018, and it seems likely that the upward trend will continue. Thailand stands to benefit from being an ASEAN production base for Chinese manufacturing. Between 2010 and 2014, the country's FDI inflow from China averaged \$394.06 million annually; during the period 2015-2019—after the BRI was initiated in Thailand—FDI from China increased to \$595.69 million per year on average.²³

Expanded BRI investment is costly in the context of mounting debt. The World Bank has estimated that BRI investments in all sectors of the 70 corridor economies (excluding China) amount to \$575 billion. These investments are taking place “in the context of rapidly rising public debt. External debt from outside the Paris Club, including debt from China, is low in many corridor economies, but it has increased in countries

²³ Investment information is drawn from the respective BRI-SDGs national reports.

with a higher risk of debt distress” (World Bank, 2019, pp. 4-5). This highlights the need for increased institutional capacity in macroeconomic modelling, monitoring and policymaking across countries participating in the BRI, with particular emphasis on debt sustainability.

3.2.2 Opportunities in trade and investment

By reducing travel times, BRI transport projects can expand trade, increase investment and boost incomes.

The World Bank estimates that the use of BRI transport corridors will reduce travel times by up to 12 per cent. This is projected to increase trade by between 2.8 and 9.7 per cent for the corridor economies and by 1.7 to 6.2 per cent for the world. In corridor economies, increased trade is expected to lead to real income gains of between 1.2 and 3.4 per cent, not including the cost of infrastructure investment. Increases in FDI would further boost these effects. Among the 14 BRI-SDGs project participants, real income gains are expected in countries such as the Kyrgyz Republic and Thailand. However, the World Bank model finds that Azerbaijan and Mongolia could experience negative welfare effects because infrastructure costs would exceed the gains from integration (World Bank, 2019).

Complementary policy reforms are required to maximize the positive effects of BRI transport projects and ensure that the gains are widely shared (ibid.). Thailand is a good example of this, having identified the niche in the national policy and planning contexts where BRI transport investments would contribute most to economic development (see section 3.1.2).

Sound medium-term and long-term national development plans are a sine qua non for maximizing benefits from BRI collaboration. Medium-term sectoral plans (notably for the transport, energy and other sectors of BRI investment) should fit within the overall medium-term national development plan. This will ensure that every aspect of new BRI investments can be strategically leveraged to have the greatest possible impact on incomes, the social sector and the rest of the economy.

3.2.3 Risks related to large infrastructure projects

Large infrastructure investments involving debt financing introduce risks that threaten debt sustainability.

Sound public investment management, favourable financing terms, and continued growth dividends can alleviate these risks. The transparency of the terms and conditions of BRI projects needs to be improved, and the ability of recipient countries to assess these terms and conditions needs to be strengthened.

Governance risks, including corruption and failures in public procurement, have been indicated in some BRI-SDGs reports. Such risks could be mitigated by building on international best practice, including open and transparent public procurement. Significant regulatory and reputational risks may affect BRI projects in cases of alleged corruption, creating obstacles for long-term infrastructure projects in particular.

Large transport and other infrastructure projects are known for exposing countries and communities to environmental risks. BRI projects are no exception. BRI routes pass through areas vulnerable to degradation, flooding and landslides and through areas of biodiversity. Host countries may not enforce

environmental laws and regulations properly. Expanded settlements along the new routes could have a negative impact on the environment, and there is the risk of increased air and water pollution from the higher volume of traffic. It is estimated that the BRI transport infrastructure could increase CO₂ emissions by 0.3 per cent worldwide—and by 7 per cent or more in Cambodia, the Kyrgyz Republic, and Lao People's Democratic Republic—as production expands in sectors with higher emissions (ibid.). In Serbia, increased reliance on coal-powered electricity generation—supported through BRI-related projects—may serve to deepen the country's harmful overreliance on coal.

Large infrastructure projects are also known to increase social risks and vulnerabilities. Massive infrastructure projects are associated with large influxes of workers, which may translate into higher risks of gender-based violence and infectious diseases, including those that are sexually transmitted; such influxes also promote the spread of drug-resistant strains of diseases such as malaria and tuberculosis, as has happened in the Greater Mekong Subregion countries (Lao People's Democratic Republic and United Nations, 2013). These projects tend to be exposed to risks relating to human rights and labour rights as well. The risk of criminal activity—including participation in the illegal timber and wildlife trade, the drug trade, and transnational terrorism—could increase with more open borders and improved roads.

Rigorous environmental and social impact assessments are necessary prior to project approval. An oversight mechanism is also needed to assure that the assessments are not biased towards the implementing entity. A sound governance framework for such oversight has to be in place at the national planning and investment level. The assessments should be conducted in accordance with international best practice and should be anchored in global norms and standards.

3.2.4 Governance of BRI projects

Some national reports make reference to the slow start-up of BRI projects, funding disbursement delays, and even project cancellations. The Bangladesh BRI-SDGs report mentions that while China has pledged substantial loans for agreed projects under the BRI, the slow pace of funds disbursement has been concerning enough to compel the two parties to sign an agreement to form a joint working group that would identify the reasons for the delays and address those barriers. The same report identifies bureaucratic holdups on both sides for most of the delayed projects. In Myanmar, the delay or cancellation of BRI projects often stems from negative public perceptions surrounding certain Chinese initiatives. In Serbia, only a small proportion of ongoing and planned projects have actually been completed or are in progress; the majority are still in the planning phase. Romania also appears to be dealing with delayed (and possibly cancelled) BRI projects, as the Chinese investment initiatives agreed upon during the 2013 16+1 summit of Central and Eastern European countries and China have not yet been implemented.

The size and significance of BRI projects are such that transparency and coordination in management and financial reporting are vital. At present, the levels of transparency and coordination are inadequate, and financial reporting is inconsistent.

- According to the Kazakhstan Committee on Statistics, trade between China and Kazakhstan totalled \$10.5 billion in 2017, while Chinese sources report that bilateral trade amounted to \$18 billion that year. Broken down, the figures released by China indicate that Kazakhstan exported goods worth \$11.6 billion and imported goods worth \$6.4 billion, while the Kazakhstan Committee on Statistics places the respective figures at \$5.8 billion and \$4.7 billion.
- In the BRI-SDGs report for the Kyrgyz Republic, it is asserted that China does not report on cross-border project lending in a systematic or transparent manner. BRI project information is not centrally reported, with the exception of investment figures announced by Chinese officials and the occasional projection on intended country-level investment under the Initiative. There are also inconsistencies in announcements from China and commercial banks about project investments. Specific financing agreements are rarely published.
- The Romania BRI-SDGs report remarks on the significant discrepancies between the trade statistics reported by Romanian authorities and those put out by Chinese sources.

Improving BRI coordination, implementation and evaluability will require a dedicated institution in each country. A good example of such an institution is the Investment Research Center established in Ulaanbaatar under the Ministry of Foreign Affairs of Mongolia in September 2017. The Center's primary functions are to prepare and implement prioritized projects; conduct pre-feasibility and feasibility studies; develop methodologies and recommendations based on studies of rules and regulations in Mongolia, China and the Russian Federation; and coordinate with the respective institutions in China and the Russian Federation. In Thailand, the Joint Committee on Railway Cooperation between Thailand and China was formally launched in 2015 to maximize mutual benefits for both countries and ensure the optimal use of Chinese expertise.

The institutions monitoring the BRI in each country (including in China) will need to harmonize the way BRI investment sectors are classified and their relative shares quantified. Quantitative comparisons of BRI investment sectors across countries are currently impossible and would be inappropriate, as not all countries have adopted the same criteria for the BRI in classifying their investment sectors. There are also differences in the ways sectors are classified. Generally speaking, most countries show a predominance of transportation and logistics infrastructure in investments. Energy is another dominant sector (for example, in Bangladesh). Investment in the mineral sector is predominant in resource-rich countries; in Kazakhstan, for example, mineral and petroleum exploration, extraction and processing projects account for 53 per cent of total investment, followed by investments in rail and road connectivity (24 per cent), industry (13 per cent), energy connectivity (6 per cent), finance and IT (3 per cent), and agriculture and food (1 per cent).

Reports on policy coordination need to focus on the actual policies and improvements made. While policy coordination undoubtedly takes place in one form or another in the sectors in which the BRI invests, reporting on this aspect of BRI cooperation is far from adequate. The Azerbaijan BRI-SDGs national report highlights the need for construction standards for transport infrastructure projects and for trade and transport policies for transnational cargo and multimodal transport. The national report for Mongolia mentions several possible mechanisms for coordination, such as meetings of working groups, investment

forums with government and private sector representatives, and academic conferences. Future BRI monitoring mechanisms will need to set criteria for reports on policy coordination.

As the foregoing suggests, the BRI needs a coordination framework to realize its full potential and enhance transparency. Concerned institutions need to develop and adopt a consistent framework across the BRI countries for monitoring and reporting against agreed criteria and statistical indicators and for transparent data sharing on statistics, policy coordination, sectoral activities, investments across countries, media developments, bottlenecks and delays.

3.2.5 Public sentiment and local communities

Some countries report that public reactions to Chinese investments and the BRI are not always positive. In Kazakhstan, for example, anti-Chinese protests took place in six cities (Almaty, Nur-Sultan, Aktobe, Karaganda, Shymkent and Zhanaozen) in September 2019. This was caused by a misunderstanding surrounding an announcement made by the Government of Kazakhstan regarding 55 Chinese-funded projects.

Politics can contribute to BRI constraints. As BRI-related infrastructure projects demand large budgets, political influence plays a key role in ensuring smooth progress and implementation. In many cases, the BRI is seen as a political tool to expand Chinese influence in the Asia-Pacific region, leading to geopolitical tensions with other countries.

Addressing the reputational and politicization risks related to the BRI requires transparency from all development partners. Project partners need to coalesce around the host country's national development goals and agenda. The Thailand BRI-SDGs report emphasizes the importance of strengthening economic partnerships and trust and the need for the Government to provide a fair and balanced arena for regional competition while adhering to its national agenda. For Thailand, obtaining optimal results means maintaining a comparative advantage while focusing on long-term economic objectives such as better wealth and income distribution and sustainable growth. Northern Thailand offers a good example of how the country has managed to leverage gains from the tourism industry to expand local economic activities. Transportation infrastructure projects, including BRI projects, are seen in Thailand as a means of enhancing rural development and helping to mitigate inequality.

Host countries should ultimately base decision-making on national development strategies, including national financing needs and the availability of funding. The Sri Lanka BRI-SDGs report underscores the concessional characteristics of Chinese funding, such as low interest rates and longer maturity. These are important for middle-income countries, given the declining trend in concessional financing and the increasingly limited availability of funding for countries in this category. In Thailand, the approach to railway system technology investment is based on an open competitive system, enabling it to draw on expertise and financing from various countries.

4 Findings from the expanded World Economic Forecasting Model

4.1 The World Economic Forecasting Model

The original World Economic Forecasting Model (WEFM) was developed to produce regular forecasts for the global economy. It did not aim to explore countries' medium-term growth prospects, so aggregate-level total factor productivity, which is considered to be the main driver of long-term economic growth, is assumed to be constant for all countries in all periods in this model.

