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

The People’s Republic of China (PRC or China) in 2013 launched an ambitious and multifaceted foreign economic policy initiative—*One Belt, One Road*—to expand China’s global economic reach and influence. In 2015, China’s leaders changed the English name to the *Belt and Road Initiative (BRI)*, possibly to deflect from the initiative’s focus on developing China-centered and controlled global ties in a hub and spoke format. The Communist Party of China (CPC) incorporated the initiative into the Party’s Charter in 2017 and reaffirmed its significance in the November 2022 Work Report of the CPC’s 20th Party Congress and in a January 2021 State Council White Paper. Some in Congress assess that *One Belt, One Road* projects advance China’s geopolitical and economic goals while undercutting U.S. influence and challenging U.S. interests.

Scope and Objectives

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

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

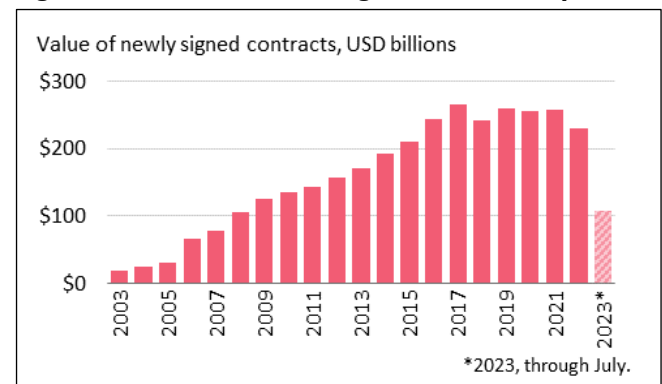
China’s Investment and Financing

China has emerged as a top global investor and financier as its companies have moved offshore to access raw materials, commodities, and energy; acquire foreign capabilities; and

build infrastructure. China’s overseas development finance between 2008 and 2021 totaled an estimated \$498 billion, rivaling \$601 billion in World Bank lending over the same period, according to Boston University’s Global Development Policy Center. China’s global outward foreign direct investment (FDI) stock stood at \$2.9 trillion (7.4% of world total) in 2022, up from \$34.7 billion (0.5% of world total) in 2001, while the United States accounted for \$8.0 trillion, or 20.2% of global outward FDI stock in 2022 (down from 32% in 2001), according to official country data compiled by the United Nations.

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

Figure 1. China’s Overseas Signed Contracts by Value



Source: CRS with data from China’s Ministry of Commerce.

While China’s outward FDI flows peaked in 2016, its cross-border contracts have been more stable (Figure 1). China’s use of onshore financing and special purpose investment vehicles complicates the ability to track activity. China’s overseas lending slowed during the pandemic as China had to restructure or extend loans for some countries, such as Ecuador, Sri Lanka, and Zambia. China’s commitment to fund its firms’ global expansion, however, has sustained cross-border investment in agriculture, energy, minerals, finance, infrastructure, technology, and shipping.

China's State Firms

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

U.S. Concerns

Some observers note the economic benefits of China's investments in developing countries while others note that China is introducing unsustainable debt obligations and opportunities to gain concessions. China tends to extend the duration of its loans, rather than forgive debt repayment, which creates long-term financial dependencies. In 2017, when the Sri Lankan government was unable to repay PRC loans, China Merchants Port Holdings Company, Ltd. acquired a majority stake in the firm that operates Sri Lanka's Hambantota port and the right to operate the port for 99 years. Credit and loan terms are generally opaque and China tends to settle agreements bilaterally. China's opacity in lending came to a head in 2019 when the U.S. government questioned whether International Monetary Fund relief for Pakistan might also repay China. The PRC government insists that its state banks and state firms are not subject to sovereign lending terms adopted by the United States and other major creditors in the Paris Club. PRC loans often forbid multilateral debt restructuring (e.g., under Paris Club auspices). China joined the two G20 debt relief initiatives that accept Paris Club disciplines, but these apply only to China Export-Import Bank and China International Development Cooperation Agency. The PRC government claims it has provided more deferments under G20 schemes than Paris Club members, but many countries indebted to China have not applied—or do not appear to qualify—for G20 relief terms, likely due to PRC pressure.

Some experts are concerned that *One Belt, One Road* undermines the role and principles of multilateral institutions, which collaborate with China on some of its projects. This collaboration may set better terms for host countries—including procurement practices that allow non-PRC firms—while also advancing China's goals. Some experts say that China is undercutting the operations and principles of global financial institutions and subsequently should not have leadership positions in these organizations.

China's investments in strategic sectors and infrastructure have prompted governments in the United States, Australia, Canada, Europe, India, and Japan, among others, to increase scrutiny of these deals. Some defense analysts assess that some of China's civilian infrastructure projects also have military applications. Under its military-civil

fusion program and *China Standards 2035* initiative, China is developing standards that promote civilian and military interoperability and could make foreign infrastructure such as ports available for China's military use. China Merchants Bank, for example, signed the initial commercial lease for property in Djibouti on which China developed a military base. Sam Enterprise Group, a firm reportedly tied to China's military, bought land in Vanuatu and the Solomon Islands. China's projects offer alternatives to a range of U.S.-led networks and standards. PRC digital platforms could support China's digital currency. China's overland rail and Beidou satellite networks offer substitutes to U.S.-controlled sea lanes and GPS navigation technology.

Trade Principle of Reciprocity

Reciprocity is a core principle of the global rules-based trading system in which countries extend commensurate market access terms. PRC entities are expanding overseas in many sectors that the PRC government restricts to foreign investors (e.g., construction, engineering, transportation, communications, and finance). China's government does not offer reciprocal market access for the rights it secures in other countries. The PRC government instead creates openings in foreign markets through its offers of deal-ready state financing and integrated project delivery, which can be attractive to governments seeking to fast track project approvals. Projects may facilitate economic activity and trade, but on China's terms and through supply chains it controls.

U.S. Response

Congress enacted the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, P.L. 115-254) to create the U.S. International Development Finance Corporation (DFC) and increase support for quality market-oriented and financially-sustainable infrastructure projects that have environmental and social safeguards. In 2021, the DFC said it would support projects that refinance Ecuador's debt to China if it excluded PRC firms in its 5G networks, but the deal is reportedly at an impasse. The U.S. government has promoted alternatives to China through a G-7 Partnership for Global Infrastructure and a Blue Dot Network prototype for quality infrastructure financing in development with Australia, Japan, and the Organization for Economic Co-operation and Development. The U.S. government has sanctioned some PRC state firms that build *One Belt, One Road* military infrastructure in the South China Sea. Congress might also examine

- PRC entities' presence in U.S. production, energy, transportation, and communications networks and investments in the Western Hemisphere and Caribbean;
- whether new trade rules or organizations are needed to influence the networks PRC entities are developing; and
- whether new standards, investment, or procurement rules ought to discipline certain investment behavior.

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