

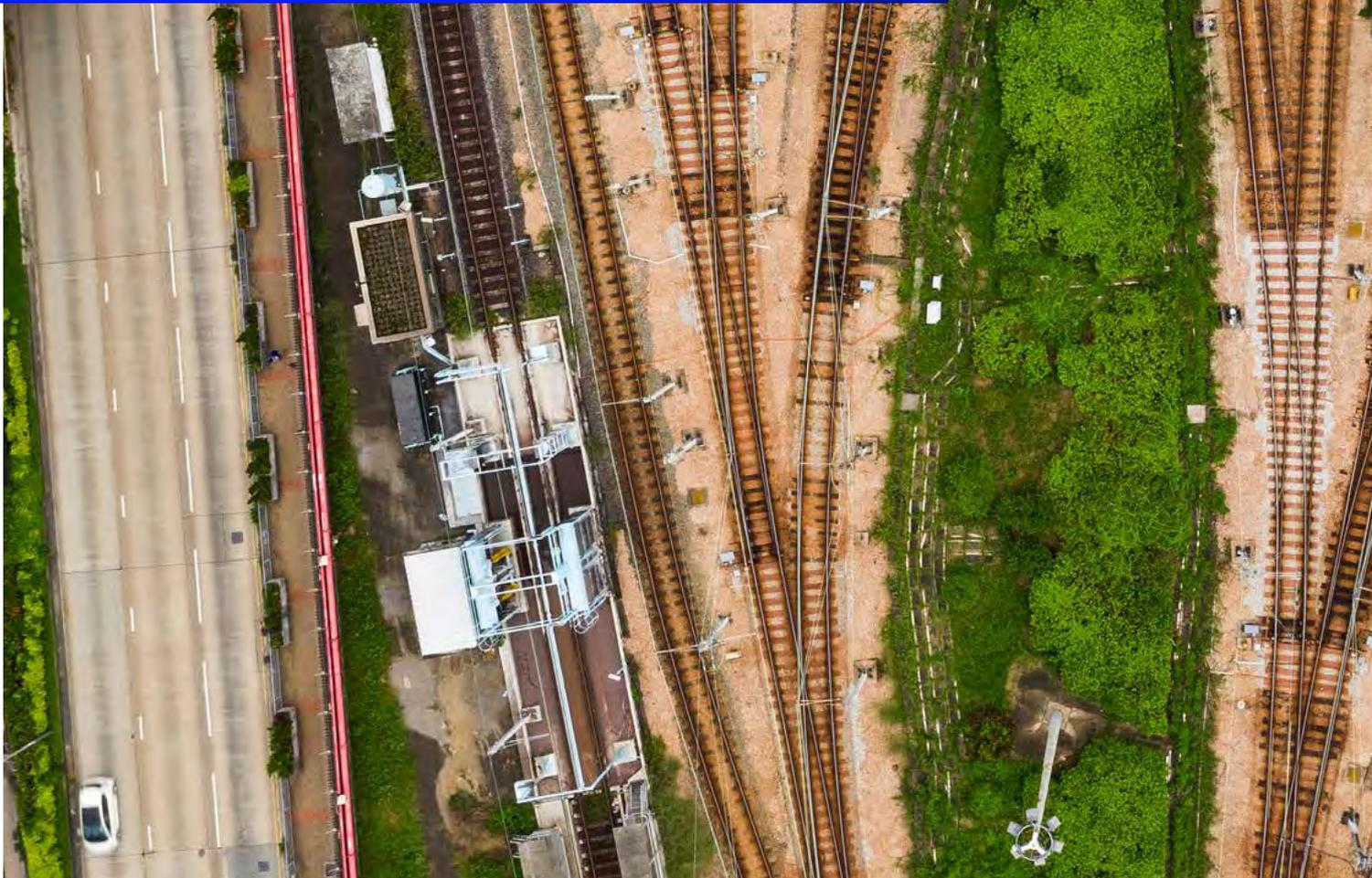


BRI CONNECT: AN INITIATIVE IN NUMBERS

4TH EDITION

The impact of pandemics on
infrastructure projects

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SUMMARY

- Refinitiv is tracking \$4 trillion worth of Belt and Road Initiative (BRI) and Chinese involvement project of which \$3.3 trillion are active projects
- A total of 184 projects valued at \$137.43 billion, were announced in the first quarter of 2020
- In terms of value, transportation accounts for 47 percent of all Belt and Road projects, or \$1.88 trillion, followed by the power and water sector at 23 percent, or \$926 billion
- The UK is the fourth-largest recipient of BRI investments, with active projects worth \$139 billion spanning the power and water, and transportation and real estate sectors
- While concerns have been raised about the impact of COVID-19 on the BRI, China has said that work on several projects has continued
- However, the first quarter saw a considerable slowdown in new projects being announced, according to the Refinitiv BRI database. A slowdown in China's economy may likely divert attention from BRI projects over the next two years
- As the COVID-19 crisis continues, Beijing is expected to work with major lenders and multilateral organizations such as the Asian Development Bank (ADB), the International Monetary Fund (IMF) and the World Bank, to provide relief to many economies in the BRI orbit
- China has also rebooted the Health Silk Road (HSR) to showcase how the BRI infrastructure network could serve as a mechanism for delivering medical and humanitarian aid



BELT AND ROAD: MARKING A NEW MILESTONE

The BRI crosses the \$4 trillion mark,
but COVID-19 concerns weigh in Q1

China achieved an important milestone in the first quarter of the year in its efforts to expand the BRI when it crossed \$4 trillion in terms of the value of projects rolled out.

Beijing's ambitious undertaking to connect Asia, Europe, Africa and Oceania via a series of rail, road and sea infrastructure projects has emerged as a major driver of economic activity for a number of countries participating in the initiative.

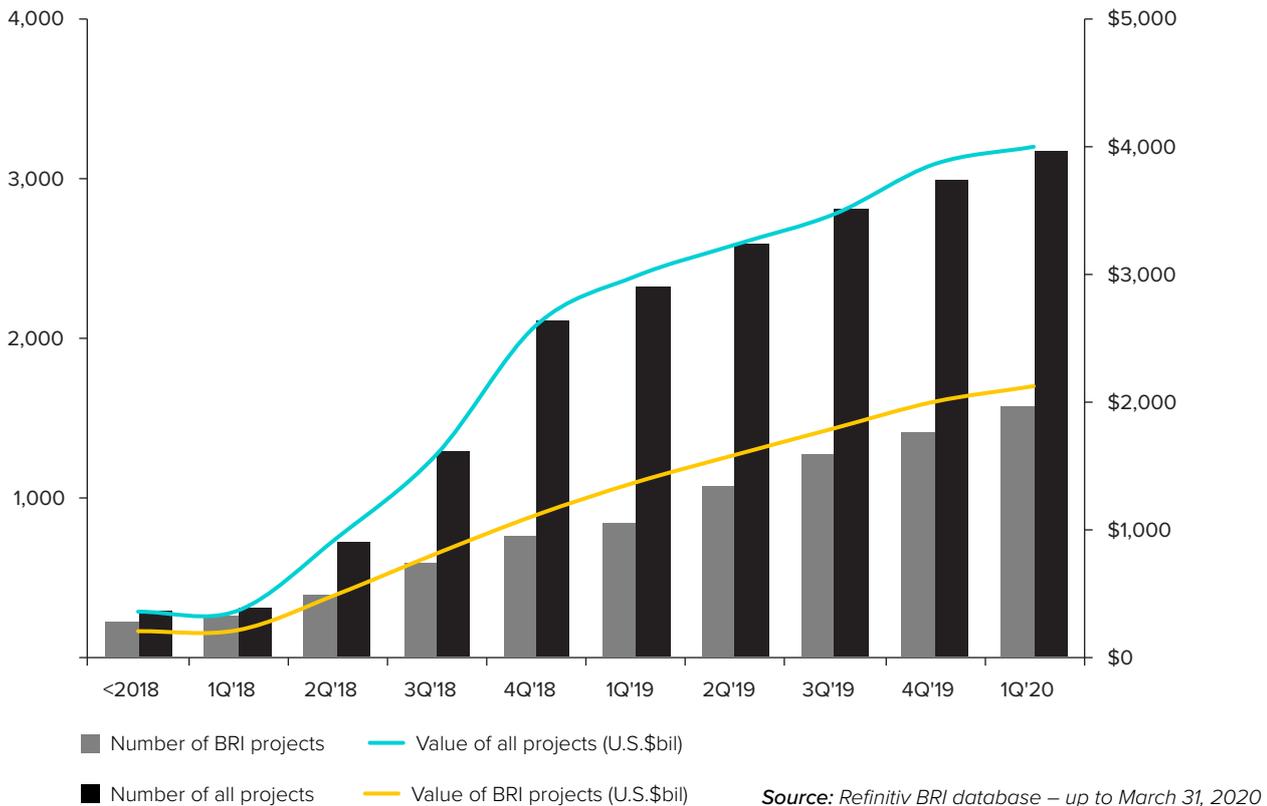
According to latest data from the Refinitiv BRI database, a part of Refinitiv's Global Infrastructure Initiative, 3,164 BRI projects were planned or underway up to the first quarter of 2020, with a combined value of \$4 trillion. Of these, 1,590 projects valued at \$1.9 trillion were BRI projects, while 1,574 projects with a combined value of \$2.1 trillion were classified as projects with Chinese Involvement.