The WEFM-e is an expanded version of the WEFM. In developing the WEFM-e, EAPD/DESA endeavoured to change the model structure in a way that would simulate the impact of various types of investment (especially infrastructure investment) on long-term growth, fiscal sustainability, the labour market, poverty reduction and the environment. The WEFM-e is a structural econometric macroeconomic model that provides quantitative analysis of the impacts of infrastructure investment on GDP growth, productivity, labour, gender equality, poverty, debt sustainability and CO₂ emissions for a period of about five years. This allows an assessment of the potential impact of the BRI. The report entitled “Expansion of the UN World Economic Forecasting Model and country simulations” (the WEFM-e report) warns that these are just simulated models and not actual forecasts, as there are many unknowns in each of the countries. Project country simulations are presented below, with the original WEFM forecasts referred to as such and the WEFM-e simulations referred to as “modified”. More details on the methodology are available in the WEFM-e report on the BRI-SDGs project website (Hurník and Vávra, 2020).²⁴ The respective national reports, which also capture these results, are available on the same project website.

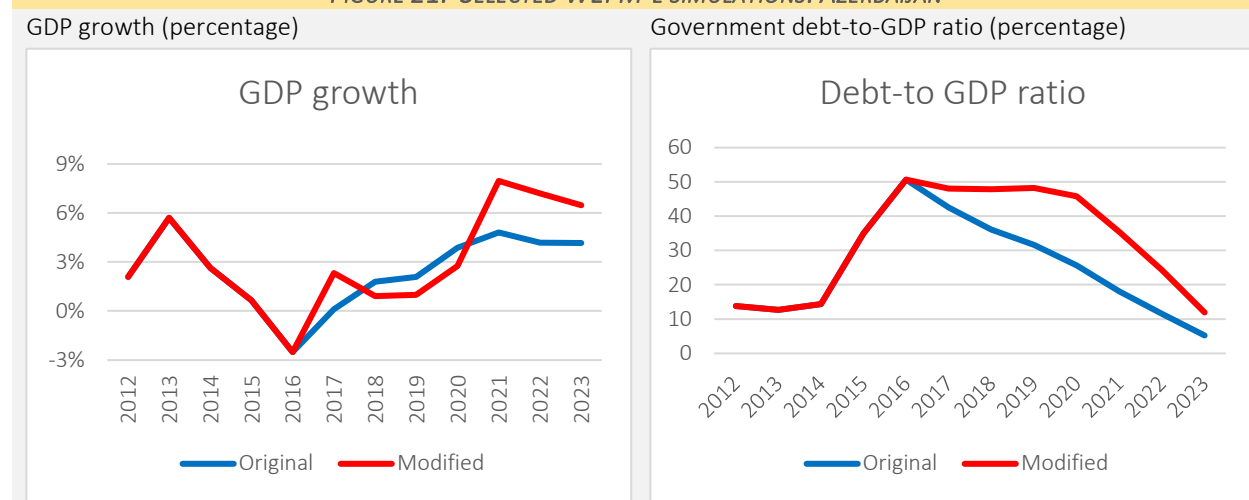
²⁴ This chapter largely comprises extracted and paraphrased content from Hurník and Vávra (2020), edited for clarity.

4.2 Project country simulations

4.2.1.1 Azerbaijan

BRI investments in Azerbaijan do not represent a substantial amount in terms of national GDP, so differences in simulation results are largely attributable to the model changes. Overall investment grows faster when it is broken down into specific components; driven by more rapid government and private investment and by private consumption growth, real GDP growth accelerates in the WEFM-e. As infrastructure investment is relatively subdued, productivity increases only slightly faster in the modified model; however, labour force participation also expands, which implies faster growth in potential output than that predicted in the original model. As GDP growth accelerates, government finances improve, and the budget deficit turns into a surplus by the end of the forecast period. The debt-to-GDP ratio is stable at around 50 per cent until 2020 then falls to 12 per cent by 2023. In terms of the environment, CO₂ emissions increase much faster as GDP growth accelerates.

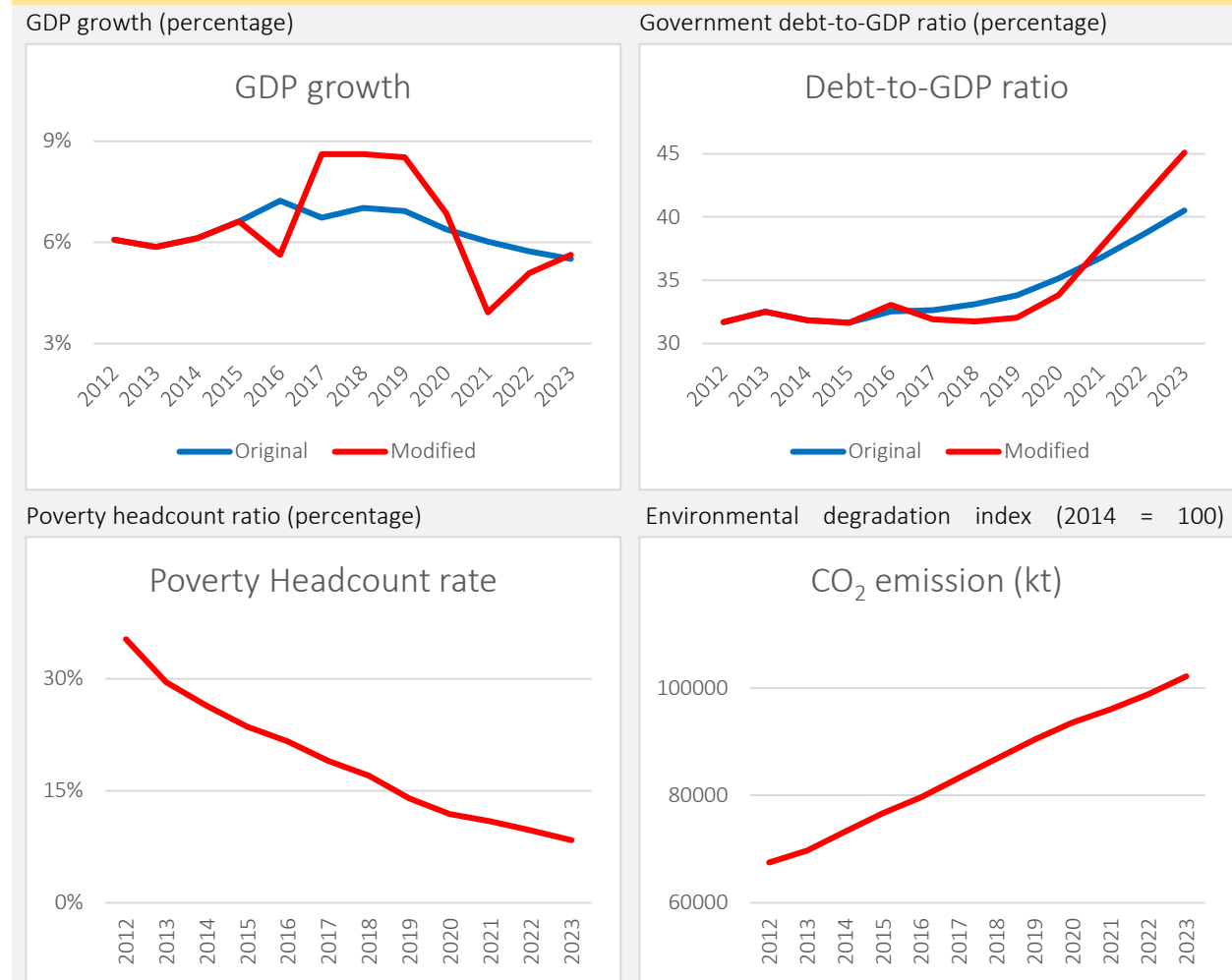
FIGURE 21. SELECTED WEFM-E SIMULATIONS: AZERBAIJAN



4.2.1.2 Bangladesh

The inflow of BRI investment causes GDP to grow faster in the modified model. As the investment stream ends in 2020, GDP growth decelerates and even drops below the original growth level (a demand-side effect driven by the decline in investments). However, the economy recovers and GDP growth exceeds the original path in the long run, driven by expectations surrounding persistently higher growth potential. Once BRI investment inflows end and GDP growth slows down, the budget deficit starts to widen and the debt-to-GDP ratio increases. The poverty headcount ratio falls steadily throughout the forecast horizon and stands at about 8 per cent in 2023 (down from 23.5 per cent in 2015); given the assumptions of a constant poverty line and Gini index, the realized reduction in poverty seems reasonable. CO₂ emissions continue to rise, driven by growing economic activity. In the absence of environmental policies, harm to the environment from improved economic activity can be substantial. Clearly, the implementation of environmental policies is needed to reduce adverse impacts on the environment.

FIGURE 22. SELECTED WEFM-E SIMULATIONS: BANGLADESH

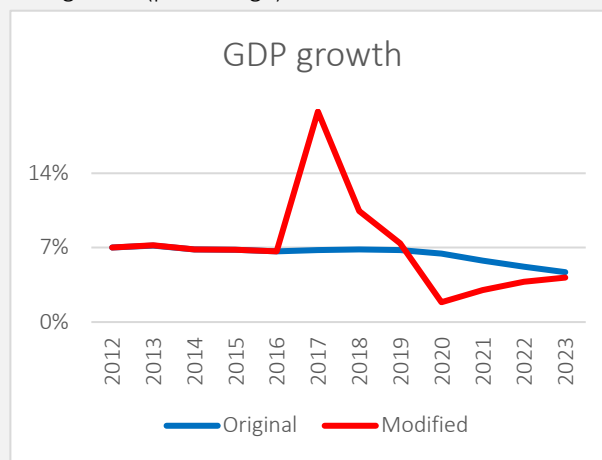


4.2.1.3 Cambodia

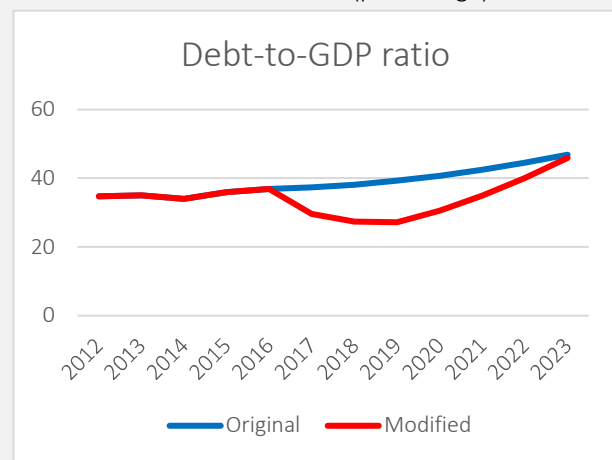
As official BRI data are not currently available for Cambodia, it is assumed that \$2.5 billion in BRI investments (~12 per cent of 2016 GDP) was spread over the five-year period 2015-2019. With the commencement of BRI investment, faster investment and private consumption growth spur more rapid GDP growth. With the end of BRI investment flows in 2019, GDP growth decelerates to a rate slightly below that in the original model (due to the demand effect) and closely follows the original path. As GDP grows fast initially, the output gap opens up and stays positive until BRI investment inflows end in 2019. The gap then starts to close (albeit slowly) and remains positive until the end of the forecast. The debt-to-GDP ratio declines initially; however, as the investment inflows end in 2019 and GDP growth slows down, the budget deficit widens. Consequently, the debt-to-GDP ratio rises again and in the long term exceeds the original level. At the same time, the budget deficit widens further, reaching about 9 per cent of GDP at the end of the simulation horizon. As GDP growth accelerates between 2016 and 2019, CO₂ emissions increase by around 30 per cent. Afterwards, as the economy slows down, the rate of carbon pollution also declines.

