COUNTRY RISK REPORT ALONG THE BELT AND ROAD

(2022)

China Chengxin International Credit Co., Ltd.
VIS Group of Companies
Islamic International Credit Rating
China International Contractors Association

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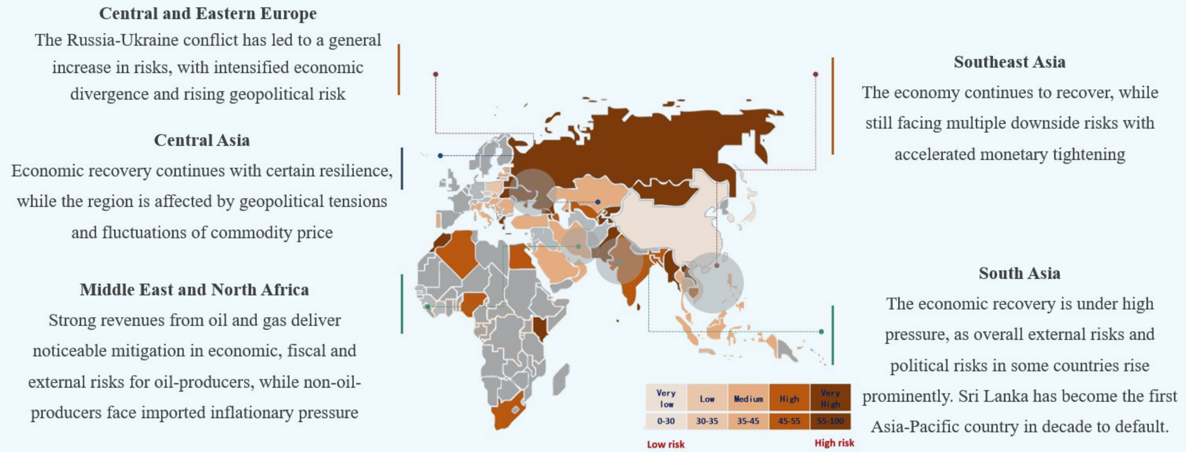
2022 RISK MAP OF COUNTRIES ALONG THE BELT AND ROAD



China Chengxin International Credit Rating Co., Ltd. (hereinafter referred to as "CCXI") hereby launches the Country Risk Report Along the Belt and Road (2022) (hereinafter referred to as "the Report"), following the previous five editions in the years from 2017 to 2021. The Report carries on in providing a professional interpretation of the country risks, covering 60 sovereign countries along the Belt and Road. At the same time, CCXI and China International Contractors Association (CHINCA) joint release the Overview of Risks Facing the Chinese International Contracting Industry in 2022 as a systematic examination and sum-up of the salient risk existing in China's international contracting industry in 2022. While examining and analyzing the major risk the industry is currently faced up in dimensions of macro economy, industry, enterprise, and others, the Overview was compiled after giving in-depth surveys and interviews to over 100 member enterprises. Being timely, comprehensive, and relevant, the Overview is expected to be helpful in effectively identifying, controlling, and dealing with the risks that arise from the process of international contracting business.

Founded in 1992, CCXI is a pioneer in the credit rating business in China, a leading independent third-party credit rating service provider, as well as the Chinese credit rating agency with the longest history, the largest scale, and the highest market share in domestic rating industry, which all gives rise to a sound reputation in the capital market. The business scope of CCXI covers credit rating business and investor service business in domestic and foreign bond markets, green financial assessment and consulting services, credit risk index services, etc. As a professional provider of risk assessment, CCXI has a systematic theoretical basis and ample practical experience in risk assessment of countries along the Belt and Road, international contractors and enterprises.

As of July, 2022, China had signed over 200 Belt and Road Initiative ("BRI") cooperation documents with 149 countries and 32 international organizations. Since the joint effort put in the Belt and Road initiative from countries around, it has been going on for nine years and achieved fruitful results. In a world of unprecedented, accelerated changes, a new round of technological and industrial revolutions has brought the ever-fierce competition, while global issues such as climate change and COVID-19 pandemic containment are reshaping human society. Against the backdrop of an increasingly complicated overseas environment, netting a solid risk control network and effectively identifying country risks along the Belt and Road could contribute to the high-quality implementation of BRI.