Under Refinitiv's BRI methodology, projects characterized as BRI Projects are those that require a signed memorandum of understanding or a joint statement of cooperation between China and the host country. The projects need to be disclosed on an official Chinese site, and if country-level agreements do not exist, by an officially recognized source in the host country.

Chinese Involvement projects are those not officially disclosed as BRI projects, but have direct Chinese participation as either the owner, consultant, contractor or financier.



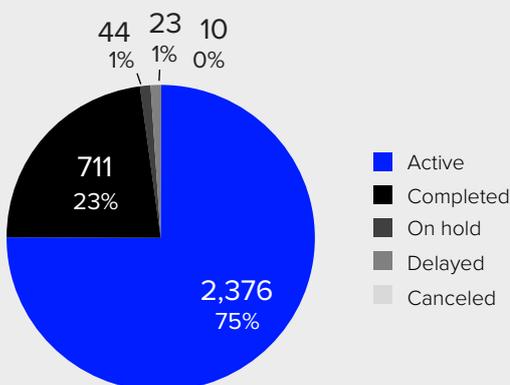
PROJECT ACCUMULATIONS (by created date)



Currently, the Refinitiv BRI database has captured 3,164 projects worth \$4 trillion. In value terms, 83 percent, or \$3.3 trillion, are active, with another \$593 billion in completed projects. The remaining are either on hold (\$64.3 billion), delayed (\$14.8 billion) or canceled (\$12.8 billion). The project status, in terms of the number of projects, is detailed in the pie charts.

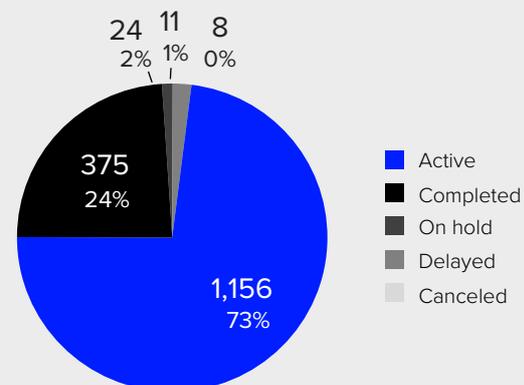
[Note: Under Refinitiv's BRI methodology, delayed projects are those that are late or behind schedule while on-hold projects are projects that have been temporarily halted.]

PROJECT STATUS (All projects – based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

PROJECT STATUS (BRI projects – based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

PANDEMIC CRASHES BRI PARTY

The \$4 trillion milestone was a bright spot in an otherwise subdued environment, as China emerged as the epicenter of the Novel Coronavirus (COVID-19) that has swept across the world. China was the first to get hit by the virus, leading to the locking down of Hubei province's city of Wuhan.

From January 23rd onward, China implemented lockdowns and shuttering of businesses across the country to stop the virus from spreading.

Since then, the global economy has suffered the effects of the pandemic, and governments worldwide have implemented their own lockdowns and protective measures to halt the spread of the virus and minimize the death toll.

These actions have raised fears that the global economy would contract 3 percent in 2020, according to the [International Monetary Fund](#), as the pandemic has had a bigger impact on the global economy than the global financial crisis of 2008.

China, which has clocked GDP growth over 6 percent over the past two decades, will eke out growth of 1.2 percent in 2020, the IMF has forecasted.

Some of the biggest BRI participants, such as Pakistan, the Middle East states and South East Asian states are also reeling from the crisis, and have little appetite to pursue projects as their economies remain in stasis.

As such, the first quarter saw a considerable slowdown in new projects being announced.

Refinitiv data shows a total of 184 projects, valued at \$137.43 billion, were announced in the first quarter 2020. That represents a 15.6 percent drop in terms of the number of projects announced, compared to the same period last year, while the value of projects dropped 64.4 percent.

CLASSIFICATION	NUMBER OF PROJECTS (Q1 2020)	VALUE IN U.S.\$BLN (Q1 2020)	NUMBER OF PROJECTS (Q1 2019)	VALUE IN U.S.\$BLN (Q1 2019)
BRI	171	121.94	85	255.76
Chinese involvement	13	15.49	133	130.32
TOTAL	184	137.43	218	386.08

Source: Refinitiv BRI database – up to March 31, 2020

Quarter-over-quarter, the number of projects grew 1.66 percent, but the value declined by nearly two-thirds in the first quarter of 2020, compared to the fourth quarter of 2019.

CLASSIFICATION	NUMBER OF PROJECTS (Q4 2019)	VALUE IN U.S.\$ BLN
BRI	130	206.79
Chinese involvement	51	184.21
TOTAL	181	391.00

Source: Refinitiv BRI database – up to March 31, 2020

COVID-19 IMPACT

While concerns have been raised about the impact of COVID-19 on the BRI, work on several projects has continued unaffected, according to Chinese media.

In March, state-owned news agency Xinhua said that [China Harbor Engineering Company \(CHEC\)](#) and Polish chemical company Grupa Azoty were putting the finishing touches on a deep-water harbour project.

“We will spare no effort to complete the project without delay,” said Lin Tao in Szczecin, a port in northwestern Poland. “The problem was that some Chinese staff couldn’t come by February as scheduled, and we recruited local workers,” he said.

Meanwhile, Chinese company [Pinggao Group](#), plans to deliver two projects for Poland’s electricity grid operator by June, despite implementing social distancing measures and quarantining.

In January, before the crisis had exploded, China and Myanmar signed a number of deals to accelerate [Belt and Road](#) projects in the Southeast Asian state.

“We are drawing a future roadmap that will bring to life bilateral relations based on brotherly and sisterly closeness, in order to overcome hardships together and provide assistance to each other,” Chinese President Xi Jinping said at an event in Myanmar.

The two countries signed 33 deals, including an agreement to proceed with the Y-shaped China Myanmar Economic Corridor, a major infrastructure blueprint worth billions of dollars, with agreements on railways linking southwestern China to the Indian Ocean, a deep sea port and Kyaukpyu Special Economic Zone in the troubled Rakhine state, and a new city project in the commercial capital of Yangon.

“We are drawing a future roadmap that will bring to life bilateral relations based on brotherly and sisterly closeness in order to overcome hardships together and provide assistance to each other.”

Chinese President Xi Jinping

MONTHLY HIGHLIGHTS

In March 2020, Pakistan, with three projects valued at \$13.5 billion, attained the top ranking for deal value. In terms of the number of projects, Zambia and Indonesia shared the top honors with seven projects each, with Zambia’s valued at \$5.82 billion and Indonesia’s at \$5.5 billion, Refinitiv data showed.

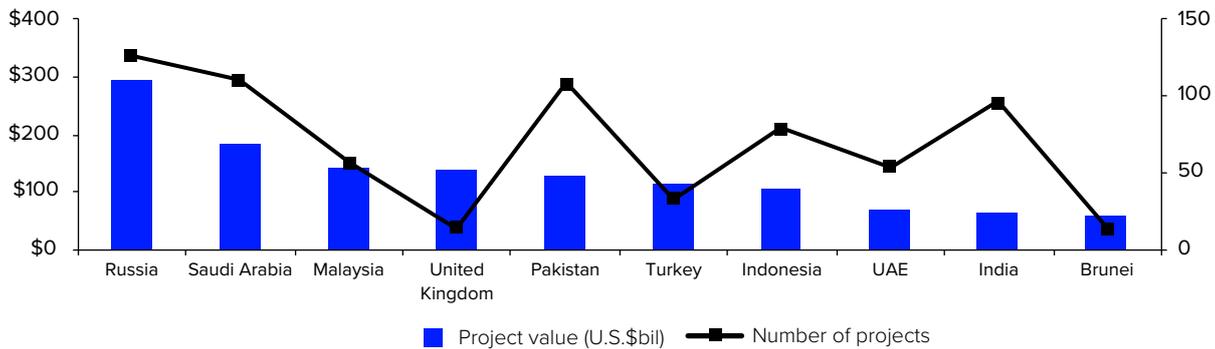
The biggest project announced during the period was the \$13.12 billion railway reconstruction project connecting Karachi, Pakistan’s largest city, to Peshawar, a key city in the underdeveloped Khyber Pakhtunkhwa province. However, in April, the Pakistani government deferred approval of the project due to some financing concerns, according to a [media](#) report.

Another key project is the \$9.5 billion ZapSibNeftekhim Petrochemical Complex Project in Russia. In Nigeria, the \$6.4 billion Mambilla Hydropower Project is also underway with a capacity of 3,050 MW.

