

Updated May 16, 2024

# 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 its Charter in 2017 and reaffirmed the effort's significance in 2022 at its 20<sup>th</sup> Party Congress. Some participating governments say they value the initiative for filling infrastructure gaps. Other governments, and some in Congress, assess that *One Belt, One Road* projects advance PRC geopolitical and economic goals while undercutting U.S. influence and interests.

## Scope and Objectives

*One Belt, One Road* aims to develop China-centered and -controlled global infrastructure, transportation, trade, and production networks. 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 "21<sup>st</sup> Century Maritime Silk Road," and a "Digital Silk Road" that seeks to promote PRC information and communications technology (ICT) supply chains, optical cable and satellite networks, and a "Health Silk Road." The effort emphasizes policy coordination, trade and investment facilitation, dispute settlement, tourism, student and personnel exchanges, and priorities in China's 14<sup>th</sup> Five-Year Plan (2021-2025), such as health, research, and standards setting.

*One Belt, One Road* projects in energy, ICT, manufacturing (industrial parks and trade zones), and transportation (rail, roads, ports, and airports) look to vertically integrate PRC production supply chains, technology infrastructure, and transportation networks. The effort involves technology and financial integration that expands the use of China's digital platforms and currency. It seeks to expand PRC firms' presence overseas, create new markets for China's goods and services, and secure access to foreign sources of agriculture, energy, and strategic commodities. Projects also aim to develop China's interior regions, employ PRC workers overseas, and offload excess industrial capacity.

At the *One Belt, One Road* forum in 2023, China's leader Xi Jinping emphasized areas of focus to include "high quality development"; intermodal and green infrastructure; pilot digital trade zones; science and technology cooperation; a "compliance evaluation system" to address corruption; and cooperation in energy, tax, finance, think tanks, media, and culture. In 2021, Xi presented at the United Nations (U.N.) General Assembly a Global Development Initiative (GDI) to complement *One Belt, One Road* with "small and smart" development projects. To date, GDI projects have been in food and medicine.

## China's Investment and Financing

China's use of onshore financing and special purpose investment vehicles complicates the ability to track offshore activity. *One Belt, One Road* is an umbrella initiative, and projects may be specifically or loosely tied to the effort. As a result, many groups track PRC cross-border financing, investment, and overseas projects generally.

PRC overseas development finance between 2008 and 2021 totaled an estimated \$498 billion, rivaling \$601 billion in World Bank lending over that time, according to Boston University's Global Development Policy Center. China's global outward foreign direct investment (FDI) stock stood at \$2.9 trillion (7% 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% of global outward FDI stock in 2022 (down from 32% in 2001), according to official country data compiled by the U.N.

China's outward FDI flows peaked in 2016, while cross-border contracts have been stable in agriculture, energy, minerals, finance, infrastructure, technology, and shipping (**Figure 1**). The overall value and size of PRC projects has declined with China's economic slowdown and debt restructuring requests (e.g., Ecuador, Sri Lanka, and Zambia). The average commitment from China Export-Import Bank (CHEXIM) and China Development Bank (CDB) in 2016 was \$580 million per project, compared with \$461 million in 2021. China may be at an inflection point in implementing existing projects and face a delay in activity after the pandemic. China's domestic slowdown, as it did in 2009, could fuel PRC expansion overseas in key sectors.

**Figure 1. China's Overseas Signed Contracts by Value**



**Source:** CRS, with data from China's Ministry of Commerce.

PRC state banks (e.g., CHEXIM and CDB), state firms, and government funds (e.g., Silk Road Fund), undertake a large share of PRC overseas lending and investment. The PRC government often pays its firms in China for projects they implement, while host governments pay the PRC for the projects. Projects are neither assistance—PRC 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 may include state firms not party to the original transaction that are designated by the PRC government.

### China's State Firms

PRC strategic investments are typically state-sponsored and aim to advance national economic and foreign policy goals. A handful of 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—by establishing technology and infrastructure platforms, architecture, and systems built to PRC standards. Alibaba's internet project in Malaysia, for example, provides a foundation for PRC 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 potential PRC control of sensitive infrastructure and related services. Projects in cobalt, lithium, and nickel support PRC battery and electric vehicle industrial policies.

### U.S. Concerns

Some observers note the economic benefits of China's investments in developing countries while others argue 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 can create 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 be used to repay China.

The PRC government insists that most 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 CHEXIM and the China International Development Cooperation Agency. The PRC claims it has provided more deferments under G20 schemes than Paris Club members, but many countries indebted to China do not appear to qualify or have not applied—likely due to PRC pressure—for G20 debt relief. Some experts also say *One Belt, One Road* undermines the role and principles of multilateral financial institutions, which work with China on projects, and argue China should not have a leadership role in these institutions. Such collaboration may set better terms for host countries while also advancing PRC goals.

PRC entities are expanding overseas in many sectors that the PRC restricts to foreign investors in China (e.g., construction, transportation, finance, and communications). The PRC does not offer reciprocal market access for the

rights it secures in other countries, challenging a core tenet of the global trading system and giving PRC firms asymmetric advantages over competitors. The PRC instead creates openings in foreign markets through “deal-ready” state financing and integrated project delivery.

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 and offer alternatives. 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, including in various technologies and infrastructure such as ports. 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. In addition, China's projects offer alternatives to a range of U.S.-led networks and standards. China's overland rail and Beidou satellite networks offer substitutes to U.S.-controlled sea lanes and GPS navigation technology. China is using PRC digital platforms to support central bank digital currency.

### U.S. Government 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 with environmental and social safeguards. The DFC has sought to compete with PRC consortia on projects and in markets where the PRC has a major presence. In 2019, Congress created a China and Transformational Exports Program at the Export-Import Bank of the United States with new financing tools and flexibilities to counter PRC export financing. The U.S. government has promoted a G-7 Partnership for Global Infrastructure and Investment, and a Blue Dot Network prototype for quality infrastructure financing with Australia, Japan, and the Organization for Economic Co-operation and Development. In 2020, the U.S. government 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 to allow U.S. development or export financing to flow to projects that use PRC components or services; and
- whether new trade, investment, and procurement rules or standards are needed to respond to PRC actions of concern, including those that violate multilateral rules.

**Karen M. Sutter**, Specialist in Asian Trade and Finance

**Andres B. Schwarzenberg**, Specialist in International Trade and Finance

**Michael D. Sutherland**, Analyst in International Trade and Finance

---

## Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.