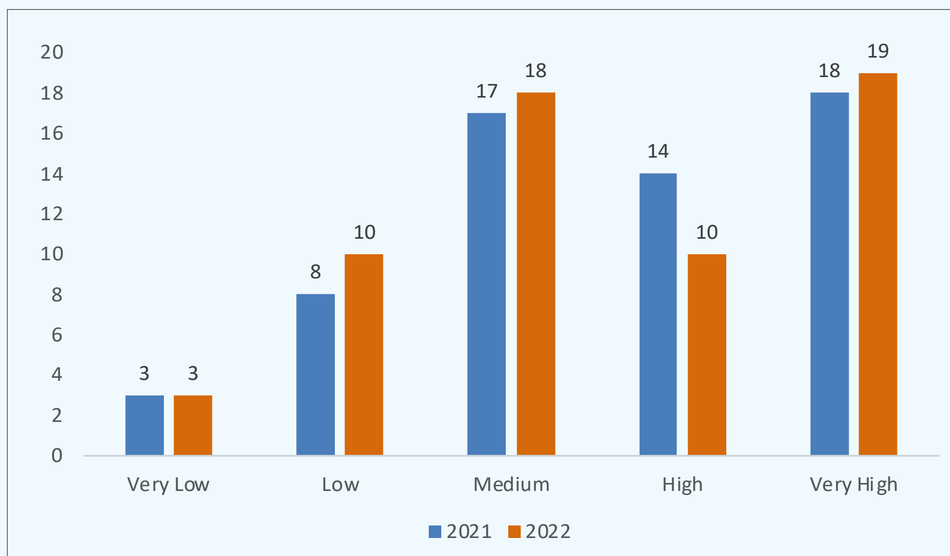
Part I. Risk Performance and Outlook of Countries along the Belt and Road

Overall Risk Performance of Countries along the Belt and Road

In 2022, country risks along the Belt and Road increased as a whole with further divergence among the countries.

In 2022, in the context of the ongoing Russia-Ukraine war and the accelerated tightening of monetary policy, the economic prospects of Ukraine, Belarus and other related countries have deteriorated significantly. Sri Lanka has become the first Asia-Pacific country in decade to default. The rising risk of the low-rated countries has led to the increase of the average risk level of countries along the Belt and Road. Specifically, the average score of country risks rose slightly from 45.74 in 2021 to 46.46 in 2022, with intensified polarization among the countries.

Fig. 1: Distribution of Country Risk Levels of Countries along the Belt and Road (2021 vs. 2022)



In terms of rank distribution, the number of countries with medium or high risk in 2022 drop from 31 in 2021 to 28, accounting for 47% of the total; and the number of countries with high risk levels rose from 18 to 19, accounting for 32%, while the number of countries with low and very low risk levels rose to 13, accounting for 22%, delivering an upward trend as exhibited in 2021. The overall risk scores assigned to the countries along the Belt and Road in 2022 show that developed countries such as Singapore, South Korea, and Japan still render very low country risk, while the overall risks of some emerging and developing countries such as Ukraine, Myanmar, Belarus, Sri Lanka and Kyrgyzstan are prominent.

Compared with last year, the risks of countries in Eastern Europe such as Russia, Ukraine and Belarus have risen significantly with the ongoing military conflict, and the risks of low-rated countries are more prominent.

In 2022, 13 countries saw their risk levels changed compared with 2021, of which 5 countries had a rising risk level and 8 countries had a decreasing risk level. Specifically, Qatar, Kuwait, Saudi Arabia, Vietnam, Oman, Kazakhstan, Algeria and other countries manifested an improved risk profile, while the country risks of Russia, Tajikistan, Slovakia, Estonia and the Czech Republic have increased.