FIGURE 23. SELECTED WEFM-E SIMULATIONS: CAMBODIA

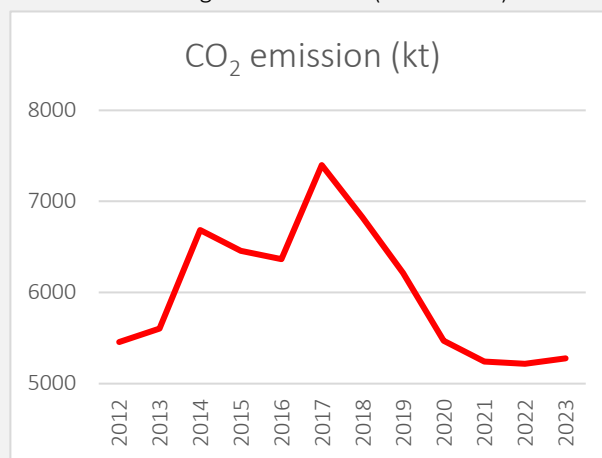
GDP growth (percentage)



Government debt-to-GDP ratio (percentage)



Environmental degradation index (2014 = 100)

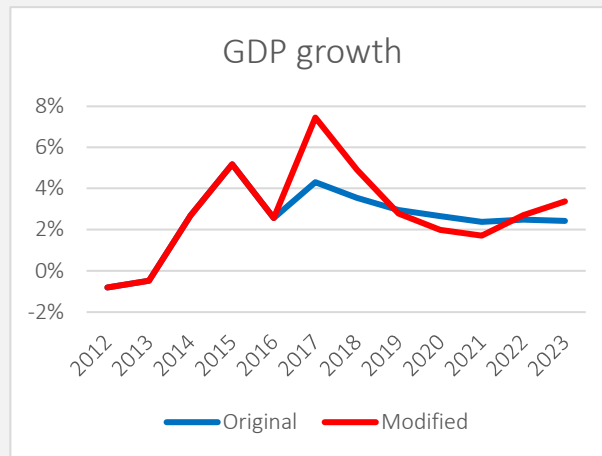


4.2.1.4 Czech Republic

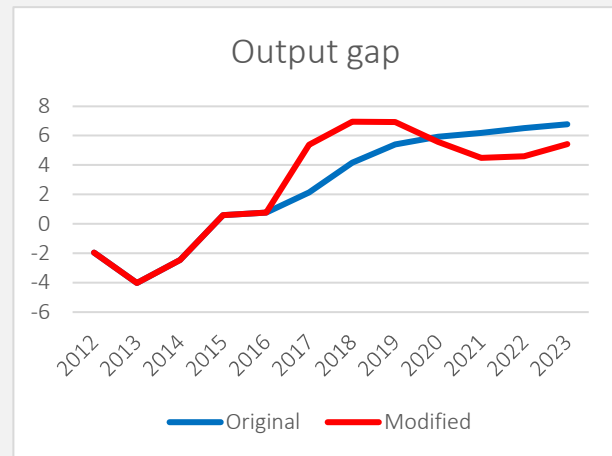
Although the Czech Republic signed the MoU in 2015, BRI-related investments are negligible in the country, amounting to only about \$230 million (~0.1 per cent of 2016 GDP). GDP growth in the WEFM-e increases initially, driven by private consumption and investments. After the initial hike, however, GDP decelerates and closely follows the original path. As potential growth is faster in the initial years, the output gap increases further. As real growth recovers, the output gap shrinks and remains just below the level projected in the original model. A relatively fast decline in the poverty headcount ratio is caused by a sharp increase in GDP per capita in 2017 (when there is no population growth) and relatively equal income distribution (the Czech Republic has a relatively low Gini coefficient). Pollution increases only marginally as economic activity remains close to potential growth. Falling CO₂ emissions in the historical data (until 2014) reflect the closure of old coal-based power plants.

FIGURE 24. SELECTED WEFM-E SIMULATIONS: CZECH REPUBLIC

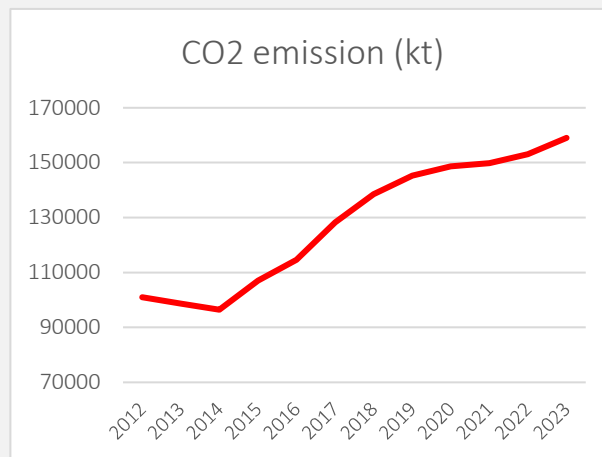
GDP growth (percentage)



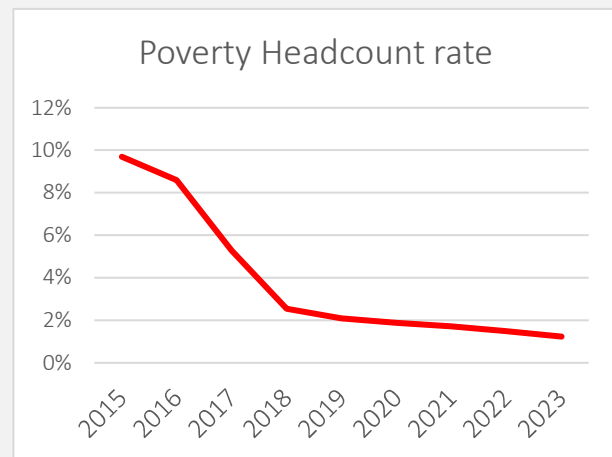
Output gap (percentage of GDP)



Environmental degradation index (2014 = 100)



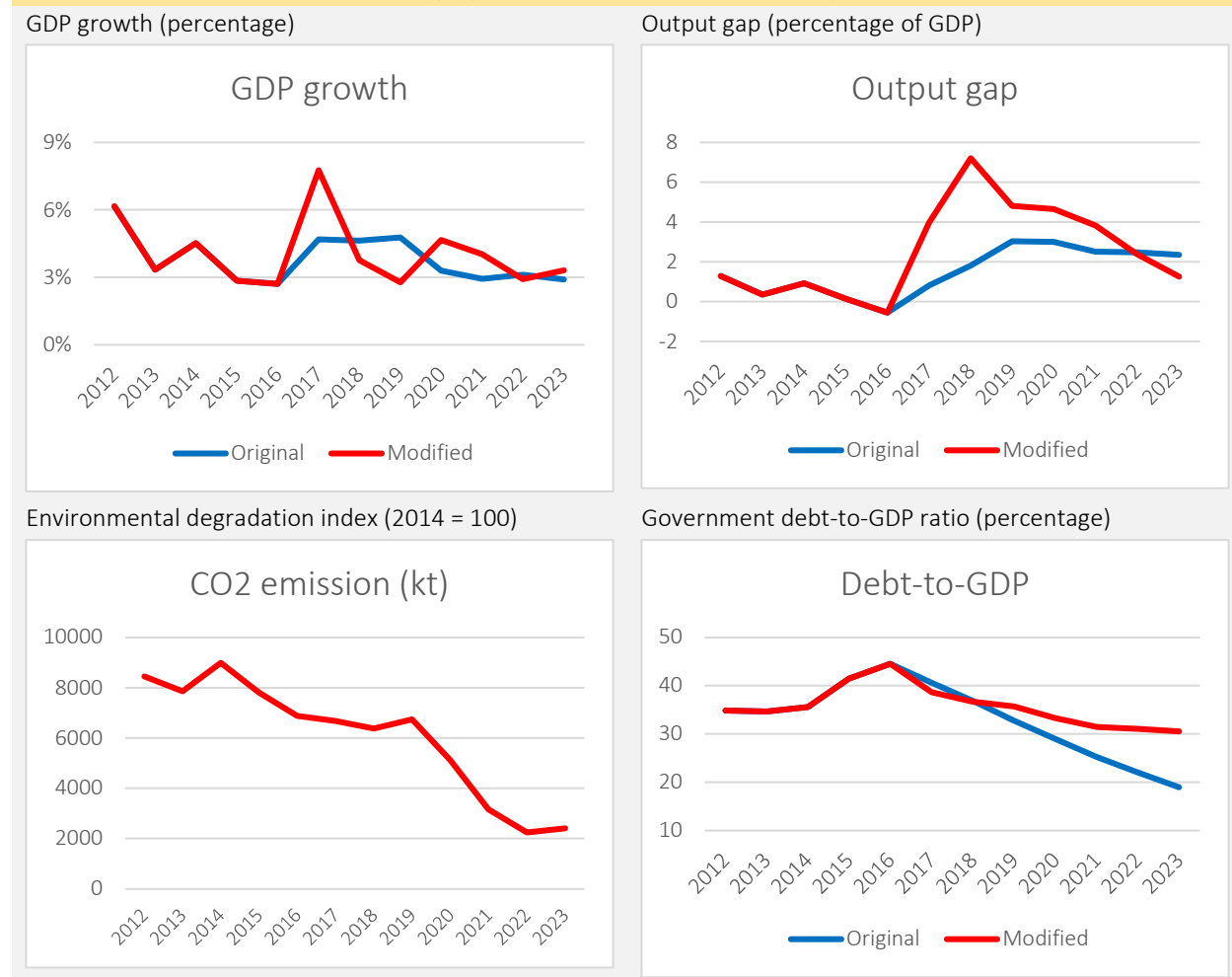
Poverty headcount ratio (percentage)



4.2.1.5 Georgia

The overall investment of \$1 billion (~8 per cent of 2016 GDP) spread over the five-year period 2020-2024 is an assumption, as Georgia joined the BRI formally only in May 2019. The time range for the simulation assumes that all BRI investments will materialize. In the modified model real GDP grows more rapidly, driven by faster investment and consumption growth. Since real GDP growth initially accelerates while potential growth declines, the output gap becomes positive. Eventually, potential growth recovers and real growth decelerates, resulting in the closing of the output gap by 2023. Debt declines and stabilizes at around 30 per cent of GDP in the WEFM-e. CO₂ emissions increase relatively slowly in the initial period of the forecast but accelerate after 2016.