WITH LOVE FROM MOSCOW

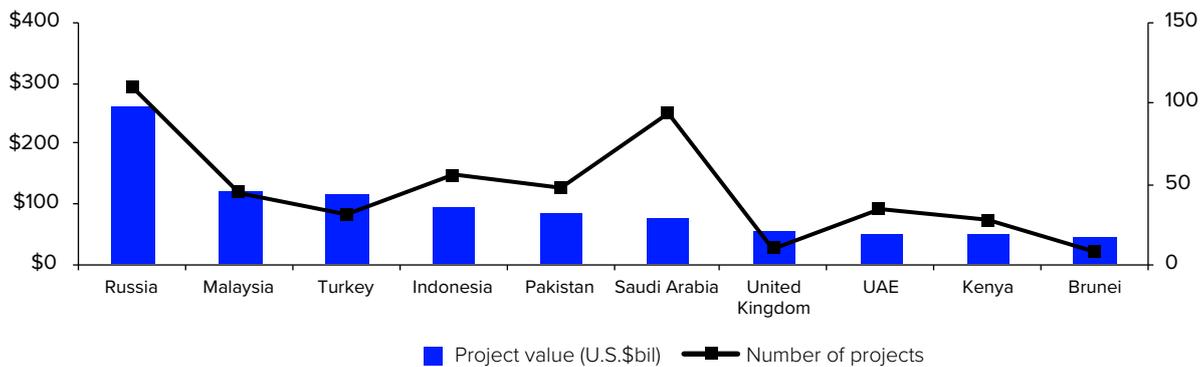
Overall, at the end of the first quarter, Russia retained its spot as the biggest beneficiary of Belt and Road, with 126 projects valued at \$296 billion, including both BRI and Chinese involvement projects. Saudi Arabia was second, with \$185 billion across 111 projects, and Malaysia third with 57 projects with a combined value of \$146 billion.

TOP 10 PROJECT NATIONS (ALL PROJECTS) (Based on project value – U.S.\$bil)



Source: Refinitiv BRI database – up to March 31, 2020

TOP 10 PROJECT NATIONS (BRI PROJECTS) (Based on project value – U.S.\$bil)



Source: Refinitiv BRI database – up to March 31, 2020



Russia and China have been forging closer trade ties, partly to counter the United States, and partly because they complement each other. China sees Moscow as a major energy supplier and has already poured billions in the Russian oil and gas sector, with the output now coursing through the pipelines that cross the two countries' borders. Russia regards China as a [massive growth market](#) since its trade with the West is currently restricted due to multiple sanctions.

However, the relationship is not without its frictions. Russia has been wary of China's growing political and economic clout in Central Asia, which it regards as its backyard by virtue of the Soviet Union legacy.

Russia is also keen to align the BRI with its Eurasian Economic Union (EAEU) that counts Armenia, Belarus, Kazakhstan and Kyrgyzstan as members. The five-member group is being positioned as a European Union rival that aims to attract other neighboring countries.

"The EAEU and One Belt, One Road are starting to effectively complement one another," said Russian Foreign Minister Sergei Lavrov last year.

"Their further harmonization will lay the foundation for a new Eurasian geopolitical framework, which will be open to every state and integration entity without exception. This is the goal of the known initiative of President Vladimir Putin concerning the formation of a greater Eurasia partnership," Lavrov said.

However, according to a report by the [Russian International Affairs Council](#), the Greater Eurasian Partnership, as the EAEU-BRI linking is being referred to, has been put forward with the aim of neutralizing the BRI.

"Russia hopes to play an equal role to China during the integration process of Greater Eurasia. Moscow wants to build a multi-polar world order with the help of the Greater Eurasian Partnership, and simultaneously prevent China from being the regional hegemon," the report noted.

In addition, the COVID-19 crisis also saw some border trouble between the two partners. In April, as [The Diplomat](#) reported, Russia chose to overlook lockdown violations by large numbers of Chinese citizens returning home via the Suifenhe land border, which led to a surge in imported cases in China and forced Beijing to close its borders.

Projects in the UK

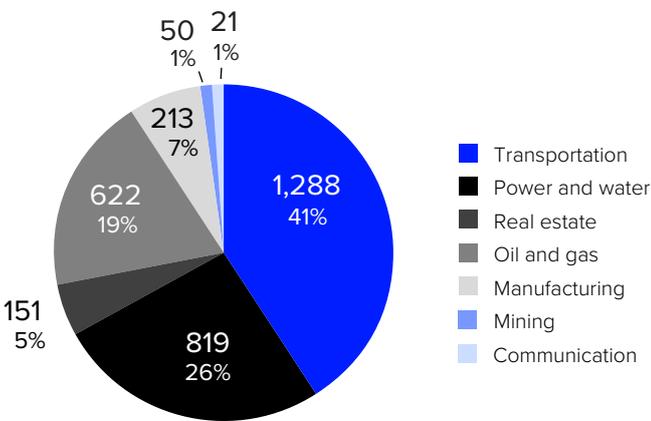
Interestingly, the UK, which debuted in the top 10 projects list in December 2019, has retained its position as the fourth-biggest beneficiary of the BRI in terms of value. The world's sixth-largest economy has 13 active projects (BRI and Chinese involvement) worth \$139 billion spanning the power and water, transportation and real estate sectors.

Examples include the partnerships between state-owned China General Nuclear Power Corporation (CGN) and EDF to develop the Hinkley Point C, Sizewell C and Bradwell B nuclear power plants. CGN holds a 33.5 percent stake in the \$29 billion Hinkley C project. The UK and China have also been engaged in preliminary discussions to give the state-owned China Railway Construction Corporation (CRCC) a role in building the multi-billion-dollar HS2 high-speed rail line, according to a [BBC report](#).

GOING GREEN

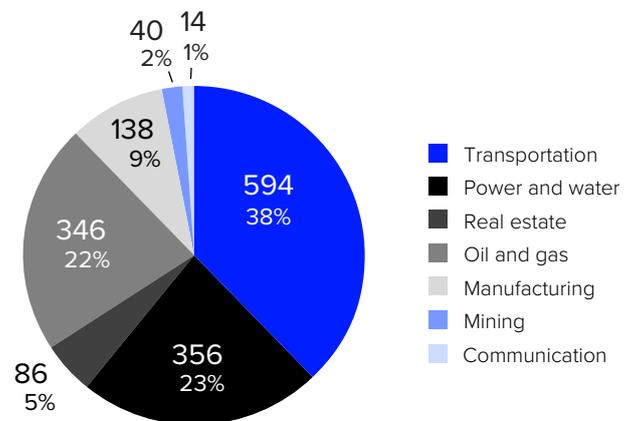
In keeping with the BRI's agenda to build global logistics and trade connections, transportation projects account for 47 percent of all BRI projects, or \$1.88 trillion. The power and water sector is ranked next, with projects valued at \$926 billion underway (23 percent of the global total). Real estate projects represent just under 11 percent of the total, with a price tag of \$437 billion, while 6.5 percent of projects are focused on manufacturing at \$260.5 billion. The number of projects, by sector, is showcased in the pie charts.

PROJECT SECTOR – ALL PROJECTS
(based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

PROJECT SECTOR – BRI PROJECTS
(based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

Clean and green BRI projects are also increasing. Refinitiv data showed that 207 renewable energy projects (solar, wind and nuclear) are planned or underway, with a combined value of \$262 billion, at the end of the first quarter. That's a 32.3 percent jump, compared to 177 projects with a total value of \$198 billion at the end of the previous quarter.

Oil and gas projects also remain a major component, with 151 projects worth U.S.\$437.8 billion planned or underway by the end of the first quarter. However, this represents a small 4.5 percent increase over the \$419 billion across 140 projects at the end of the fourth quarter of 2019.



\$1 TRILLION FOR THE PRIVATE SECTOR

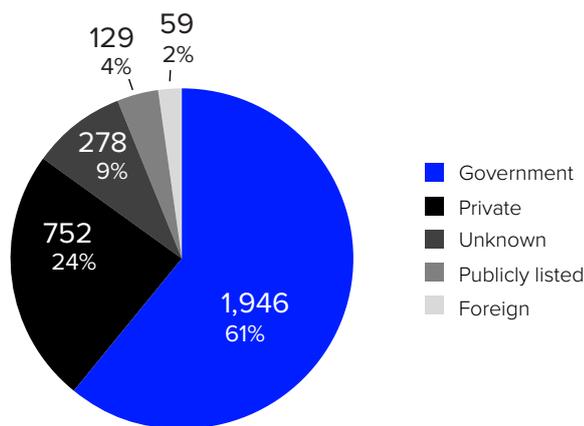
The private sector is increasingly playing a major role in BRI projects, taking ownership of more than \$1 trillion worth of projects. Refinitiv data shows the private sector accounted for 25.8 percent of all projects (BRI and Chinese involvement) with a combined price tag of \$1.03 trillion in the first quarter. In the fourth quarter of 2019, it was \$791.3 billion, accounting for 20.45 percent of all projects.

“As an emerging market investor, I am very aware of the critical role infrastructure development plays in unlocking a country’s growth potential. At the same time, infrastructure is an investment opportunity for investors like us,” said [Mark Mobius](#), founder of Mobius Capital Partners, who was interviewed in the lead up to a BRI event in Dubai in April 2020, which was subsequently shelved due to the outbreak of COVID-19 in the UAE.

For its part, China has responded to criticism that the BRI is very Chinese-centric and often excludes local private sector from key projects. Some countries are also demanding a certain portion of work on projects to be commissioned to local communities and industries, to spread the benefits of the developments. At the second Belt and Road Forum for International Cooperation (BRF) in 2019, President Xi promised to [deliver a more multilateral BRI that creates benefits for all participating countries](#).