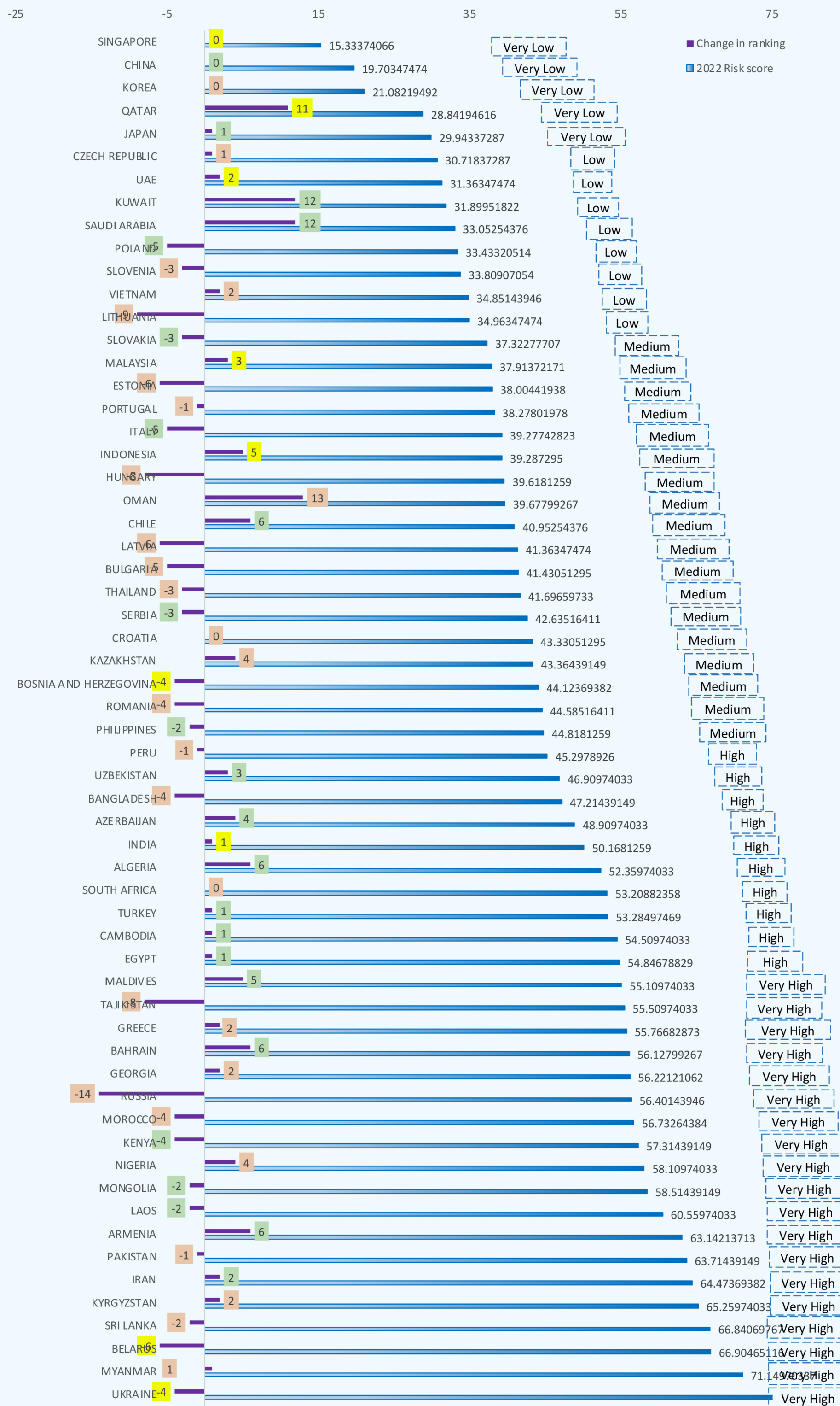
Table 1: Changes in country risk level (2022 vs. 2021)

Country	Risk level in 2021	Risk level in 2022
Qatar	Medium	Very low
Czech Republic	Very low	Low
Kuwait	Medium	Low
Saudi Arabia	Medium	Low
Vietnam	Medium	Low
Slovakia	Low	Medium
Estonia	Low	Medium
Oman	High	Medium
Kazakhstan	High	Medium
Oman	High	Medium
Philippines	Very high	High
Algeria	High	Very high
Tajikistan	High	Very high
Belarus	Medium	Very low
Russia	Very low	Low

Very low	Low	Medium	High	Very High
0-30	30-35	35-45	45-55	55-100

Low risk — High risk

Fig. 1: Distribution of Country Risk Levels of Countries along the Belt and Road (2021 vs. 2022)



Qatar, Kuwait, Saudi Arabia, Kazakhstan and other oil producing and exporting countries have long relied on energy exports for economic growth and public finance. High commodity prices in 2022 help sustain the international trade surplus and fuel the recovery and development of the oil economy. Against such backdrop, these countries managed to see significant improvement in their overall economic environment and alleviation in their fiscal pressure, thus are exposed to notably lower risks as a whole.

Meanwhile, the spillover effect of the Russia-Ukraine conflict has adversely impacted some economies along the Belt and Road, and the economic prospects of Russia and some countries in Central Asia and Eastern Europe have deteriorated significantly. The economies in the center of the war are expected to face a significant economic crisis. It is estimated that the Russian economy could shrink by more than 4% in 2022, while the economies in Eastern Europe, including Ukraine and Belarus, are expected to shrink by 20 to 30%, and their country risks would also rise significantly.