FIGURE 25. SELECTED WEFM-E SIMULATIONS: GEORGIA

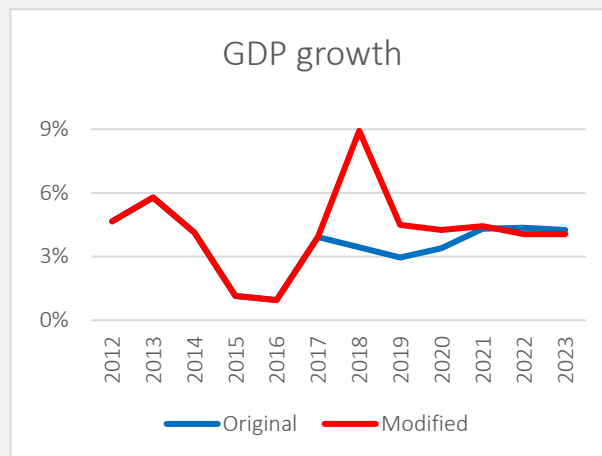


4.2.1.6 Kazakhstan

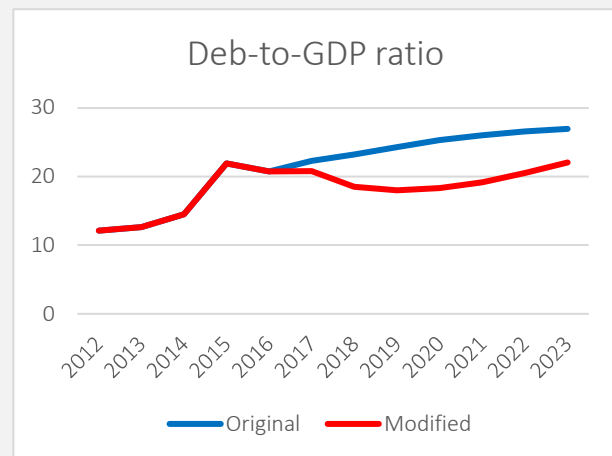
BRI-related investments are expected to total \$4.4 billion during the period 2012-2020. More investment inflows predictably translate into rapid investment growth, driven by increased (government plus BRI) infrastructure investments and steadily growing private investments. Even though BRI investment started in 2012, the latest observed value of real GDP is for 2017, so investment growth is reflected only from 2018 onward. That is the reason for the hike in 2018 GDP growth. Even after that, GDP growth continues to accelerate, though at the end of the forecast horizon it decelerates to a pace similar to that in the original model. As long as GDP growth remains elevated, the budget deficit (in terms of GDP) shrinks and the debt-to-GDP ratio declines. The level of debt in the WEFM-e is lower than the original level in the medium term, remaining at around 30 per cent of GDP over the long term. In terms of environmental impact, CO₂ emissions drop initially in spite of the acceleration in economic activity. After 2017, carbon emissions resume their upward trend but remain at a level lower than that recorded for 2014 (the most recent historical data point).

FIGURE 26. SELECTED WEFM-E SIMULATIONS: KAZAKHSTAN

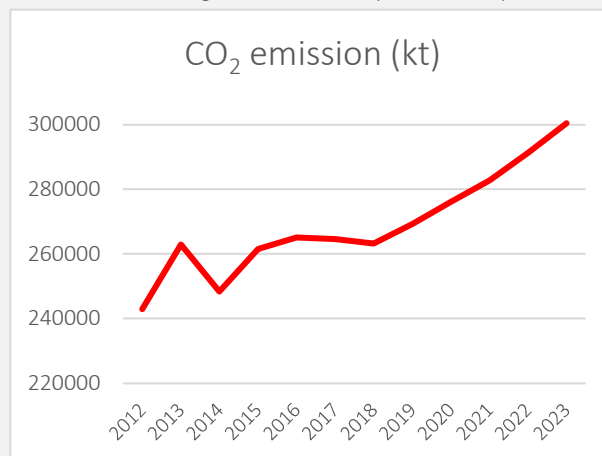
GDP growth (percentage)



Government debt-to-GDP ratio (percentage)



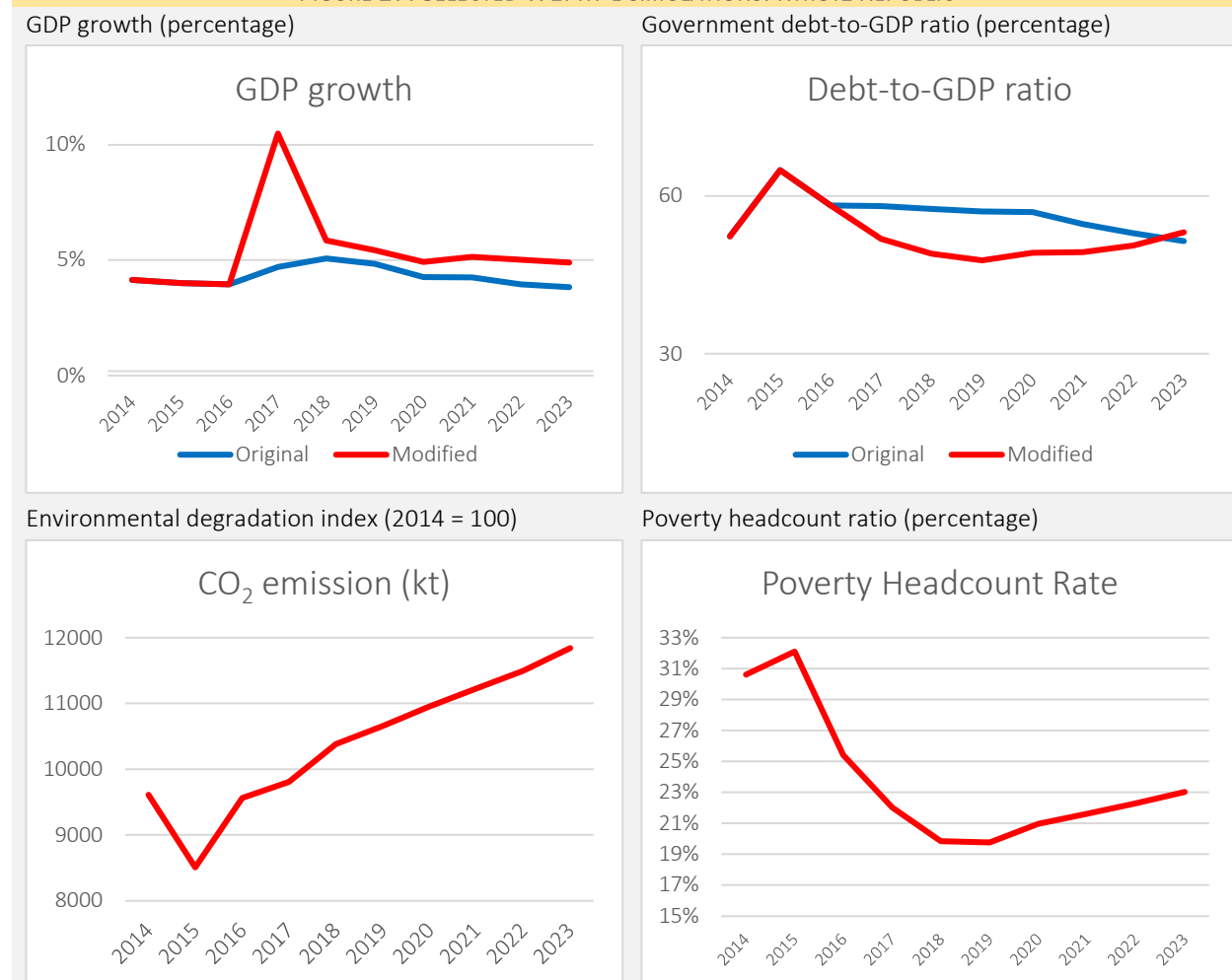
Environmental degradation index (2014 = 100)



4.2.1.7 Kyrgyz Republic

Projections are based on the investment of \$1.3 billion in BRI-related projects over a period of seven years (2012-2018). According to the WEFM-e, there is an acceleration in GDP growth in 2017 and 2018. As investment projects end in 2018, GDP growth returns to around 5 per cent and the budget deficit widens; consequently, the debt-to-GDP ratio rises. By the end of the forecast horizon, the debt-to-GDP ratio exceeds the original level and continues to rise in the long run. This result is in line with the findings of Hurley, Morris and Portelance (2018), who identify the Kyrgyz Republic as a country at “moderate” risk of debt distress. Acceleration in GDP growth in 2017 and 2018 leads to a decline in the poverty headcount ratio, but in 2020, after BRI investment inflows end, the poverty headcount ratio starts to increase—though it stays about 8 percentage points below the level of 2015. The country can avoid these adverse impacts by adjusting its fiscal policy and borrowing behaviour.

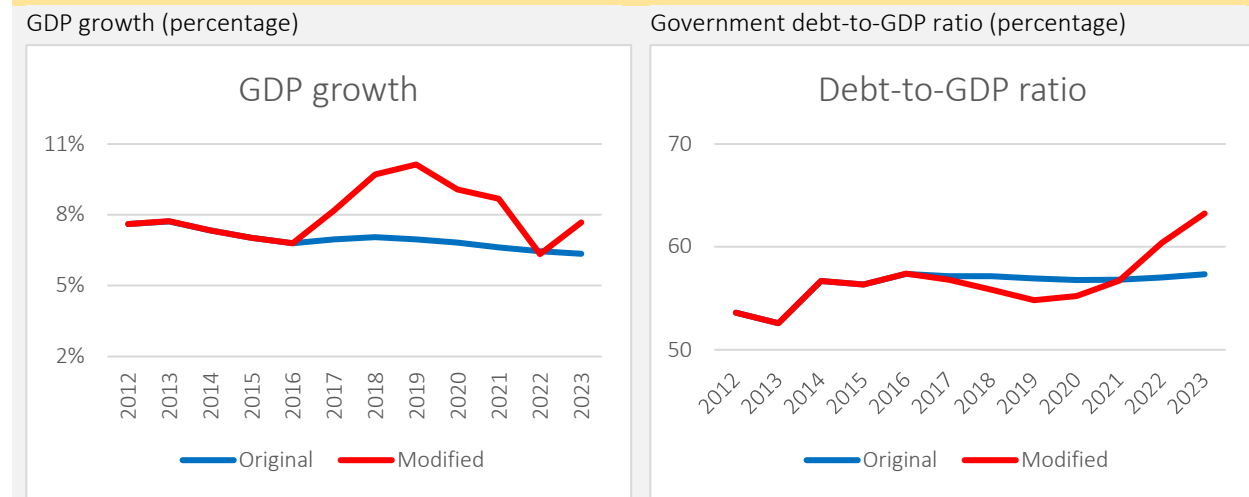
FIGURE 27. SELECTED WEFM-E SIMULATIONS: KYRGYZ REPUBLIC



4.2.1.8 Lao People's Democratic Republic

The reported BRI investments cumulatively total 54 per cent of 2016 GDP (by far the highest proportion among the 14 project countries) and are distributed over the period 2017-2021. Growth in infrastructure investment (the sum of government and BRI-related investments) rises in 2017, and government and private investments continue to grow steadily at a rate of around 8 and 10 per cent, respectively. GDP growth in the modified model outperforms that in the original model. Because the BRI project and related investments end in 2021, GDP growth decelerates in 2022, though it remains above the original level for the next few years. The debt-to-GDP ratio starts to increase after BRI investment inflows end, with government debt projected to exceed 65 per cent of GDP by the end of the forecast horizon. In reality, the Government would probably respond after facing a hard constraint on additional borrowing, but the simulation is useful in that it shows implications of government investment programmes for debt sustainability in the absence of adjustment mechanisms. The projection of growing government debt is in line with the findings of Hurley, Morris and Portelance (2018), who identified Lao People's Democratic Republic as one of the most vulnerable countries in terms of debt distress.