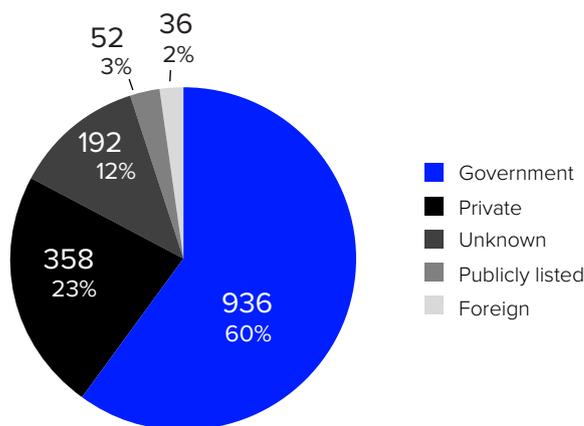
Currently, just over 51 percent of all projects are owned by government entities, accounting for \$2.06 trillion in value. Ownership pattern, in terms of number of projects, is showcased in the pie charts.

OWNERSHIP – ALL PROJECTS
(Based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

OWNERSHIP – BRI PROJECTS
(Based on number of projects)



Source: Refinitiv BRI database – up to March 31, 2020

A vast majority of the developments are project financed. Refinitiv data shows 854 of the projects were being funded through that model in the first quarter of 2020, compared to 676 in the last quarter of 2019. Loans were also a major financing mechanism, powering 224 projects during the quarter, compared to 192 in the previous quarter.

TRADE WITH BRI STATES

China’s growing connections have already paid dividends, and it’s likely that once the dust settles on the COVID-19, Beijing will be keen on rekindling economic ties with its partners to create new economic activity, at a time when both China and the host countries would need it.

Data from the [General Administration of Customs](#) shows China’s trade with BRI partner countries surged 10.8 percent in 2019 to \$1.34 trillion.

Between the years 2014 and 2019, trade between China and BRI states surpassed \$6.2 trillion, growing at an annual rate of 6.1 percent. Indeed, China’s economic footprint has been so large that it is the biggest trade partner of 25 BRI countries, according to GAC data.

Both Beijing and its BRI partners will require stimulus and accelerated economic activity to revive their economies. BRI may emerge as the most likely vehicle to jumpstart their economies.

A FORK IN THE ROAD: DEBT AMID THE COVID-19 PANDEMIC

A slowdown in the domestic economy may divert China's attention from BRI projects in less critical markets

The BRI has lifted the prospects of many countries that signed up to a slew of projects backed by Beijing.

But it has also raised the spectre of high debt for these nations, especially at a time when the COVID-19 crisis has paralyzed the economies of many highly vulnerable countries.

Several of the emerging economies that have been eager participants in the BRI's agenda of creating a pan-continental network of sea, rail and road connections and related infrastructure, had already been suffering from high debt even before they embarked on their BRI journey.

Since 2013, China has invested \$690 billion in BRI projects in 72 countries, with around \$280 billion in 44 countries that are either not rated by ratings agencies or do not have an investment-grade rating, according to the [Institute of International Finance](#).



Indeed, direct loans from China have been a factor in high debt levels of a number of countries.

“BRI lending has been accompanied by a hefty external debt build-up in Mongolia, Laos, Djibouti, Cambodia and the Maldives,” said the IIF. “While Kyrgyzstan and Timor-Leste have seen robust BRI lending inflows (over 30 percent of their aggregate GDP), the rise in their external debt-to-GDP ratio since 2013 is below the sample average of eight percentage points.”

A report by the [Center for Global Development](#) noted that 23 BRI countries were at high risk of debt distress even before the pandemic hit, with at least eight countries facing high debt levels, including Djibouti, Mongolia, Kyrgyzstan, Laos, the Maldives, Pakistan and Montenegro.

The COVID-19 pandemic crisis is expected to exacerbate the situation for these countries, as they look to support their citizens at a time of poor economic prospects.

Pakistan, for example, recently received [a \\$1.4 billion loan](#) from the International Monetary Fund (IMF) to tackle the economic slowdown from the coronavirus outbreak.

The IMF had also [approved \\$100 billion](#) to emerging market and developing countries that are facing urgent and unprecedented financing needs.

“As we are responding to this unprecedented number of calls for emergency financing — from over 90 countries so far — doubling access to our emergency facilities will help us meet the expected demand of about \$100 billion in financing and provide stronger support to our member countries in addressing the COVID-19 crisis”, IMF Managing Director Kristalina Georgieva said.

SOFT POWER

According to a study by the Institute for International Strategic Studies (IISS), the amount of debt owed by the entire world to China reached more than \$5 trillion by 2018, accounting for six percent of the world’s combined GDP.

However, as pointed out earlier, BRI projects are not the only reason for these countries’ high debt levels. Depending upon their credit rating and political risk, many of the low-income borrowers are subject to [higher rates](#), whether they are borrowing from international capital markets or financial institutions.

In terms of mitigating the BRI’s debt impact, some of the options on the table for China, going by recent media reports, include temporary suspension of interest repayments, extension of debt payment period and also debt-to-equity conversions which, as an article in [South China Morning Post](#) argued, could transform the BRI into a super-sovereign wealth fund.

“The effect on Chinese lenders aside, any defaults on BRI loans could be accompanied by the suspension or cancellation of BRI projects, with knock-on effects for the Chinese implementers, many of which are state-owned enterprises.”

**Nick Crawford, Research Associate,
Institute for International Strategic Studies (IISS)**

Recently, Ghana’s finance minister called upon China to do more to help ease the [debt burden of African countries](#) facing economic calamity from the coronavirus pandemic, including a moratorium on all external debt and eventually some debt write-offs.

China is also part of the [G20 consensus](#) reached in April to suspend bilateral debt payments by the poorest countries until the end of this year, to help them deal with the coronavirus pandemic.

Most of the BRI member countries are also seeking debt relief from other multilateral organizations such as the Paris Club. In order to secure some financing, they will demand more transparency on many BRI loans offered by China.

Beijing will have to work with major lenders and multilateral organizations, such as the Asian Development Bank (ADB), the IMF and the World Bank, to provide relief to many economies that are in the BRI orbit.

Indeed, China would be forced to respond to the coronavirus debt crisis, wrote [Nick Crawford](#), a research associate on the Geo-economics, Geopolitics and Strategy program at the Institute for International Strategic Studies (IISS).

“The effect on Chinese lenders aside, any defaults on BRI loans could be accompanied by the suspension or cancellation of BRI projects, with knock-on effects for the Chinese implementers, many of which are state-owned enterprises.”

By demonstrating flexibility – as it did with Malaysia last year when it renegotiated projects on better terms for the South East Asian state – Beijing will be able to garner goodwill and further its ‘soft power’ as a benefactor rather than a pure lender.

That could pave the way for the next wave of BRI projects that will be required to connect Eurasia to Africa and South East Asia.

Beijing's soft power has already kicked in, with the relaunch of the Health Silk Road (HSR), which was originally proposed eight years ago but shelved at the time after rejection by world bodies.

"The BRI infrastructure network is being showcased as the mechanism by which medical and humanitarian aid can be delivered, not just to BRI participant countries, but to all of those affected," according to [Dezan Shira & Associates](#), which advises clients on operating in Eurasia. "They are quick to point out that the BRI infrastructure has enabled protection suits, face masks and test kits to be delivered to 54 countries in Africa, Italy and Spain."

There will, of course, likely be a reconfiguration of projects, financing and terms of agreements post-COVID-19 between China and its partner countries in the BRI.

Work on a number of BRI projects has [reportedly](#) slowed down as flights have been halted, supply chains disrupted, Chinese workers hunkered down at home and as Beijing focuses its energy on stamping out the virus.

As such, a slowdown in China's economy may divert attention from BRI projects over the next two years, according to law firm [Baker McKenzie](#).

"This may mean reduced investments into BRI's smaller, less critical markets where the opportunities to connect such investments to the global supply are limited. Central Asia, Sub-Saharan Africa, and Eastern Europe will accordingly see a short-term dip in BRI-related activity, relative to Southeast Asia," Baker McKenzie said.

The total value of active BRI projects at the end of March 2020 stood at \$199.55 billion in Sub-Saharan Africa, according to the Refinitiv BRI database. In Central and Eastern Europe, it was \$227.21 billion, and in Central Asia, it was \$12.83 billion.

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Baker McKenzie, law firm



COVID-19: MANAGING BRI'S COMMERCIAL RISKS IN PANDEMIC TIMES

Experts advise review of risks, contractual obligations, renegotiations and exploration of liquidity solutions

Amid the COVID-19 pandemic, construction companies involved in the BRI projects have the daunting task of managing the commercial risks arising out of the pandemic, according to legal and infrastructure experts interviewed by Refinitiv.

Michael Camerlengo, Partner and Head of Infrastructure for KPMG in Hong Kong, noted that COVID-19 is negatively impacting construction contractors across the region, with many experiencing difficulties in procuring construction materials, labor supplies and worker healthcare.

“This means completion milestones are being missed, causing payment delays, working capital difficulties and potential events of default with further knock-on impacts down the sub-contractor supply chain,” he said.

Cheryl Cairns, Partner, Trowers & Hamlins Dubai office said travel restrictions and quarantines due to COVID-19 had affected the commercial operations of manufacturing plants in China, and the supply of Chinese labor, both within China and internationally.

Paul Teo, Partner, Dispute Resolution at Baker McKenzie, Hong Kong/China pointed out that the supply disruptions due to COVID-19 have adversely affected the BRI projects in varying degrees, depending on the type and location of the project.

Cairns said delays in shipping of construction materials and machinery due to quarantines and increased port checks would only add to the supply chain problem.