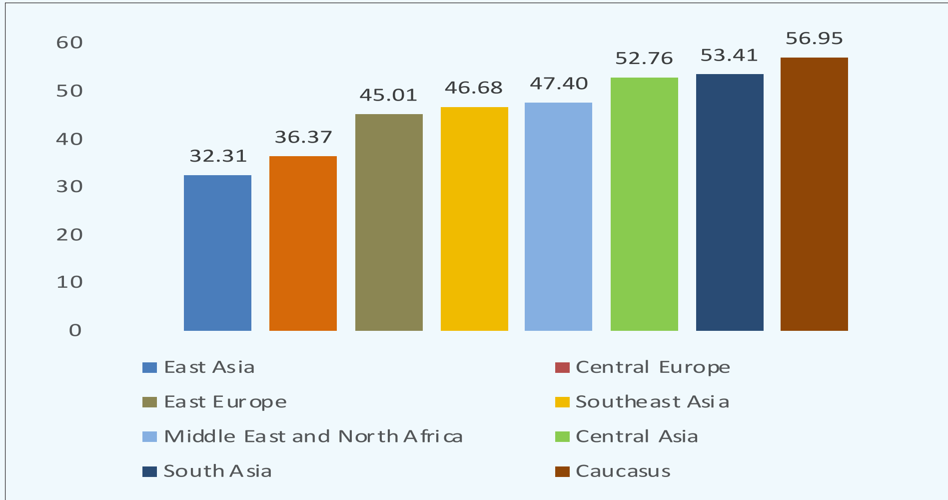
Risk Performance of Regions along the Belt and Road

Among the eight regions along the Belt and Road, the regional risks of Eastern Europe and South Asia have risen significantly, and South Asia poses the highest risk.

Under severe impact of the Russia-Ukraine conflict, the economic and fiscal risks are on the rise, resulting in a deterioration in its regional ranking. Some Eastern European countries with high level of foreign debt, such as Lithuania and Serbia, have significantly higher external risk due to the tightening financing environment and rising inflation pressure. In the context of the continuous military conflict, Ukraine and Belarus fell into deep recession.

In 2022, South Asia also see its overall regional risk rise significantly, posing the highest risk among the eight regions. The region is characterized by rising inflation rate, currency depreciation and foreign exchange reserve losses. Most countries in South Asia have weak economic fundamentals and large external risk exposures. With the spillover effect of the Russia-Ukraine conflict driving up commodity prices, the exchange risk in South Asia is prominent. Against such a backdrop, Sri Lanka has become the first sovereign country to default since the breakout of the conflict, and has fallen into a severe economic crisis. Pakistan's economic and external vulnerability is also on the rise with continuous currency depreciation, and hiking pressure on foreign debt repayment. Meanwhile, Pakistan and Sri Lanka have experienced regime changes and the political environment is unstable.

Fig. 3: 2022 Regional Risk Scores along the Belt and Road



Sub-factor Risks

In 2022, countries along the Belt and Road generally saw some mitigation in their economic and fiscal debt risks, while external risk, banking system risk and political risk remain high.

From a regional perspective, Central Europe and East Asia showed the most balanced risk performance with lower sub-factor risks. The South Asian countries saw their fiscal debt risks remain at the highest level given the huge spending on infrastructure and weak fiscal revenue. The geopolitical environment in South Caucasus is still challenging, and the political risk is the most prominent among the regions. As for banking risk, the banking sector in Central Asian countries continues to deal with the risk of local currency devaluation in the face of high dollarization, thus the banking system risk remains high.