FIGURE 28. SELECTED WEFM-E SIMULATIONS: LAO PEOPLE'S DEMOCRATIC REPUBLIC

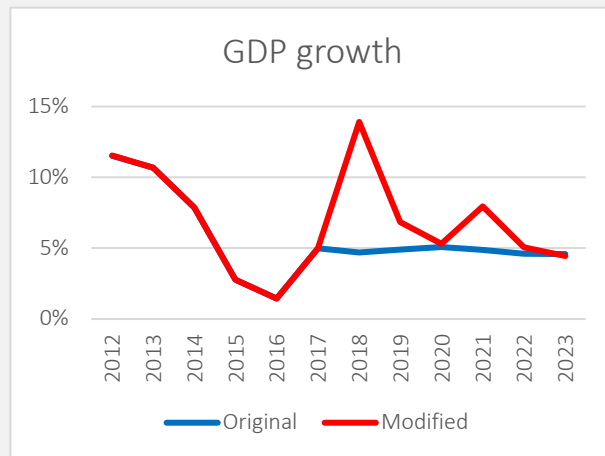


4.2.1.9 Mongolia

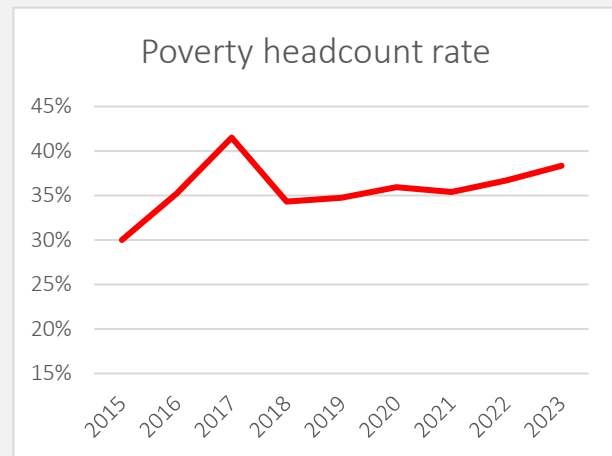
In the absence of concrete data, the simulation model assumes a hypothetical value of \$1.5 billion (~21 per cent of 2016 GDP) for BRI-related investments, distributed over the period 2021-2025. The future horizon reflects the fact that Mongolia signed the BRI memorandum at the end of April 2019, with BRI-related investments yet to be defined. Overall, the changes made in the Mongolia model lead to accelerated GDP growth, and potential output grows faster because of higher productivity and labour force participation. However, improved economic activity is not sufficient to further reduce poverty and has a negative impact on the environment as pollution increases.

FIGURE 29. SELECTED WEFM-E SIMULATIONS: MONGOLIA

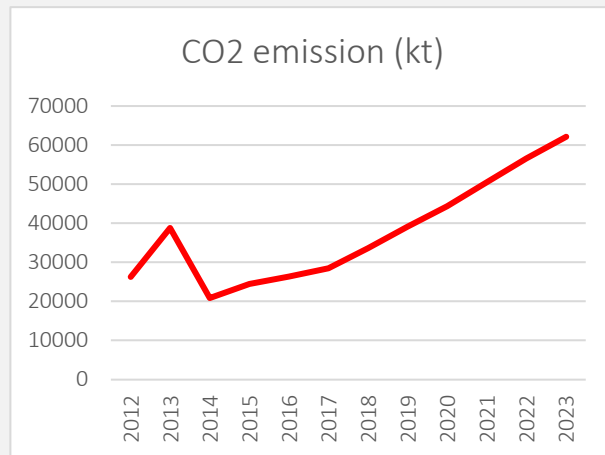
GDP growth (percentage)



Poverty headcount ratio (percentage)



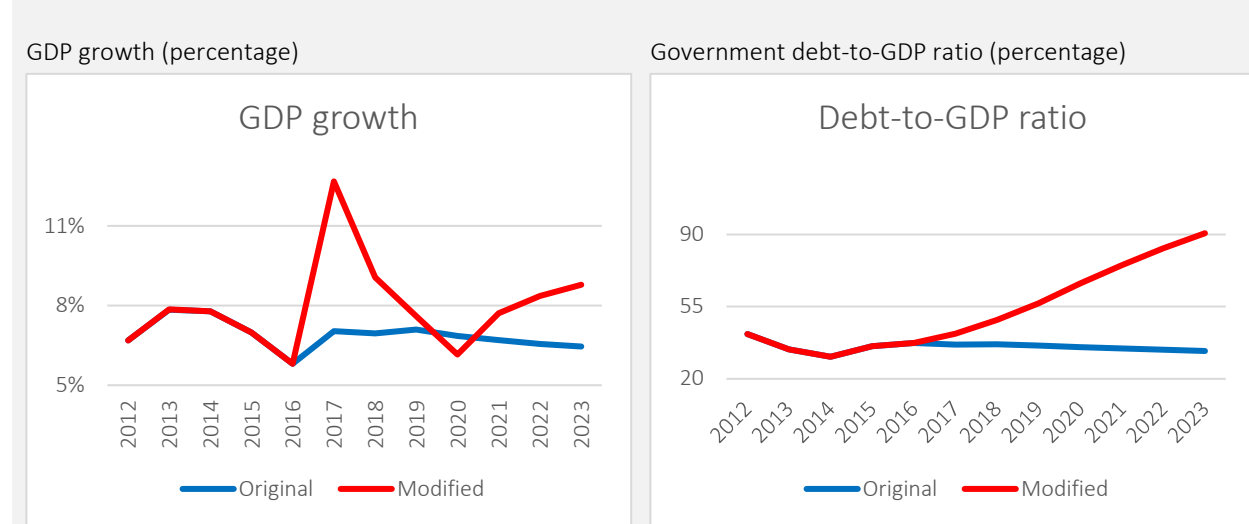
Environmental degradation index (2014 = 100)



4.2.1.10 Myanmar

Official data on BRI-related investments were not available for Myanmar, so in the simulation model these investments were assigned a value of \$10 billion (~16 per cent of 2016 GDP), distributed over a period of five years (2015-2019). Driven by more robust investment inflows (through the BRI) and faster growth in productivity and potential output, GDP growth accelerates. In 2020 (after the hypothetical BRI investments end), GDP growth dips below the original growth forecast, but faster growth in potential output expedites the recovery, stimulating faster GDP growth in comparison with the original model. The modified model produces a dangerous path for the debt-to-GDP ratio and government budget deficit, which translates to a need for adjustment mechanisms to ensure debt sustainability.

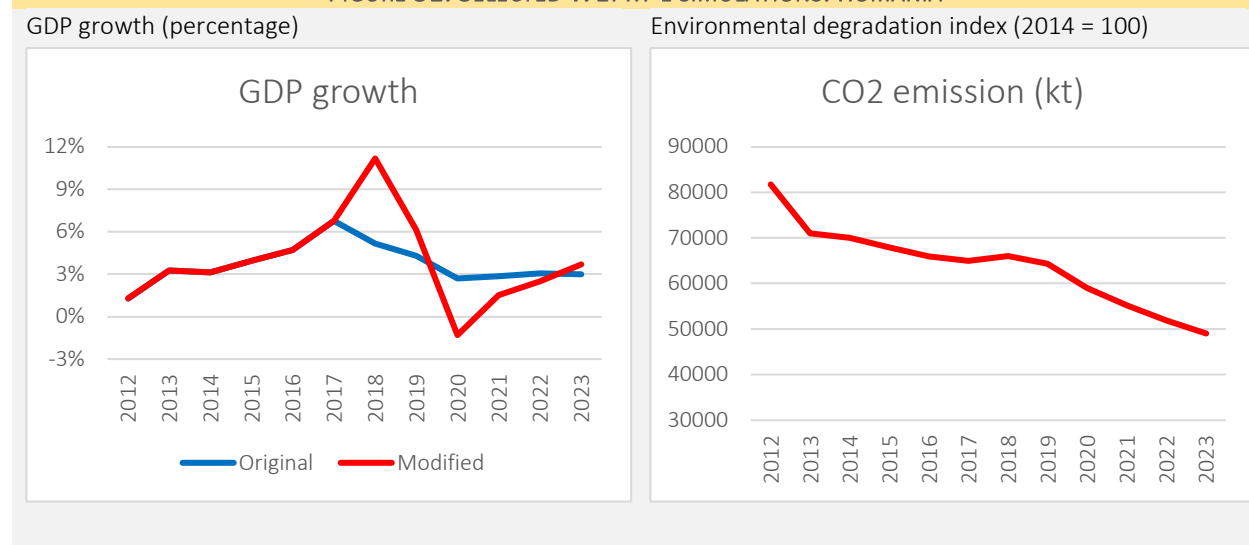
FIGURE 30. SELECTED WEFM-E SIMULATIONS: MYANMAR



4.2.1.11 Romania

Although Romania signed the BRI memorandum in 2015, BRI-related projects have not yet been carried out. The simulation model assumes that these projects will be implemented at some point. In the model, BRI-related investments are expected to amount to €8.2 billion (~5 per cent of 2016 GDP) over the period 2021-2028. During the simulation period, real GDP growth accelerates initially but drops rather sharply between 2018 and 2020, mainly owing to a slowdown in private consumption and investments. However, GDP growth recovers and exceeds the original growth forecast by around 2023. The debt-to-GDP ratio initially drops sharply then stabilizes at around 27 per cent by the end of the forecast horizon. Historical data show a sharp decline in CO₂ emissions by 2014, but as the economy expands, pollution increases. Eventually, a decline in the population (predefined by the original WEFM) leads to a slight reduction in emissions, which stay above the 2014 level until the end of the forecast horizon.

FIGURE 31. SELECTED WEFM-E SIMULATIONS: ROMANIA

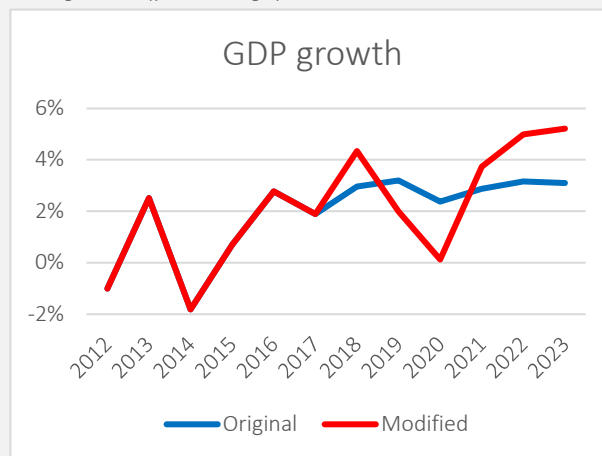


4.2.1.12 Serbia

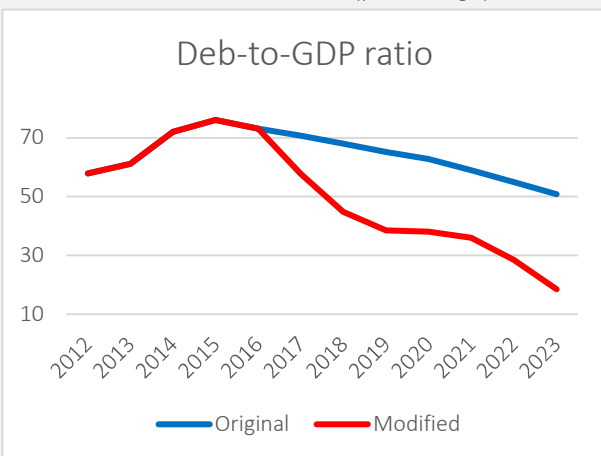
The simulation is based on BRI-related investments amounting to €4 billion (~11 per cent of 2016 GDP), which includes completed and ongoing (but not planned) projects during the period 2013-2024. Driven by accelerated investment growth, GDP grows faster initially in the modified model. In 2019 and 2020, GDP growth decelerates because of a slowdown in private consumption but quickly recovers and grows faster than in the original model. Serbia decided to reduce its public debt and in 2018 was approved for a 30-month IMF Policy Coordination Instrument (IMF, 2018). The programme remains on track, and public debt is on a declining path thanks to the repayment of principal and interest. The combination of past and future principal payments (taken as exogenous from the IMF programme) and the higher GDP growth implied by the modified model leads to a faster decline in the debt-to-GDP ratio in the WEFM-e, with a sharp drop from 28 to 18 per cent expected between 2022 and 2023. Carbon pollution declines over the simulation period as a whole; though CO₂ emissions increase during the final three years of the forecast horizon, they remain well below 2012-2013 levels.