“A ramification of this would be an increase in claims for relief in performance in respect of delay and additional cost,” she said.



Mun Yeow, Partner at Clyde & Co's Hong Kong office, said that with many projects likely to miss their scheduled completion dates, the firm foresees a rise in disputes relating to liability and assessment of damages for non-performance, defective performance or delay.

Yeow, who also leads the firm's BRI practice, added that BRI participants should expect impeded access to capital, either commercial lending or government funding with resources being diverted to contain the spread of the disease.

RISK MANAGEMENT TEAM

Given the evolving nature of COVID-19, Jon Howes, partner at Clyde & Co's Singapore office said BRI contractors should consider setting up a dedicated risk management team to assess all relevant commercial risks and devise a risk-informed business continuity and management plan appropriate to the nature and scale of their operations.

"The areas of operations most impacted would include health and safety of the workforce, contractual risks for non-performance, financial arrangements and scheduling," he said.

He also noted that it is essential that main contractors actively manage their entire supply chain to minimize delays caused by shortages of labor, plant and materials.

Where the supply chain disruption is foreseen to be temporary, he advised that contractors may consider rescheduling their construction programs, based on the availability of supplies.

"Where disruption results from supplier liquidity issues, companies may offer support in the short term by accelerating payments or making short-term loans to the suppliers against which future payments will be offset," he said.

However, where supply chains fail or are significantly disrupted, companies may have to activate alternative sources of supplies.

Before doing so, however, it is important to check whether the existing supply contracts contain any contractual obligations, such as exclusivity provisions or minimum purchase requirements, "which may render the purchaser in breach if it sources products from elsewhere," said Howes.



TO BUILD OR NOT TO BUILD

While the long-term commercial viability of infrastructure projects is difficult to assess, particularly in times of crisis, affected parties should collaboratively pursue solutions that deliver mutual benefits in the long run, said KPMG's Camerlengo.

He pointed out that project owners who are flexible and offer short-term delay relief and work-around payment solutions are more likely to get closer to their original time and cost targets than those who choose termination and contractor replacement.

But where contractors struggle to fulfil existing obligations due to business disruptions, Clyde & Co's Yeow said they could cite COVID-19 as a basis for renegotiation of price, completion date or other key contractual provisions, as well as seek variation orders for an alteration to the scope of works.

"When renegotiating, parties should foster constructive discussions and keep long-term business objectives in mind," she said, adding that contractors should try and ensure that commercial relationships are maintained.

Dennis Zhang, Partner and Head of Valuations for KPMG in Northern China, said that organizations facing contractual crises should develop bespoke responses based on their circumstances.

"The factors that need to be considered include the stage of the infrastructure lifecycle for the asset or organization in question, sector and sub-sector of operation, business performance, prospects for the future and relations between counterparties," he explained.

"The first option is to seek short-term relief, as parties that have strong pre-existing relationships will be more willing to assist each other when times are tough, without having to resort to any contract alteration," said Zhang.

The second measure, his colleague Camerlengo said, is to look for ways to renegotiate. "Renegotiation solutions that offer mutual benefits are more likely to lead to agreement than further conflict," he said, adding that short-term contract extensions, pricing adjustments and payment terms renegotiations are common areas to start.

As a third option, Zhang said companies need to 'agree to disagree'.

"The least desirable channel is the one that typically involves conflict, contractual disagreement, the expensive and extensive use of legal advice, and potentially contract termination. Although sometimes inevitable, it is advisable to avoid this approach in the best interest of all parties," he said.

CONTRACTUAL ISSUES

Trowers & Hamblins' Cairns said contractors need to carefully review the terms of their underlying contracts to understand whether there is any relief from risks arising from the COVID-19 outbreak.

If there is relief, she said, they need to carefully consider any notice requirements and other clauses that such a notice must contain, along with any obligations regarding continual updates.

Baker McKenzie's Teo advised that contractors should review "what are the entitlements to an extension of time and/or additional payment, and what are the grounds for suspension and/or termination due to delays and disruption in the progress of the project."

Certain contracts have provisions that place a positive obligation on the employer to order variations that are necessary for the completion of the works, according to Euan Lloyd, Senior Counsel at Al Tamimi & Company.

These provisions, he explained, trigger an entitlement to a variation order where it is not possible to comply with the strict requirements of the contracts.

He said the FIDIC Red Book provides clauses to substantiate a claim for an extension of time by a contractor to the employer for the delay, which may be able to be invoked because of COVID-19.

Teo added that businesses would need to continue to monitor the situation in case new measures that may trigger additional contractual provisions, such as change of law, are implemented.

He cautioned that construction contracts generally provide stringent requirements for a contractor to submit claims for additional time or money, and a contractor's failure to abide by the stipulated requirements may extinguish its right to claim for such time and money.

"The factors that need to be considered include the stage of the infrastructure lifecycle for the asset or organization in question, sector and sub-sector of operation, business performance, prospects for the future and relations between counterparties."

Dennis Zhang, Partner and Head of Valuations for KPMG in Northern China



INVOKING FORCE MAJEURE

As COVID-19 impacts contractors' ability to carry out their work, Lloyd said they would try to find relief in some specific clauses, including force majeure, impossibility and frustration.

However, whether existing BRI contracts generally have enough safeguards for contractors/groups under such clauses will very much depend on the terms of the contract and whether the current drafting of these contracts allows COVID-19 to qualify for relief, said Cairns.

She suggested that companies need to carefully review their current terms and importantly, the governing law clause, which will determine how these claims will be interpreted.

However, legal experts are of the view that complex commercial construction contracts usually have clauses that specifically address and provide relief for force majeure events.

The force majeure provisions contained in the FIDIC suite of contracts, one of the contract forms used for BRI projects, grant relief to parties by entitling them to suspend their obligations, or terminate the contract, upon the occurrence of a force majeure event which materially impacts or renders the performance of the contract impossible.

"Generally, COVID-19 is likely to qualify for a force majeure clause, which refers to "disease", "quarantine" or "epidemic". Where a force majeure clause requires that the event is "unforeseeable", the position is less clear-cut, as it is debatable whether a novel virus is an unforeseeable event," said Clyde & Co's Howes.

With the declaration of the Legislative Affairs Commission of the Standing Committee of the National People's Congress that COVID-19 is an "unforeseeable, unavoidable and insurmountable" event, and the World Health Organization's declaration that COVID-19 is a pandemic, "we can expect force majeure to be exercised more frequently to shield affected parties from legal claims", he said.

While COVID-19 may potentially be sufficient basis to invoke the force majeure relief, Baker McKenzie's Teo pointed out that "the contract is ultimately king" and the key issue is whether "the specific wording" of the force majeure provision adequately captures COVID-19 and similar outbreaks.

"To qualify for such relief, companies are typically required to submit a contractual claim notifying of the occurrence and particulars of the force majeure event in question," he said.

While many contracts contain a force majeure clause, they are the product of a commercial agreement between parties, said Rodney Chen, Partner, Infrastructure at SF Lawyers, a Hong Kong-based law firm which provides legal services in association with KPMG Law.

He said the scope and effect of a force majeure clause must be determined on a case-by-case basis. Reference must be made to the precise drafting of the relevant clause, and the facts and circumstances of the case.

IMPOSSIBILITY AND FRUSTRATION CLAUSES

The alternative contractual provision of ‘impossibility’ operates to discharge a contractor from their obligation to execute all or part of their duties which have become impossible.

“Depending on the extent and seriousness of disruption resulting from COVID-19, the scope of seeking relief by impossibility may be limited given the high threshold of proving impossibility,” said Howes, who is also the Joint Head of Clyde & Co’s Asia Pacific Projects and Construction Group.

Some contracts contain general provisions that may excuse a contractor from their obligation to carry out the works on the grounds of impossibility, but experts say this concept typically interfaces and/or overlaps with force majeure.

“The applicability of this clause is much broader than a force majeure clause and covers all events or circumstances that might render it impossible to carry out the works. The clause also covers legal and physical impossibility, legal being where to carry out the contract the contractor would have to break the law,” explained Al Tamimi’s Lloyd.

Where there is no applicable force majeure or impossibility clause in the contract, Clyde & Co’s Yeow suggested that parties may rely on the doctrine of ‘frustration’ under common law to bring the contract to a premature end.

“To invoke frustration, parties need to establish that an event which is by no fault of either party has occurred which renders contractual obligations impossible, or radically changes the parties’ principal purpose for entering into a contract,” she said.

However, due to the extreme effect of the doctrine, leaving little room for parties to renegotiate their contract, Yeow pointed out that this has only been successfully invoked in limited circumstances.

Chen of SF Lawyers said the doctrine of frustration (and impossibility) is typically not easy to establish and has a much narrower gate to pass.

“To claim frustration (and impossibility), a careful assessment of the facts, the relevant contractual provisions and the legal principles is required.”

Like any other claim situation, parties should substantiate their claim by collating as much evidence as possible on the effects of COVID-19, including the additional burden it has placed on them in terms of time and money.

“Both frustration and force majeure relief can have acute impacts, so any exercise of these rights should be carefully assessed, and advice from your legal counsel should be sought,” Chen added.

However, legal position regarding the existence and recognition of the concept of force majeure varies from jurisdiction to jurisdiction.

“To claim frustration (and impossibility), a careful assessment of the facts, the relevant contractual provisions and the legal principles is required.”