Fig. 4: 2022 Sub-factor Risk Scores of Countries along Belt and Road

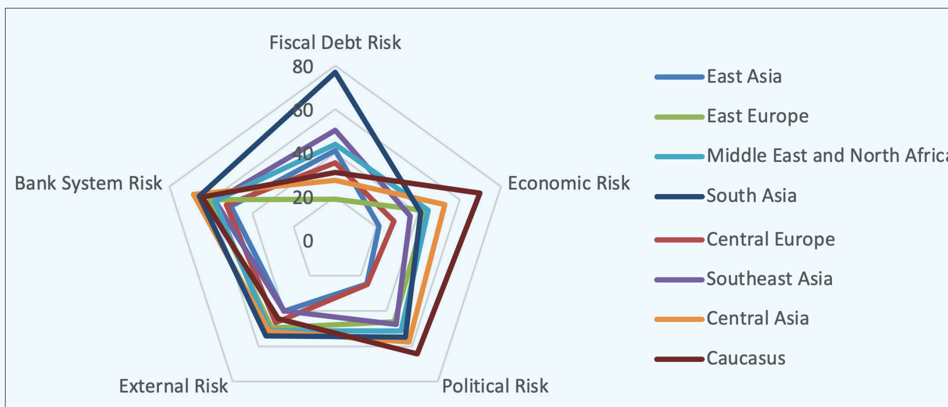
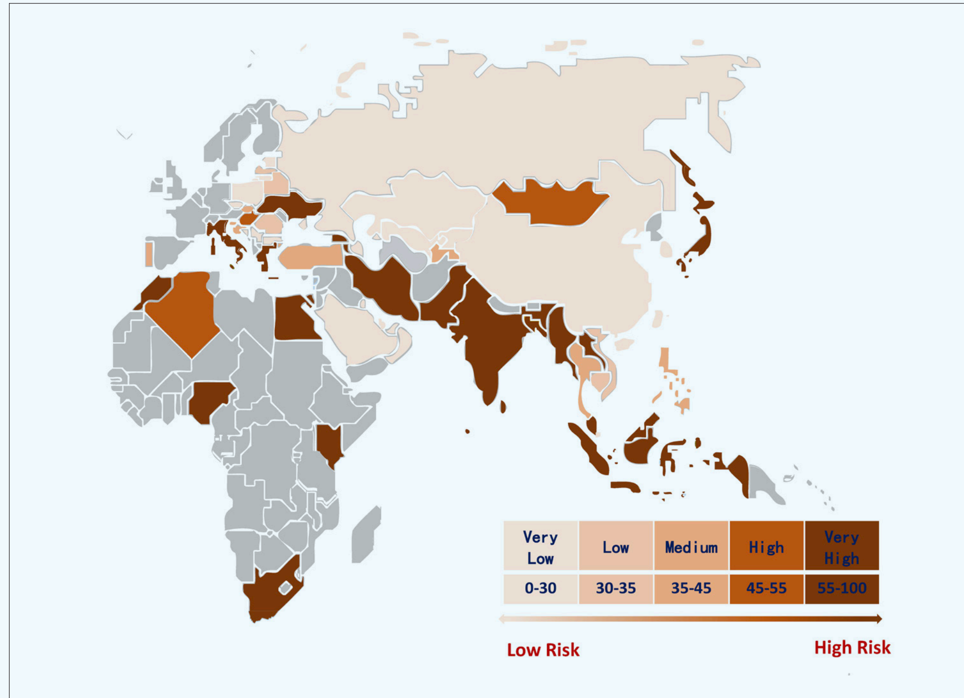
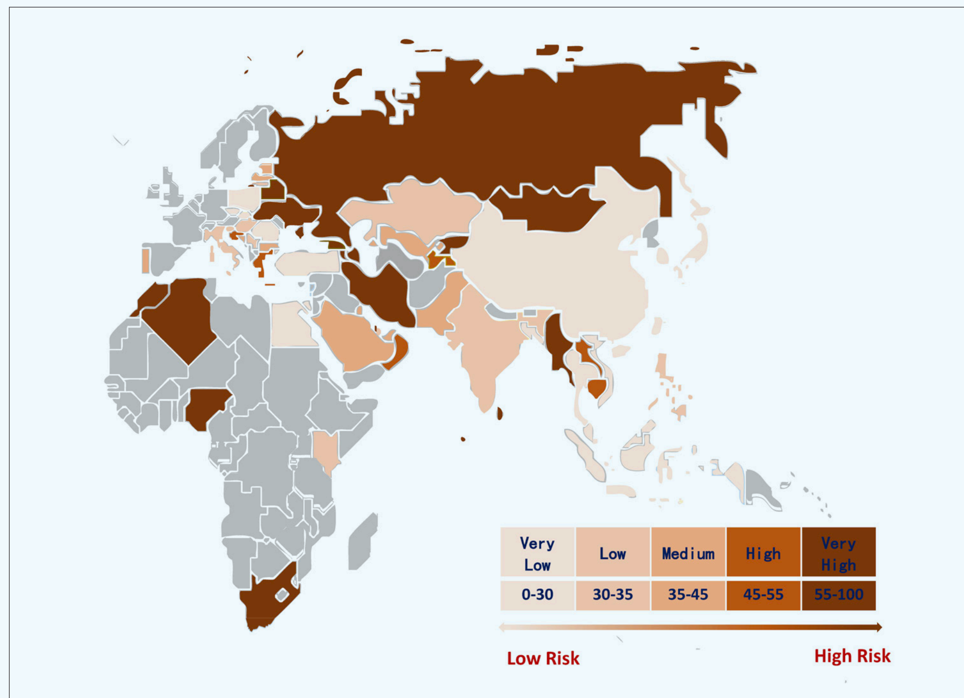