FIGURE 32. SELECTED WEFM-E SIMULATIONS: SERBIA

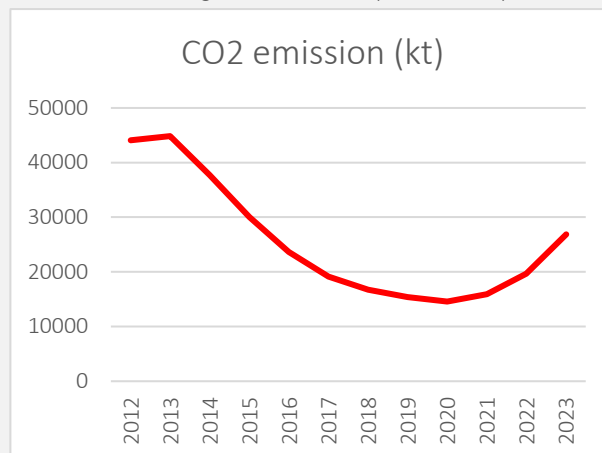
GDP growth (percentage)



Government debt-to-GDP ratio (percentage)



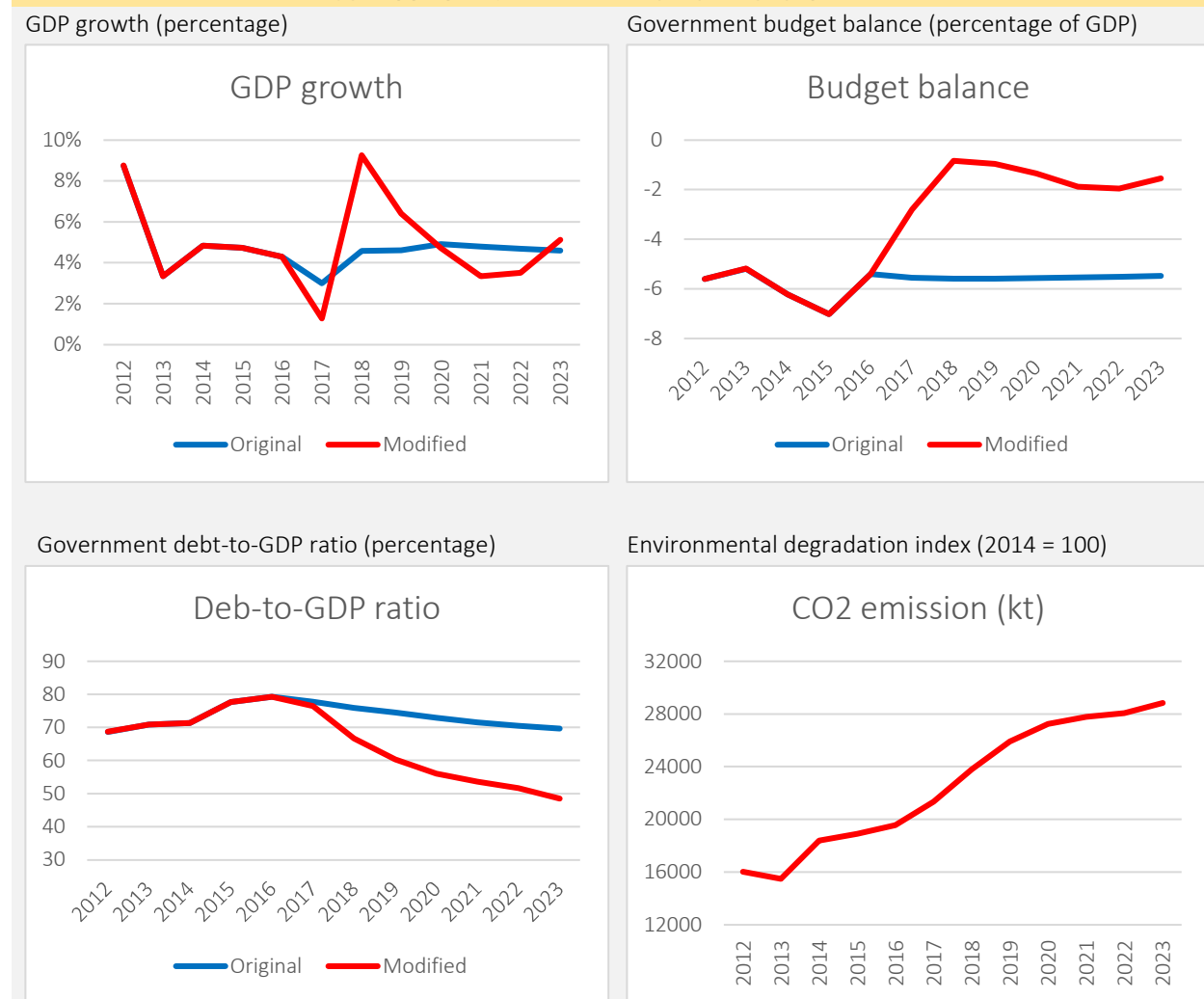
Environmental degradation index (2014 = 100)



4.2.1.13 Sri Lanka

BRI-related investments in Sri Lanka reportedly amount to \$4.9 billion (~8 per cent of 2016 GDP). This figure includes loans and Chinese investments that were undertaken prior to the official launch of the BRI but later declared part of the BRI. The first project (Hambantota Port) was launched in 2007 and like most such projects was completed by the end of 2019. However, as there are still some ongoing and planned projects expected to be completed by 2025, the simulation analyses the BRI data for Sri Lanka for the period 2007-2025. In the modified model, stronger investment inflows and productivity gains drive faster growth in real GDP. With faster GDP growth comes higher revenue accumulation, and the budget deficit declines to less than 2 per cent of GDP by the end of the forecast horizon. As government finances improve, the country borrows less, and the debt-to-GDP ratio declines faster in the modified model. However, the acceleration of economic activity also brings undesirable environmental consequences in the form of increased CO₂ emissions during the simulation period.

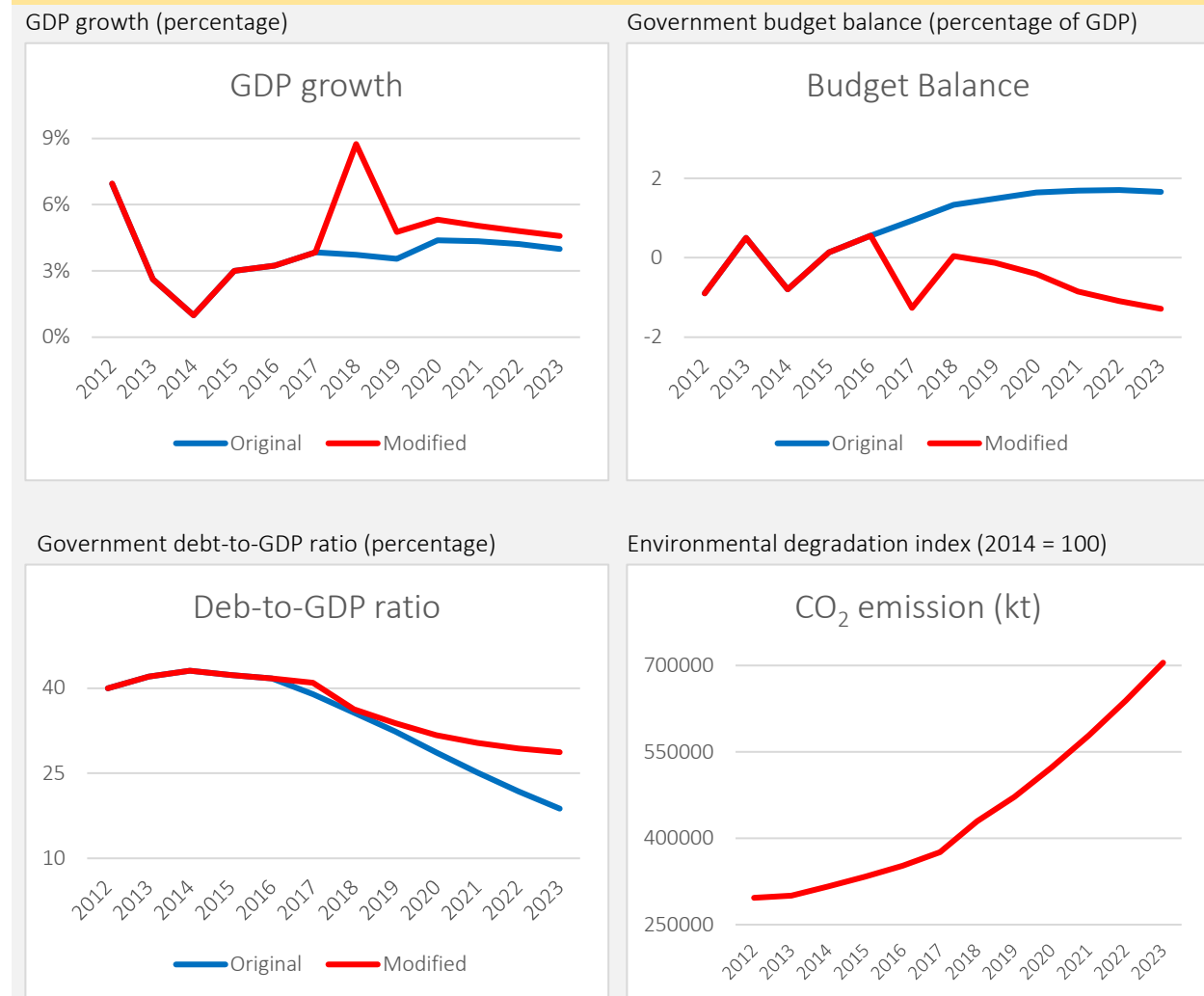
FIGURE 33. SELECTED WEFM-E SIMULATIONS: SRI LANKA



4.2.1.14 Thailand

Since official BRI-related investment data were unavailable, the simulation assumes \$10 billion in BRI investments over five years (2015-2019). These additional investments, accompanied by rapidly growing private investment, lead to faster investment growth in the modified model. Even though hypothetical BRI investment begins in 2015, it is not until 2018 that this investment activity translates into faster GDP growth. The most recent observation of real GDP is for 2017, so in practice the simulation starts from 2018. After experiencing an upturn spurred by BRI investment inflows, GDP growth decelerates but stays above the original rate until the end of the forecast horizon. By the end of the simulation period, the budget deficit increases to almost 2 per cent of GDP. Although the debt-to-GDP ratio declines substantially during the simulation period, it falls more slowly than in the original model as the Government accumulates more debt.

FIGURE 34. SELECTED WEFM-E SIMULATIONS: THAILAND



4.3 Issues highlighted by the WEFM-e process

Overall, the simulations show that BRI investments can make a positive impact, at least in the early years. After the initial project period, whether BRI-related investment leads to debt distress or exacts heavy environmental costs will depend on the effectiveness of the countermeasures taken by each country. These could be actions to reduce the debt to sustainable levels, enforce existing environmental laws, or adopt new legislation as needed. The transparency, robustness and availability of data on BRI investments constitute an area of concern, as mentioned in section 3.2. Data that are available lack coherence and transparency in terms of the definition (whether BRI or not) and the value of BRI investments for a given country.