Rodney Chen, Partner, Infrastructure at SF Lawyers

Teo explained that in most common law jurisdictions, such as Hong Kong, there is no statutory right to seek relief for force majeure, and so any claim will be derived purely from the contract and force majeure provision. On the other hand, in many civil law jurisdictions, including Mainland China, the concept of force majeure is recognized in statutory law or guidelines.

In January 2020, China Council for The Promotion of International Trade (CCPIT) announced that it would facilitate the issue of force majeure certificates in response to qualifying applications.

Teo pointed out that it is not common for force majeure or frustration clauses to be included in loan facility agreements.

“This means that if a force majeure event should arise and result in an obligor defaulting under a finance agreement, there is no relief and the lenders would have the right to accelerate the loans,” he said.

Al Tamimi’s Lloyd said companies, while taking measures or seeking remedies, should also ensure they keep a consistent record of critical correspondence and other communications, to be able to provide evidence of their effort to mitigate risks arising from an outbreak of COVID-19, should a dispute arise.

Dealing with the liquidity challenge

Liquidity issues arising due to project or supply chain delays caused by COVID-19 are forcing BRI contractors to renegotiate lending terms with existing lenders.

KPMG's Camerlengo said that before seeking to renegotiate, organizations should inform themselves of the full range of funding solutions available in the market and the suitability of each.

"Common debt solutions include working capital and revolving loans through commercial bank lenders. Suppliers may also be able to offer funding, secured against future cash flows, their product or other forms of collateral," he said.

Alternatively, if debt serviceability represents a significant challenge, new equity from existing and potential new investors could be the most viable option, he said.

However, it is advisable to engage with existing and potential new funding providers as partners, as opposed to adversaries.

"This means open lines of communication and transparency about business challenges and response strategies, as well as the medium- or long-term opportunities for turnaround and growth," said Andrew Weir, Senior Partner for KPMG in Hong Kong and Global Head of Real Estate and Construction.

It is also equally important to have and communicate the right business data to funding partners. "The right data enables asset owners and operators the ability to accurately project business performance, risks, opportunities and how to respond to each," said Weir, adding that demonstrating an organization's data management and predictive capabilities to lenders will help in maximizing the chances of credit support while lowering its credit risk rating.

While each application for funding should be considered on a case-by-case basis, industry experts said Chinese banks might consider the profitability of the projects to be financed, the creditability of the borrowing group, historical performance and the relationship with the parents or sponsors, to determine whether they can provide any bridge loans or emergency funding.

"For ongoing facilities, the borrower may consider discussing with the lenders about restructuring the repayment schedules or increasing the facilities, if allowed under the facility agreements, or extending the grace period for repayment," said Backer Mackenzie's Teo.

He said the borrower should also monitor their financial conditions to ensure that there is no breach of the financial covenants under the ongoing facilities.

"If it foresees any difficulty to comply with those financial covenants, they should engage in discussions with the lenders as soon as possible," he advised.

Teo pointed out that some of the borrowers have asked for the restructuring of repayment schedules under the ongoing facilities, to reduce the amount of the repayment installments in the coming years.

"There are also borrowers, under the existing acquisition finance facilities which may be due in the following years, seeking refinancing in the Chinese cross-border market," he said.

While Chinese commercial banks may be a bit more cautious on the lending risks in such a challenging market environment, Chinese policy banks like CDB and CEXIM are still very active in the Chinese cross-border market as "they are under political pressure to lend to the jurisdictions where the governments have a good relationship with the Chinese," said Teo.

He said he expects the financing and procurement of large projects to be put under increased legal and commercial scrutiny in the COVID-19 environment.

"Many may be deferred or put on hold temporarily due to the uncertainties and difficulty in committing to the upfront time and cost projections on projects," he concluded.



A GREEN LIGHT SYSTEM FOR BRI

The Green Light System for evaluating the environmental performance of global BRI investments is in the baseline study phase.

On March 27, 2020, more than 50 representatives from international and domestic agencies joined a remote teleconference to discuss how to keep the BRI as environmentally friendly as possible.

The First Consultation Meeting of Joint Research on 'Green Development Guidance for BRI Projects' (Green Light System) was jointly hosted by the Secretariat of BRIGC, ClientEarth and World Resources Institute (WRI).

The Green Light System is a deliverable for the Belt and Road Initiative International Green Development Coalition (BRIGC), which is supervised by the Chinese Ministry of Ecology and Environment (MEE) with its own secretariat, and thus has potentially direct regulatory power.

The main goal of the BRIGC, according to its mission statement, is, "to promote international consensus, understanding, cooperation and concerted actions to realize green development on the Belt and Road, to integrate sustainable development into the BRI through joint efforts, and to facilitate BRI participating countries to realize the sustainable development goals related to environment and development."

Dr Christoph Nedopil Wang, Director of the Green Belt and Road Initiative Center at the International Institute of Green Finance (IIGF), Central University of Finance and Economics in Beijing, said during an interview that some \$700 billion has been invested worldwide in the BRI and added that sustainability and the 'Green Light' scheme are still in the early stages.

The IIGF is part of the more than 30 Chinese and international organizations that joined the BRIGC.

"The current phase of the Green Light System is "in development", so it has not been put into practice yet," he said.

The most important industries that have received BRI investments, according to Green BRI Center, are energy (about 39 percent) and transport (about 26 percent) followed by real estate (about 10 percent) and metals (about 7 percent). The Center also highlighted the regions that received the most BRI investments as below:

REGIONS	SHARE OF BRI INVESTMENTS (%)
East Asia	25
Sub-Saharan Africa	22
West Asia	21
Arabia and Middle East	15

Source: www.green-bri.org

Wang noted that projects with the BRI are mostly infrastructure and industrial with about 60 to 70 percent of all BRI investments fitting into these two sectors.

“Including environmental strategy in infrastructure is difficult in practice, but both Development Finance Institutions (DFI) and national governments (including the Chinese) have put in practice stringent Environmental Impact Assessment (EIA) procedures,” he pointed out.

However, Wang noted that international investors, China included, are not bound to any international best practices, but operate on a ‘host country principle’, and where the host country has weak laws, this is just as accepted by the Chinese contractors and investors.

“This contrasts with the DFIs and a variety of Financial Institutions (FIs), who have developed their own EIA practices and safeguards. Chinese reporting is not sufficiently transparent compared to international investors, making investments opaque and thus environmental oversight (both national and international) more difficult,” he said.

Wang underlined that non-action on green development goals, lack of clean water resources, climate change and loss of biodiversity have clear financial risks for private and public investors.

“This (Green Light System) is just one of several initiatives of the BRIGC, although currently the most important and most advanced one,” he noted.

BRIGC launched joint research on the Green Light system in December 2019, aiming to explore the formulation of guidelines on the assessment and classification of BRI projects, and provide guidance for stakeholders to further recognize and address ecological and environmental risks in overseas investment.

“The scope of the study was to identify the most practical mechanisms that mitigate the environmental and climate impacts of China’s overseas investments while accelerating development opportunities offered through BRI investment,” Wang explained in a statement posted on [Green BRI Center’s website](http://www.green-bri.org).

He said the baseline study aims to build a policy framework that accelerates government support for a green BRI, while incorporating financial institutions’ requirements, adding that it “is also a foundation for investors to minimize their financial exposure to environmental risks in the BRI.”

The first draft of the baseline study for the Green Light System was presented at a videoconference on March 27. Key attendees included: Erik Solheim, Convener of the Advisory Committee of BRIGC and Advisor of WRI; Ye Yanfei, Counsel (Director-General Level) of the Policy Research Bureau of the China Banking and Insurance Regulatory Commission (CBRC); Ma Jun, BRIGC Advisor, Director of Center for Finance and Development at Tsinghua University; Zhang Jianyu, International Liaison of the Advisory Committee of BRIGC and Vice President of Environmental Defense Fund (EDF); and Li Yonghong, Deputy Director General of Foreign Environmental Cooperation Center (FECO).

The online discussion was attended by more than 50 representatives from over 10 international and domestic agencies.

The March consultation meeting aimed to collect expert views and opinions on the baseline study outcomes, and provide guidance and reference for further improving the research, according to an official report on the meeting.

The report said it was agreed during the meeting that “it is vital to promote the revitalization of the global economy and further expedite the development of the green economy after the COVID-19 pandemic.”

“Against this background, ‘The Green Light System’ research is quite meaningful in the practical sense. It will help China and other countries to improve their standards and degree of green development, and jointly facilitate the construction of a green Belt and Road,” the report added.

Other initiatives launched to promote a green BRI include the Green Investment Principles (GIP) for Belt and Road Development, issued by China-UK Green Finance Taskforce, and the Green Finance Cooperation Committee (GFCC) of Asian Financial Cooperation Association (AFCA). The GIP provides a framework to incorporate low carbon and sustainable development into BRI projects, while the GFCC is positioned as an international platform for green finance cooperation in Asia.

BRIGC timeline

- BRIGC was established in response to the advocacy of President Xi Jinping at the first BRF held in May 2017.
- It was inaugurated jointly by China's Ministry of Ecology and Environment, and domestic and international partners at the second BRF in April 2019.
- To date, more than 140 organizations from China and the international community have become partners of BRIGC, covering a network across 36 countries.