Fig. 5: Distribution of Secondary Factor-based Risk in Countries along the Belt and Road

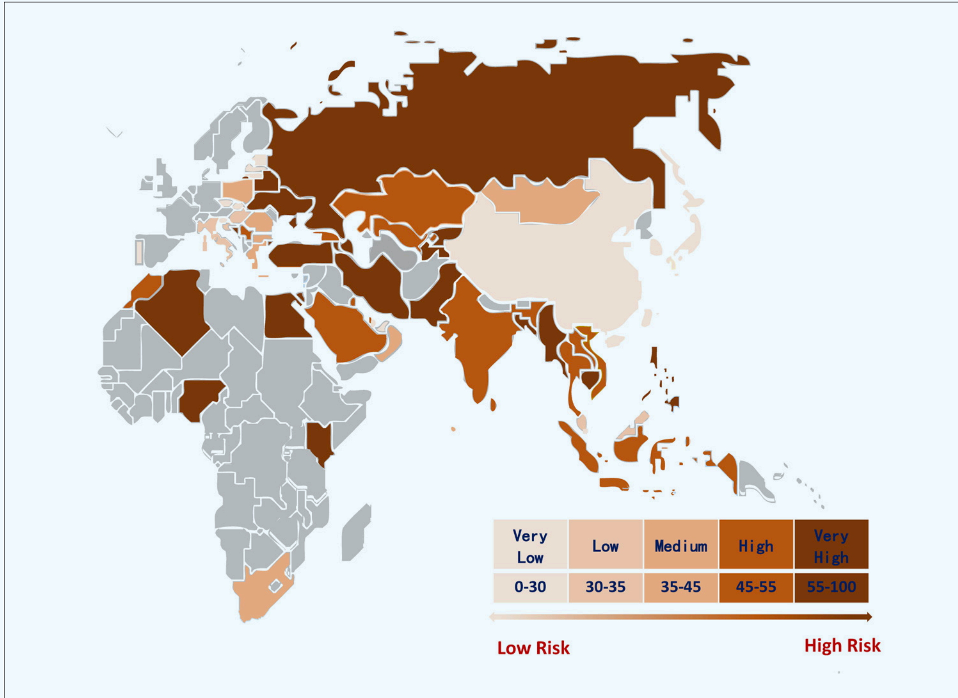
Distribution of Fiscal Debt Risk



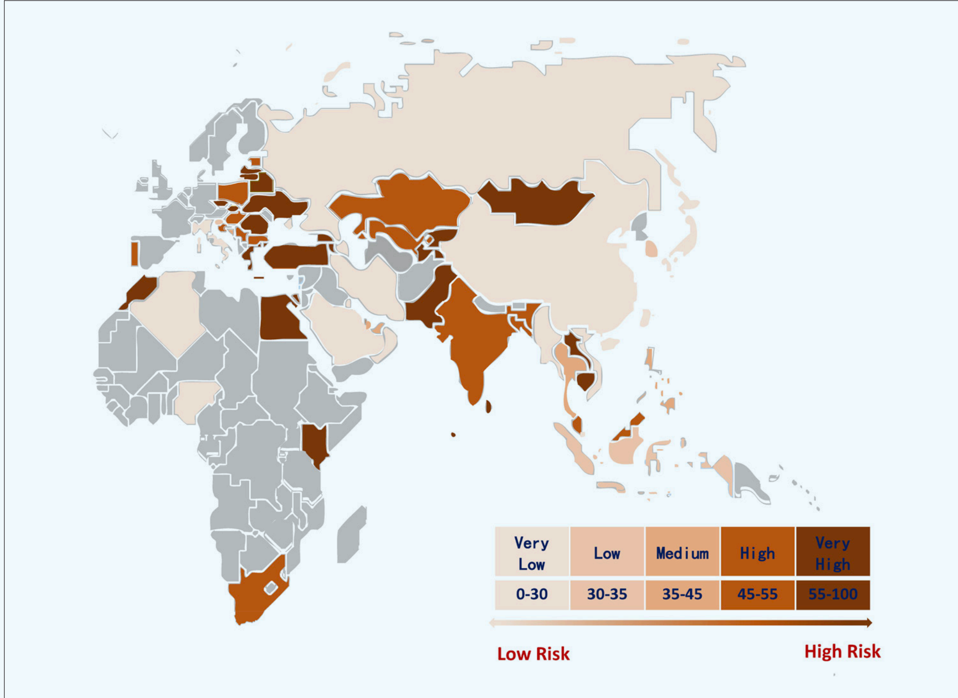
Distribution of Economic Risk



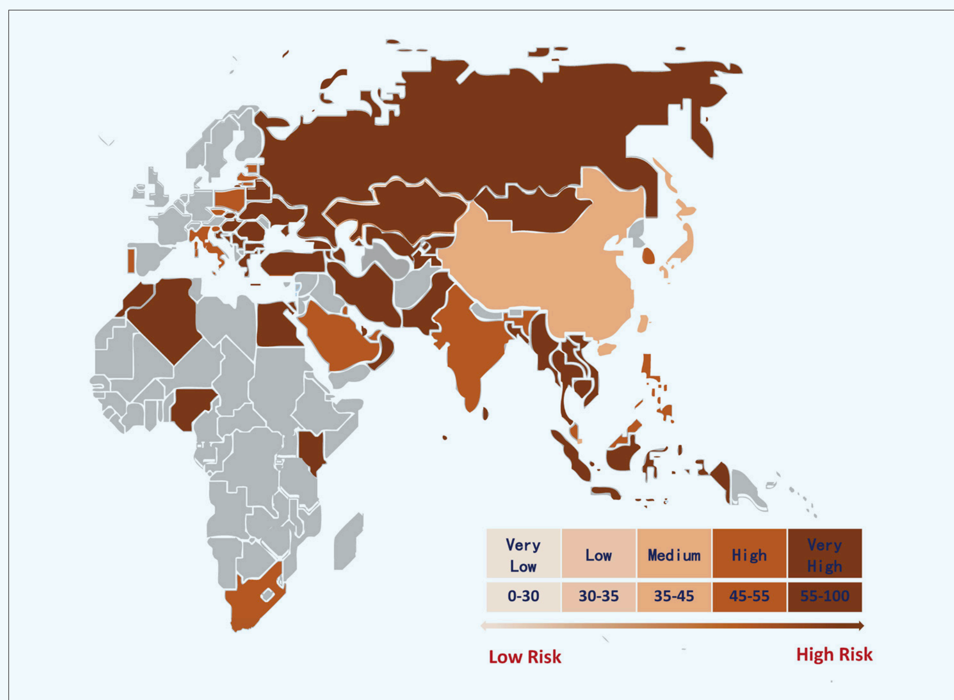
Distribution of Political Risk



Distribution of External risk



Distribution of Banking System Risk



2023 Country Risk Outlook along the Belt and Road

The Russia-Ukraine war and the tightening of monetary policy have a wide range of negative implications on the economies along the Belt and Road, leading to weakening growth prospects and increasing divergence.

The growth expectations of some emerging markets and developing economies (EMDEs) are significantly weakened against the backdrop of the Russia-Ukraine conflict and accelerated monetary tightening. Most EMDEs along the Belt and Road have large population in size and weak institutional governance. The global supply chain crisis is further aggravated by persistent military conflicts and related sanctions. Elevated food and energy prices will intensify social and political risks, weighing on the growth prospect of some EMDEs along the Belt and Road. In the coming period, stabilizing inflation, managing high debt and achieving a soft landing in the midst of multiple uncertainties are critical for most sovereign countries.

The divergence among regions will be further intensified in 2023. The economic growth of South Asian countries has slowed down under the spillover effect of the Russia-Ukraine conflict. In 2023, South Asia will continue to face high external and fiscal risks, while the economic risk may be mitigated with relatively high economic growth rate above 6% in 2023. Central and Eastern Europe

will still be under severe impact of the Russia-Ukraine conflict, rendering very low economic growth, with Russia and Ukraine troubled by economic and social tensions. The economy of Southeast Asian countries continue the route of recovery with an estimated economic growth rate of 5% in 2023. However, due to the tightening of external financing environment, currency devaluation and capital outflow would exacerbate, imposing multiple uncertainties to economic growth. Benefiting from high commodity prices, economic recovery in Central Asia, the Middle East and North Africa could carry on.