5 The way forward: harnessing opportunities and managing risks

This final chapter is largely a compilation of policy options and recommendations extracted from the BRI-SDGs national reports.²⁵ Covering multiple areas of BRI cooperation, the ideas and suggestions presented below are intended to help countries harness opportunities while managing risks.

5.1 Ownership, national capacities and policies

To optimize the benefits from BRI cooperation and mitigate risks, participating countries need adequate institutional capacity. Only when Governments demonstrate ownership and accountability, have appropriate policies in place, and are able to make the right decisions can countries derive maximum benefit from the BRI. This requires the strengthening of national capacities at both the institutional and project levels. Before the BRI can fulfil its potential, BRI countries need to engage in policy review and address policy gaps.

Recommendations for improving policies and strengthening institutions

- Maximize synergies between BRI investments and the country's efforts to achieve SDGs relating to decent work, gender equality, environmental protection and poverty reduction. This should be done by implementing appropriate policies and strengthening institutions. The WEFM-e simulations predicting the impact of investment (especially infrastructure investment) on long-term growth, fiscal sustainability, the labour market, poverty reduction and the environment show that sound policies are needed to mitigate negative effects. In Cambodia, for example, the WEFM-e simulations show that faster productivity growth translates into faster GDP growth, which reduces poverty. However, the WEFM-e simulations also show a worsening of the government debt, budget deficit and environmental situation after BRI investment inflows cease. The design and implementation of sensible economic and environmental policies can help mitigate these adverse effects.
- Develop and implement effective policies and practices that extend the benefits of BRI cooperation beyond economic growth to encompass improvements in the quality of all aspects of life, including better income and wealth distribution vis-à-vis the dispersion of urbanization. Transportation infrastructure should serve as the backbone of economic development, enhancing economic opportunities in the rural areas and supporting economic value creation (United Nations, 2020, Thailand).
- Where there is a lack of capacity or inability to accept large infrastructure projects, focus on smaller projects that are better suited to the country's capacity for infrastructure development and implementation. This might involve, for example, expanding access to ICT in rural areas while also strengthening access to digital education, digital health care, and other services and sectors that would benefit from increased ICT use. (ibid., Romania)
- Create a secure and enabling environment for trade and investment. Countries often compete with one another for the limited funding available for large-scale infrastructure development (including BRI projects). Having a conducive environment in place, with efficient and

²⁵ The extracts have been edited and paraphrased where necessary to ensure that the recommendations are useful and applicable within the context of this project report.

internationally competitive administrative and regulatory processes and consistent economic policies, will strengthen investor confidence and make the country a more attractive investment destination. (ibid., Sri Lanka)

- Ensure that BRI-related activities complement national, sectoral and regional policies, strategies and programmes, including initiatives funded by other development partners and in the same sectors. All such investments must contribute to the advancement of the SDGs. To promote coherence in this regard, stronger partnerships need to be developed to facilitate linkages between the BRI and complementary policies, strategies and programmes. (ibid.)
- Strengthen the institutional framework and criteria for the selection and prioritization of BRI projects. Significant challenges will need to be tackled in applying such a framework—including addressing the inadequate participation of each level of State administration, the general public and the expert community. (ibid., Serbia)
- Improve the institutional environment and support the involvement of domestic companies where possible to avoid overreliance on foreign capital inflows and borrowing, which may create macroeconomic imbalances (ibid.).
- Strengthen institutions and governance to ensure the efficient implementation of public investment projects. In comparison with projects financed by other development partners, BRI projects have been implemented with exceptional efficiency, which might be due in part to the simple (or even absent) tender procedures and the direct assignment of construction tasks by certain Chinese State-owned companies. (ibid.)
- Strengthen relevant legislation and public policies, ensuring that laws and policies pertaining to trade, transport, economic corridors and logistics are in place (ibid., Mongolia).
- Strengthen institutions and improve the policy environment by carrying out complementary reforms in parallel with BRI project implementation. Unless this is done, the return on infrastructure investment could be low or even negative. (ibid., Kyrgyz Republic)
- To allow transit countries to reap benefits from BRI routes and corridors, develop transport and logistics infrastructure using a systems approach, introduce relevant new technologies, and apply best practices in international management. Steps should be taken to deal with constraints and delays at border crossing points by, for example, addressing the lack of unified norms and technical standards and the instability of transit prices. (ibid., Georgia)
- Expedite the implementation of heavy transport and logistics infrastructure projects and try to attract more private investment for such projects in order to achieve faster results (ibid.).
- Liberalize intermodal transportation markets in countries along the BRI corridors in order to invite the involvement of private international operators. This will enable State-owned railway companies to attract additional investment in intermodal infrastructure and, even more importantly, to attract the international expertise required to improve operational efficiency. Allow private operators to define their tariff policies independently in order to reduce tariffs and attract additional cargo. (ibid.)
- Strengthen national transport strategies, incorporating a separate document that analyses all possible risks and defines steps to be taken in relation to the BRI (ibid.).

Recommendations for strengthening capacities

- Build and strengthen local capacity to simulate the impact of the BRI on the economy and the SDGs. Local experts from various institutions could use the WEFM-e simulation tool to critically and quantitatively assess the impact of BRI-linked investments, including the impact of BRI

activities on selected SDGs. This would enable countries to examine BRI activities not only from the perspective of economic growth, but also with a better understanding of the eventual side effects. Local capacity could be built through the training of local experts, who could then use the WEFM-e independently through an online platform made available for that purpose.

- Boost local production and service capacities to meet the potential increase in demand generated by the BRI. Although an FTA with China might help expand a BRI country's exports, there could be capacity constraints that prevent local exporters from meeting the higher volume of demand. All potential constraints should be assessed. Similarly, capitalizing on improved tourism opportunities along the Silk Road will depend on the capacity of the local tourism industry to cater to higher demand. (ibid., Sri Lanka)
- Strengthen national analytical capacities in order to take full advantage of positive externalities and to minimize the potential interference of BRI investments with progress towards the SDGs. Any BRI-related analyses undertaken should address technology spillovers, human capital development, and employment. BRI projects and activities may have a number of potential development effects, such as the improvement of connectivity and technology transfers, transport infrastructure, and people-to-people bonds. However, the BRI also comes with risks, especially in terms of pressures on fiscal stability and the environment. The key responsibility for the suboptimal or even negative effects of BRI projects should lie with the recipient country's institutions. (ibid., Serbia)
- Promote skills transfer and vocational education to ensure that local workers hired for BRI projects possess the required competencies (ibid., Myanmar).
- Ensure that the BRI supports local job creation accompanied by targeted training and professional development (ibid., Lao People's Democratic Republic).
- Increase the use of skilled labour in transport and logistics to facilitate the introduction of new technologies and approaches for the development of logistics infrastructure and the application of international best practices in management (ibid., Georgia).
- Include capacity development in all new BRI-related commitments with China (ibid., Azerbaijan).

Recommendations for ensuring ownership by host Governments

- Expand the involvement of local companies in public investment projects. BRI projects are always characterized by a high level of Chinese involvement in construction and in the import of equipment, technology and other components, leading to the repatriation of a significant portion of investment funds from the recipient country to China in the long run, which effectively decreases the overall growth and development effect of BRI investments. (ibid., Serbia)
- Ensure that all BRI-related investment agreements with China include provisions not only for local employment but also for training, professional development, and corporate social responsibility activities. Avoid overdependence on China as the sole foreign investor and leverage Chinese investments appropriately to build up manufacturing and services as well as ancillary industries around transit infrastructure. BRI projects should employ higher proportions of local skilled labour in energy, transport and communications activities and invest in training programmes for the local population. When negotiating BRI projects, national Governments should carefully scrutinize practices that favour foreign workers over local workers. Reputational risks will arise when political elites or large enterprises gain more from BRI projects than do local economies. (ibid., Kyrgyz Republic)

5.2 BRI scope, projects and activities

Recommendations relating to the scope of BRI collaboration

ICT

- Expand the scope of the BRI to cover soft infrastructure development. Support in areas such as technology transfer, education, water management, and the sharing of trade and investment information would produce shared benefits and lead to further economic integration between China and host countries. (ibid., Thailand)
- Strengthen collaboration in digitalization, learning from the success China has experienced with the use of artificial intelligence and digital applications. Establish a digital BRI value chain, including ICT companies, e-commerce platforms and digital health-care services, and provide opportunities for local companies to establish a deeper and broader connection with Chinese technology companies. (ibid., Myanmar)

Gender

- Address the substantial gender pay gap in BRI cooperation projects, especially in oil-rich and mining regions. Such gaps tend to widen unless relevant steps are taken. (ibid., Kazakhstan)

Trade and special economic zones

- Establish free economic zones with tax incentives. Creating special zones where goods can be stored, packaged, processed and transformed duty-free will stimulate intracountry and interregional economic activity and generate higher demand for transport and trade facilitation services. (ibid., Azerbaijan)
- Promote the signing of bilateral FTAs to facilitate mutually beneficial and balanced trade between BRI countries (ibid.).
- Reduce tariff, non-tariff and para-tariff trade barriers between BRI countries (ibid., Bangladesh).

Transport, logistics and corridor economies

- Promote the regional development of efficient and effective transport and trade corridors, create a network of trade logistics centres, and establish dynamic multimodal transport systems (ibid., Azerbaijan).
- Develop cargo transfer/transit points such as Akhalkalaki into industrial centres where raw materials can be processed, creating new investments, new employment opportunities and new companies (ibid., Georgia).
- Modernize and harmonize rail and marine infrastructure and services to enhance the competitiveness of BRI corridors. The incompatibility of connected systems can cause serious disruptions; for example, because countries in Central Asia and the South Caucasus use 1.520-mm gauge rails while China, Turkey and the European Union use 1.435-mm standard rails, cargo transfers between the two groups often involve delays and increased costs. (ibid.)

Economic diversification

- Secure more Chinese investment in other sectors—including the textile, clothing and non-bank financial sectors—to promote economic diversification (ibid., Bangladesh).

Environment and renewable energy

- Learn from the experience of China, which has combined rapid industrialization with notable progress in reducing pollution. Cooperate in the application of technologies developed to deal with air pollution and hazardous emissions. (ibid., Czech Republic)

- Draw from the extensive experience of China in the field of renewable energy and its utilization for high-speed railway systems. Within the framework of BRI cooperation, work together to increase the share of renewable energy in total energy consumption and in public transport applications. (ibid.)

5.3 Coordination, planning, risk management, monitoring and evaluation

Effective planning, coordination, collaboration, risk management, monitoring and assessment could help countries avoid the potential pitfalls associated with BRI involvement. Planning for the BRI, including cross-sectoral planning, has to begin at the project inception stage. Countries need to identify niches for investment that would allow the BRI to contribute optimally to sustainable growth and development. Policy reforms that could enhance the positive impact of these investments or mitigate any negative impact should be identified at the planning stage, and risk identification and risk management should also be initiated at this stage. Monitoring and evaluation—including social, environmental and other key impact assessments—need to be planned as an integral part of the projects. The WEFM-e simulations highlight debt risks, pointing to the need for careful monitoring of the debt incurred in BRI projects and the application of adjustment mechanisms for debt sustainability.