Source: www.green-bri.org



CHINA'S ON AND OFF DOMINANCE IN GLOBAL SOLAR SUPPLY CHAIN

Developing countries need to consider strategies to join parts of the solar PV value chain

In October 2019, the Paris-based International Energy Agency (IEA) projected 2020 to be an outstanding year for renewables with global installations of solar photovoltaic (PV) and wind estimated to beat 2018 levels by over 20 percent.

These projections may not be feasible for now amid the COVID-19 pandemic and its profound impact on the global economies.

In a commentary published in April, Heymi Bahar, senior analyst for renewable energy markets and policy at IEA, stated that the pandemic could [derail](#) renewable energy's progress.

"The impact of the pandemic is slowing down construction activity on renewable projects," Bahar said.

Though large developers with strong cash positions are likely to cope with construction delays or additional costs in the short- to medium-term, the situation remains more uncertain for small project developers, he noted.

Likewise, an analysis by Oslo-based Rystad Energy expected growth in newly commissioned solar and wind projects to be nearly ["wiped out for 2020"](#) and cut by a further 10 percent next year."

In the same vein, London-based IHS Markit pointed out that almost all large solar projects originally planned for completion in the first half of 2020 will be impacted, while [rooftop installations](#) will grind to a halt.

At present, the renewable energy industry faces several challenges, which includes supply chain disruptions that are resulting in project completion delays.

"The impact of the pandemic is slowing down construction activity on renewable projects," Bahar said.



DOMINANCE INTACT

Most of the parts for renewable energy plants, and especially solar, come from China, which manufactures about [70 percent](#) of the global supply of solar panels.

In 2019, China [increased its solar capacity](#) by 30 gigawatts (GW) and exported 65GW of solar PV modules, while the rest of the world added about 90GW of solar PV capacity, Zhai Yongping, Chief, Energy Sector Group, Asian Development Bank (ADB), said in a recent blog post.

The International Renewable Energy Agency (IRENA) found that though 50 leading solar PV panel manufacturers maintain factories in 23 countries, [China remains a dominant player](#), accounting for 69 percent and 64 percent of global cell and module capacities, respectively, in 2018.

But the supply chain started to get disrupted in February 2020, when several key provinces of China faced COVID-19-related lockdowns, leading to solar PV manufacturing facilities stopping or slowing production.

Top 10 active solar power projects under the BRI

PROJECT NAME	COUNTRY	PROJECT VALUE (U.S.\$)
2GW Integrated PV Power Project	Egypt	3.50bln
500MW Renewable Energy Power Project	Bangladesh	500mln
800MW Al Kharasah Solar PV Power Project	Qatar	467mln
50MW Minos Solar Tower CSP Project	Greece	376.57mln
200 MW El Aromo Solar PV Project	Ecuador	200mln
178MW RioZim Solar Power Plant Project	Zimbabwe	200mln
75MW Samara Solar PV Power Project	Russia	148.85mln
50MW Bagakhangai Solar PV Power Project	Mongolia	68.58mln
47.5MW Da Mi Floating Solar PV Power Project	Vietnam	66.70mln
25MW The Bear Solar Power Plant	Russia	51mln

Source: Refinitiv BRI database – up to March 31, 2020



SUPPLY CHAIN BLUES

Transport restrictions imposed by countries to contain the COVID-19 spread led to many solar PV developers in Asia and other countries experiencing protracted delays in importing solar PV modules and other supplies.

Delays are expected to have a direct impact on projects that are due to be commissioned in 2020 or 2021, said Bahar.

Even the Belgium-headquartered Global Wind Energy Council (GWEC) projected the COVID-19 outbreak to impact the supply chain and installation operations in the wind energy sector globally, including China.

That said, the pandemic is impacting multiple projects in the United States, which have received “force majeure” notices from suppliers warning developers about possible delivery delays.

Ratings agency S&P’s unit, Crisil, warned that solar power projects worth \$2.24 billion in India could be at risk of penalties for missing a July 2020 completion deadline owing to solar industry supplies disrupted by the spread of COVID-19. India, which ranks fifth globally in terms of solar PV generation capacity, buys about 80 percent of its solar modules from China. Wood Mackenzie said that it expected more than 3GW of solar and wind projects in India to be delayed due to the COVID-19 lockdowns.

RESUMPTION OF ACTIVITY

Despite the bleak outlook, IEA said the solar PV supply chain in China is ramping up production again, with most factories slowly resuming activities by taking necessary health precautions.

Rystad Energy also said that global shipments have more or less arrived as expected, as Chinese panel and turbine suppliers returned to work relatively quickly, and production stabilized, with panel prices remaining steady.

Though Brussels-based WindEurope said Europe’s supply chain “experienced some disruptions” in February related to components and materials coming from China, supplies are now ramping back up again.

There is also an uptick in project activity, especially in the Middle East, where neither COVID-19 nor low oil prices have deterred the UAE and Saudi Arabia from moving ahead with large-scale solar projects, with the former’s 2GW Build-Own-Operate project receiving record low bids.

The market is also expected to get a boost from the action plan for 20GW of solar parks, announced last month by the India-headquartered International Solar Alliance (ISA).

The ISA, which was launched in 2015 by the Prime Minister of India and the President of France to scale up solar energy applications, also announced a price exploratory global bid for solar home systems for 47 million households. The initiative builds on its 2019 success with a demand aggregation exercise for solar-powered agricultural pumps, which achieved 50 percent price reduction for a potential order worth \$2.7 billion.

LOCALIZING THE VALUE CHAIN

Even though China continues to be the dominant player in the renewable energy supply value chain, ADB’s Yongping advised developing countries in the Asia-Pacific region to consider developing PV manufacturing capacity.

He believed the move would be in the interest of China and other major solar manufacturing countries, given their surplus output, rising labor costs and tensions owing to trade imbalances.

Despite having about 150GW of solar PV manufacturing capacity – an amount that is more than the current global demand – China has already started to relocate some of this capacity in countries such as Vietnam and India.

Since the COVID-19 outbreak exposed the vulnerability of value chains, developing countries need to consider similar strategies to join part of the solar PV value chain.

“Asia is already home to almost 3 million solar PV jobs, of which 2.3 million are in China. The development of a local solar PV value chain will create many more jobs,” said ADB’s Yongping.



BRIGHT SPARK: BELT AND ROAD BOLSTERS ECONOMIC GROWTH IN LATIN AMERICA

Blair Chalmers, Director, Marsh & McLennan Advantage Insights, tells Refinitiv that the COVID-19 pandemic will only have a short-term impact on the BRI projects in Latin America

The relationship between China and Latin America is deepening, with the BRI becoming a significant contributor of foreign direct investment to the region.

In 2015, Chinese President Xi Jinping pledged an [investment of \\$250 billion](#) in Latin America and expected two-way trade to rise to \$500 billion by 2025.

That ambition and growing affiliation are today reflected, with trade between China and Latin America growing 19 percent year-on-year to \$307.4 billion in 2019, Fitch Solutions said in a recent report, calling Latin America a [“bright spark”](#) for Chinese investment throughout 2020.

Top 10 active BRI projects in Latin America

PROJECT NAME	SECTOR	COUNTRY	PROJECT VALUE (U.S.\$BLN)
Bolivia Lithium Industrialization Project	Mining	Bolivia	2.30
102MW Pedro Avelino Wind Farm Complex	Power and water	Brazil	900
355MW Helios Wind Power Project	Power and water	Argentina	800
280MW Ivirizu Hydroelectric Project	Power and water	Bolivia	550
Buritica Gold Project	Mining	Colombia	515
El Mutun Steel Mill	Manufacturing	Bolivia	443
Suriname National Infrastructure Project	Transportation	Suriname	235
San Jose de Chiquitos to San Igancio de Velasco Road Project	Transportation	Bolivia	228
Johan Adolf Pengel Airport Upgrade Project	Transportation	Suriname	205
110 MW Villonaco II and III Wind Farm	Power and Water	Ecuador	200

Source: Refinitiv BRI Database – Up to 31 March 2020





Blair Chalmers
Director,
Marsh & McLennan
Advantage Insights

In an interview, Blair Chalmers, Director, Marsh & McLennan Advantage Insights, said that the BRI is strengthening economic and financial cooperation between the two entities, as China has become Latin America's second-largest trading partner after the U.S.

Currently, 19 Latin American and Caribbean States (LAC) territories have signed documents indicating cooperation with the BRI.

While the COVID-19 pandemic threatens to derail global economic growth, Chalmers believed the outbreak is likely to have a short-term impact on BRI projects in Latin America but ruled out long-term damages.

Excerpts from the interview

Q: What factors make it inevitable for Latin America to join BRI?

Rapid economic development and world-beating savings rates have thrust China into becoming one of the largest sources of foreign direct investment (FDI) worldwide.

China's outbound investment growth has accelerated so rapidly that just two years after the program was initiated as the "One Belt, One Road" program, the Chinese government began naming the program the "Belt and Road Initiative" to better reflect its expansive nature. Today, more than 60 countries – accounting for two-thirds of the world's population – have signed onto the initiative's projects.

As China has been ramping up its supply of infrastructure financing, Latin American demand for foreign infrastructure financing has also risen. The region's chronic infrastructure gaps remain a severe issue for economic growth. Meanwhile, public sector financing for infrastructure is in decline, raising the region's appetite for foreign and private infrastructure investment.