Recommendations for enhancing coordination and collaboration

- Strengthen regional relations and proactively engage in intensive, ongoing collaboration with BRI corridor countries to simplify border crossing procedures and achieve greater predictability in transit prices and times (ibid., Georgia).
- Avoid situations in which BRI infrastructure investments are competing with investment projects funded by the European Union and other development partners. Ideally, BRI activities should complement the investments of other partners. In the short and medium terms, the main challenge will not be access to funding but rather the capacity to design and implement projects and carry out reforms. (ibid., Romania)
- Develop an integrated policy for the economic corridor coordinated by relevant line ministries (ibid., Mongolia).
- Strengthen coordination between the public and private sectors by establishing a national entity for BRI coordination, policy analysis and development, incorporating a unit for the cross-country harmonization of regulations on transport infrastructure (in particular railway infrastructure) to explore additional opportunities (ibid., Georgia).
- Create a working group of high-level representatives from the public and private sectors, non-governmental organizations and academia to develop a common vision of how best to capitalize on the competitive advantage generated by BRI cooperation (ibid.).
- Strengthen the coordination of trade, investment and financial policies (ibid., Bangladesh).
- Establish a strong and productive bilateral or multilateral working group dedicated to the successful implementation of the BRI. This working group can only be effective if BRI partner Governments have formulated a concrete vision, implementation plan and action road map in the context of comprehensive socioeconomic and environmental development planning. The working group should establish precise operational guidelines and criteria for identifying and selecting development and investment projects that best serve mutual interests. A strong leading institution to coordinate the working group is necessary, as is a culture of cooperation and collaboration between government ministries and agencies. (ibid., Cambodia)

Recommendations for improving strategic and project planning

- Ensure that benefits trickle down to disadvantaged or underserved communities by planning for BRI projects to generate growth and employment benefits for vulnerable or marginalized

populations—including women, youth and low-income groups—and for small and medium-sized enterprises (ibid., Sri Lanka).

- Ensure that BRI investments stimulate growth in industries that enhance trade and diversify the local economy (ibid., Lao People's Democratic Republic).
- Modify any national or area-based development policies and practices that interfere with the successful implementation and management of collaborative infrastructure projects. Revising domestic regulations, registration procedures and other bureaucratic processes that impede BRI progress can enable citizens to enjoy the full benefits of international collaboration. (ibid., Thailand)
- Improve the investment climate by providing smarter and more strategic State support for local and foreign investors and by upgrading and expanding infrastructure. State support needs to be directed more towards companies that provide high added value and are well integrated within the local economy. Greater attention needs to be given to the development of infrastructure for businesses, including ready access to clean, affordable and abundant energy. (ibid., Serbia)
- Develop a national integrated infrastructure plan that includes provisions for the following: (a) support for the identification, creation and maintenance of economic corridors that maximize benefits, foster urbanization, and support national development strategies; (b) the implementation of projects that promote social and economic cohesion and job creation; (c) the adoption of measures to address fiscal and debt sustainability; (d) the development of private-sector financing and public-private partnership arrangements; (e) the adoption of international conventions and agreements on freedom of transit, cross-border telecommunication networks, customs, and trade facilitation; and (f) the conclusion of appropriate institutional arrangements for corridor management and performance monitoring (ibid., Kyrgyz Republic).
- Develop a national security strategy and assess all potential risks relating to the BRI corridors, including political and operational risks (ibid., Georgia).
- Develop a national sustainable infrastructure plan and guidelines for sustainable infrastructure development (ibid., Myanmar).

Recommendations for managing risks

- Conduct joint debt sustainability analyses to guide lending decisions and manage debt risks. Identify diverse financing options, including public-private partnerships (ibid.).
- Address the external debt burden imposed by the BRI. Explore new possibilities that do not increase the debt burden. (ibid., Mongolia)
- Pre-emptively identify and assess environmental, social, reputational and sustainability risks associated with the entire life cycle of BRI projects and effectively manage risks through coordinated action, including with the private sector. Foster an environment conducive to the responsible conduct of business and the creation of stable and decent employment. Address local resentments about Chinese labour, goods and exports to avoid unrest and violence. (ibid., Kyrgyz Republic)

Recommendations for managing assessments, monitoring and evaluation

- Analyse the effects of BRI projects using an integrated approach and from multiple perspectives; in particular, assess their actual and potential impact on progress towards different SDGs. For

example, while certain mineral extraction projects²⁶ may have a direct positive impact on the achievement of SDGs 7, 11 and 13 and, through job creation, indirect positive effects on SDGs 1, 8 and 9, the extraction itself may leave a deep and negative environmental footprint and may not represent a net positive benefit for development. (ibid., Serbia)

- Make sure the national legislative framework for environmental impact assessment is up to date. In cooperation projects with China, host countries apply their own laws and enforce their own policies on environmental protection and are responsible for carrying out their own environmental and social impact assessments. The willingness and capacity of different countries to enforce restrictions vary greatly and are often inadequate to address the risks. (ibid.)
- Carry out pre-feasibility and feasibility studies and conduct a cost-benefit analysis for each project in the economic corridor. Analyse the challenges and risks associated with BRI-supported projects. (ibid., Mongolia)
- Strengthen environmental and social safeguards in infrastructure projects and induce private companies to fulfil their social and environmental responsibilities (ibid., Lao People's Democratic Republic).
- Incorporate sustainability requirements for all BRI projects by integrating environmental planning and assessment approaches in infrastructure planning from the beginning, taking into account multi-stakeholder perspectives and broader cross-sectoral concerns. Policies and financial and institutional standards need to be consistent with this integrated environmental planning approach. Such practices are key to allaying fears associated with BRI dominance, but the Government should ensure that BRI investors provide such services. (ibid., Kyrgyz Republic)
- Make sustainability a core focus of the BRI by applying the environmental and social framework recently adopted by the Asian Infrastructure Investment Bank (2019) in conjunction with the overall SDG framework for the country. This would have clear benefits for the Initiative's reputation and substantially boost the integration of sustainable thinking into the decision-making processes of all BRI stakeholders. (United Nations, 2020, Kyrgyz Republic)
- Monitor and evaluate the impact of BRI activities on SDG progress to inform and guide policymakers in mitigating risks and seizing opportunities for SDG achievement. Monitor and mitigate BRI spillover effects and trade-offs at the national and local levels. (ibid., Lao People's Democratic Republic)
- Evaluate each new project proposal from the perspective of addressing existing gaps in SDGs implementation and assess whether it is in the national interest to support new investments in that sector or subsector. Conduct studies to determine infrastructure and environmental costs and benefits in monetary terms, expressed in the local currency. (ibid., Czech Republic)
- Identify the actual and potential local impact and spillover effects of BRI projects using SDG principles as a reference point. Determinations should be based on BRI information, data on SDG indicators (especially disaggregated and subnational data), national development strategies and plans, fiscal frameworks, and relevant policy documents. (ibid., Kazakhstan)
- Address data challenges and gaps in relation to the BRI so that it is possible to conduct a comprehensive assessment of the socioeconomic impact of BRI-related projects and activities. The limited availability of data on the BRI is a key challenge in analysing its impact. Some BRI partner countries may not have signed a BRI-specific MoU even though they have been cooperating bilaterally with China over the years. Information on Chinese-funded projects is

²⁶ For example, mining for lithium, which is an enabler for energy storage solutions and the electrification of vehicles.

scattered across various sources. Clarifying and agreeing on what constitutes a BRI project, identifying projects and activities that are specifically related to the BRI, and differentiating these from other Chinese-funded projects will be the essential first step in assessing the impact of the BRI. (ibid., Sri Lanka)

- Carry out a detailed study of each BRI project, identifying uncertainties and risk factors. The study should incorporate both micro- and macro-level analysis, examining policies and practices in neighbouring countries where relevant. (ibid., Mongolia)
- Continue to collect statistical data on BRI projects and conduct a recalibration of the WEFM-e with a new data set (ibid., Kazakhstan).
- Establish a central BRI database to streamline the flow of information on the economic corridors and facilitate the equitable dissemination of relevant data for all stakeholders (ibid., Mongolia).

5.4 Transparency, communication and public perceptions

Adopting best practices in transparency would strengthen BRI cooperation. A number of BRI-SDGs national reports mention that the Government lacks mechanisms for the transparent dissemination of BRI project data. In some cases, this has fuelled public dissatisfaction with the BRI. Good governance practices, such as open and transparent public procurement, could mitigate this risk. The BRI-SDGs national reports include recommended measures for increasing transparency and accountability and for improving public perceptions of the BRI.

Recommendations for improving transparency and accountability

- Ensure that BRI financial and other mechanisms adhere to international norms of transparency and good corporate governance and the OECD recommendations for international aid. Coordinate with multilateral financial institutions to facilitate the application of these principles. (ibid., Kyrgyz Republic)
- Improve information management and communication with all stakeholders to derive full benefit from the BRI and avoid the kinds of conflicts and project delays experienced in the past. More BRI-related information should be made public to preclude opaque decision-making. By increasing transparency and building public trust, the Government can build broader support for BRI projects. (ibid., Thailand)
- Require BRI projects to follow international anti-corruption and industry best practices and compel bidders to obtain reputable anti-corruption certifications in order to qualify for approval by both countries (ibid., Myanmar).
- Increase stakeholder confidence in BRI projects by ensuring transparency and by sharing information with local, regional and global stakeholders. Encourage joint research and dialogue as channels for civil society groups and think tanks to engage with Governments. Promote community-based development initiatives and pursue consultative approaches. Achieve a green BRI by employing measures to mitigate the environmental impact and enhance accountability. (ibid.)
- Increase transparency and encourage wider public discussion around BRI projects and priority areas (ibid., Bangladesh).
- Bridge knowledge gaps by raising awareness about the BRI among key stakeholders such as public institutions, development partners, private sector entities, civil society organizations and the general public. Maximize the use of existing policy communication forums and think tanks to inform key national stakeholders and conduct dialogue with Chinese stakeholders. China should also invest more in building genuine dialogue and facilitating exchanges so that BRI-related policies and implications are better and more broadly understood. (ibid., Cambodia)

Recommendations for improving public perceptions

- Promote local community participation in the BRI (ibid., Lao People's Democratic Republic).
- Provide a broader understanding of the impact or potential impact of BRI projects on communities in conflict-affected areas and ensure that these projects do not intensify grievances and militarization (ibid., Myanmar).
- Conduct a survey to assess public attitudes and perceptions surrounding joint projects with China and promote people-to-people initiatives to improve these perceptions and attitudes (ibid., Kazakhstan).

5.5 Conclusions

The findings from the BRI-SDGs project validate and emphasize the importance of institutional capacity, especially for policy and planning. This is the most important factor in determining the success of BRI projects. To optimize their gains, countries must have the institutional capacity to make the appropriate policy decisions and to plan, coordinate and manage BRI cooperation as part of coherent and harmonized national development plans. Without such institutional capacity, there will be no complementarity, and far less synergy, with national socioeconomic development plans and policies.

The meetings and processes related to the project led to strengthened and deepened engagement among policymakers and experts from the participating countries. The intercountry exchanges fostered by the project and the cross-pollination of ideas and lessons learned provided stakeholders with valuable knowledge they can use in their countries. Strengthening institutional capacity will require more long-term investments and capacity development, and following the recommendations provided in this report can contribute to this process and enhance the role of the BRI in building back better, ensuring a green and resilient recovery from COVID-19, and achieving the SDGs.

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