More immediately, the recent emergence of corruption investigations has created additional impetus for Chinese investment in infrastructure. Many incumbent companies and investors in the region have been forced to step away from several projects, such as in the case of Peru's Chaglla hydroelectric plant and the Comperj refinery project in Rio de Janeiro, making room for Chinese companies to take their place.

Q: Has economic and financial cooperation between China and Latin America strengthened under BRI?

The BRI has certainly strengthened economic and financial cooperation between the two entities, but these links predate the BRI by many years. It was in 2008 that the Chinese government launched its first ever policy paper on Latin America and the Caribbean. The paper announced a broad mandate for long-term cooperation in the region, ranging from providing assistance with debt reduction and cancellation to establishing contacts between Chinese and Latin American sports institutions.

China is now Latin America's second-largest trading partner after the United States. Between 2009 and 2019, investment from China into Latin America more than quadrupled, according to data from the American Enterprise Institute.

Q: Has Chinese-built infrastructure been a boon for Latin America?

So far, 19 LAC territories have signed documents indicating cooperation with the BRI. It is estimated that there are over 100 Chinese-backed infrastructure projects underway in Latin America, and it is clear that Chinese financing is indeed filling crucial gaps.

Notably, out of Latin America's six major markets for infrastructure (Brazil, Mexico, Colombia, Argentina, Peru and Chile), only Peru and Chile have formally signed on to the BRI. However, others continue to accept significant Chinese investment without formal BRI agreements. Direct investments (including M&A transactions) have been the heaviest, for example in Brazil, Argentina, Peru and Chile, in recent years.

Some of the region's biggest projects in the past five years include Tianqui Lithium Corporation's minority stake acquisition in the major Chilean chemical and fertilizer manufacturer SQM, as well as China State Grid group's controlling stake acquisition of CPFL Energia, the largest private power distribution company in Brazil.

Q: What is the most significant challenge for the region and how can it be overcome?

Governance risks and related political or regulatory fallouts remain the biggest risks for infrastructure investors in the region. A Mercer-IDB Group survey of institutional investors on investing in Latin American and Caribbean infrastructure, found that the two most prominent "deal-breaker risks" identified by respondents were governance risks and political/regulatory risks.

These risks have already posed issues for Chinese investments. Missing or inadequate environmental impact assessments have resulted in disruptions for some projects, while public opposition due to community displacement concerns and corruption allegations have created issues in others.

Q: Which sectors have currently benefited from BRI? Where do you think there is a need to cooperate further?

Investments from China into Latin America have been heavily concentrated in the energy sector. There is clearly room for more involvement in the transportation and utilities sectors, which both desperately need a private investment boost. Governments in the region are under particularly acute political pressure to boost the level of investments in the transportation industry.

Q: Do you expect any short- and long-term impact over investments in BRI (infrastructure) projects across Latin America following the global Coronavirus outbreak?

Although there are likely to be significant short-term impacts, we should not expect there to be long-term damages for BRI projects in Latin America. The two key forms of disruptions that Latin America is likely to face are through supply chain disruptions (as construction materials and supplies from China will face delays and cancellations) and manpower disruptions (as expatriates from China have been advised to delay or suspend their travel to Belt and Road projects while the virus continues its spread).

RUSSIA'S ENERGY PROWESS PLAYS A CRUCIAL ROLE IN BRI

China has poured investments into Russia's hydrocarbon and mineral sectors

Russia has used its geographical proximity to China and natural resources to emerge as an important partner in Beijing's ambitious BRI.

The Power of Siberia Gas Pipeline Project is perhaps the best illustration of the potential of the Sino-Russian alliance.

Russia's [Gazprom](#) is building a 3,000km natural gas pipeline for this project, traversing three Russian constituent entities, namely the Irkutsk and Amur regions and the Republic of Sakha (Yakutia) to the northeast of China.

The \$55 billion project is among the biggest along the BRI, according to Refinitiv data. Last December, the first phase of Power of Siberia was brought into operation, and the first-ever pipeline supplies of Russian gas to China were launched, with subsequent phases under construction.

"This is a genuinely historical event, not only for the global energy market, but above all for us, for Russia and China," said Russian President [Vladimir Putin](#) at the launch of the project's first phase. "This step takes Russo-Chinese strategic cooperation in energy to a qualitatively new level and brings us closer to (fulfilling) the task, set together with Chinese leader Xi Jinping, of taking bilateral trade to \$200 billion by 2024."

Once fully complete, the project will export 38 billion cubic metres of gas to China annually for 30 years, generating an estimated \$400 billion for Moscow over the project's lifetime. The deal will also make China the second-largest Russian gas customer after Germany.



“The [second phase](#) of the project will include the construction of a section stretching for about 800km from the Kovyktinskoye field (Irkutsk region) to the Chayandinskoye field. It is planned to bring Kovyktinskoye onstream in late 2022,” according to Gazprom. “The third stage provides for expanding gas transmission capacities between the Chayandinskoye field and Blagoveshchensk.”

The massive cross-border gas pipeline project is expected to foster closer energy integration between the two countries.

MAJOR BRI RECIPIENT

Russia is the largest recipient of BRI investments in oil among the member countries, according to Refinitiv data. The \$123.87 billion being invested is four times more than in Saudi Arabia, which is the second-largest recipient at \$26.42 billion.

For China, Russia is a vital partner in its quest to connect the Eurasian Land Bridge to the BRI through the EAEU free trade area (which forms a land bridge between the borders of the European Union and China).

For now, China is predominantly gearing its investments towards Russia’s oil and gas reserves, given the latter’s status as the largest producer in the world with an expected output of 11.52

million barrels per day on average this year, according to the [Organization of Petroleum Exporting Countries \(OPEC\)](#).

Russia accounted for 15.3 percent of all Chinese oil imports, generating revenues of \$36.5 billion, second only to Saudi Arabia, which accounted for 16.8 percent of China’s total oil imports.

The former Soviet Union has 80 billion barrels of oil reserves, and it is a major oil supplier to Europe, but for political and economic reasons is looking to diversify its export base – and China presents a formidable opportunity.

However, it is Russia’s natural gas reserves – the largest in the world at 1,688 trillion cubic feet, according to the U.S. Department of Energy – that is the biggest prize for Beijing in its efforts to secure ready and easily accessible, land-based supplies.

“Most of these (natural gas) reserves are located in large natural gas fields in West Siberia. Five of Gazprom’s largest operating fields (Yamburg, Urengoy, Medvezhye, Zapolyaroye, and Bovanenkovo) – all of which are in the Yamal–Nenets region of West Siberia – together account for about one-third of Russia’s total natural gas reserves,” according to the U.S. Department of Energy.



Last October, a subsidiary of China National Chemical Engineering (Group) Co (CNCEC) signed a deal with Baltic Chemical Complex of Russia, a unit of RusGazDobycha, to build a natural gas processing and chemical plant in a small town near Russia's shoreline off the Gulf of Finland. The \$13.3 billion deal will be built in five years.

Given the potential, it is no surprise that Russia accounts for 70 percent of the top 10 oil and gas projects being developed as part of BRI, and represents the country's importance in meeting China's oil and gas needs.

"Energy cooperation has reached a strategic level, including in the construction of transborder oil and gas pipelines, peaceful uses of atomic energy, production of liquefied natural gas, and exports of Russian coal and electricity," said Sergey Lavrov, Foreign Minister of Russia.

In fact, the close energy ties between the two countries came into play during Russia's brief but bitter oil price war with Saudi Arabia in March over production cuts. [Reuters](#) reported that China's March crude oil imports from its number two supplier, Russia, rose 31 percent from a year earlier, while those from Saudi Arabia, its number one supplier, fell 1.6 percent.

Mining is also becoming a significant area of collaboration, with Russia emerging as the third-largest recipient of BRI mining investments after Guinea and Indonesia, Refinitiv data shows.

The top Russian projects, in value terms, include: a \$2 billion joint venture to produce synthetic fuel from coal, between Russia's ARMZ and China's Sinopec, CMC and Synfuel China; a \$1.8 billion coal mining complex at the Mezhegey deposit and a \$1.5 billion mining and processing plant to develop the Ozernoye polymetallic ore deposit.

EXPANDING TIES

Trade ties between the two countries stood at \$107 billion in 2018, but they are aiming to raise that to \$200 billion by 2024. For now, energy accounts for 71 percent of trade between the two nations.

The latest available data from China's General Administration of Customs shows trade turnover between the two countries rose 4.7 percent from January to July period of 2019 year-on-year to \$61.13 billion.

"Another motivating factor as to why Russia-China trade can be expected to double is the U.S.-China trade war, which has seen China move away from purchasing products from the United States and establish new supply chains within ASEAN and the Belt and Road Initiative countries," according to Dezan Shira & Associates, a research firm. "Russia is very much part of that, and this trend is likely to continue."

BEYOND ENERGY

Several projects in other sectors are also underway. The two countries are eyeing collaboration in the areas of high-tech, civil aviation and space and agriculture products.

The \$32.4 billion Eurasia High-Speed Railway Project, connecting Moscow to Kazan via a 772km line, is also being proposed.

Meanwhile, a \$9 billion Silk Road-style 2,000km motorway across Russia, connecting Shanghai and Hamburg in Germany, was also approved last year. It could emerge as a vital BRI link connecting China to Russia, Central Asia and Europe.



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