Amid the accelerated tightening of the global financing environment, EMDEs along the Belt and Road are generally faced with more severe debt-repayment pressure, especially those with high debt levels and large external financing needs.

Debt burdens in middle-income developing countries are at 30-year high. Compared with developed economies, emerging market countries are faced with severe sovereign debt risks. On May 18, 2022, Sri Lanka defaulted for the first time in its history, and other emerging countries have also been under escalating debt pressure. Tighter financial conditions and economic scarring will push some debt burdens to unsustainable levels, while rising borrowing costs will erode debt affordability. In response to the high inflation and increased pressure from currency depreciation, central banks in some EMDEs have been more aggressive in interest rate hikes. Economic stagnation and rising borrowing costs have posed downward pressure on debt repayment. In this context, EMDEs will see their debt management and access to foreign exchange more challenging, and the possibility for emerging economies to fall into debt crises has risen sharply. So far, about 60% of low-income developing countries have been in debt distress or high-risk plights. Bond spreads has widened significantly, with the tightening of the financing environment for emerging market countries. Countries such as Mongolia, Turkey, Egypt, Sri Lanka, Pakistan, and Argentina will face higher debt repayment pressure in the coming period.

As the Russia-Ukraine war opens a new chapter on the global political landscape, it is necessary to guard against the uncertainty brought by rising political and social risks.

The geopolitical tensions caused by the Russia-Ukraine conflict have posed downside risks in 2022. The competitive cooperation relations between major superpowers worldwide are becoming more complex, against the backdrop of evolving global political landscape. The Russia-Ukraine conflict has directly raised the geopolitical risks faced by Central and Eastern European countries, such as the three Baltic States, Poland, and Moldova. Additionally, the recent frequent changes in the UK Prime Ministers and the resignation of Italian Prime Minister Mario Draghi have also exacerbated the political divisions and uncertainty in Europe. Currently, the Middle East, Central Asia, and the BRICS countries have gained more geopolitical importance and the new political alliances are being shaped. Meanwhile, it is imperative to guard against the possibility of forming “iron curtains” between different global camps.

Geopolitics and potential missteps also fuel political instability and social risks. The Russia-Ukraine conflict are adding to the regional instability in Central Asia, South Asia, and the Middle East. Political instability, coupled with a rise in food and energy prices, may lead to greater internal governance uncertainties. Countries that are unable to contain inflationary pressures could face significant political and social instability. Sovereigns with weak social safety nets and constrained fiscal space are facing greater difficulty mitigating social risks.

Given the increasingly significant impact of environmental, social, and governance (ESG) risk on the global economy, implementing a green BRI could help the countries transform and upgrade the economic structure.

The impact of ESG factors on a country's economy and finance is on the rise. At present, the global ecological environment challenges are becoming increasingly serious, and the impact on low-income countries is more prominent. Frequent occurrence of natural disasters will directly affect economic performance and financial conditions. As the world faces ever-severe environmental challenges, putting efforts into building a green and low-carbon economy has become a new consensus for all countries. Relying on international cooperation platforms such as the Green Alliance, strengthening cooperation and guidance, exploring green innovation, and promoting mutual benefit and sharing will help deepen cooperation on the Green Silk Road, which is also a key area of the Belt and Road cooperation.

In particular, many countries along the Belt and Road have complex geographical conditions and fragile ecological environment, and most developing countries rely on the extensive economic growth to promote the industrialization process, which is characterized by heavy resource consumption, sluggish development of green investment and financial system. In addition, they generally lack the top-level design of green development. The green BRI incorporates a wide range of fields such as circular economy, energy conservation and emission reduction, clean energy use, development of new and renewable energies, and digital transformation into the scope of BRI cooperation. Promoting green infrastructure construction will not just help reduce carbon emissions, but also add momentum to economic growth for countries along the Belt and Road. At the same time, with the promotion of the long-term development mechanism of green finance, the green investment structure will be further optimized, giving full play to the role of financial empowerment, and helping the sustainable development under the BRI.

Part II. Risk Distribution along the Belt and Road

Central Europe: Rising country risks due to the Russia-Ukraine conflict

Fig. 6: 2022 Country Risk Map of Central Europe along the Belt and Road

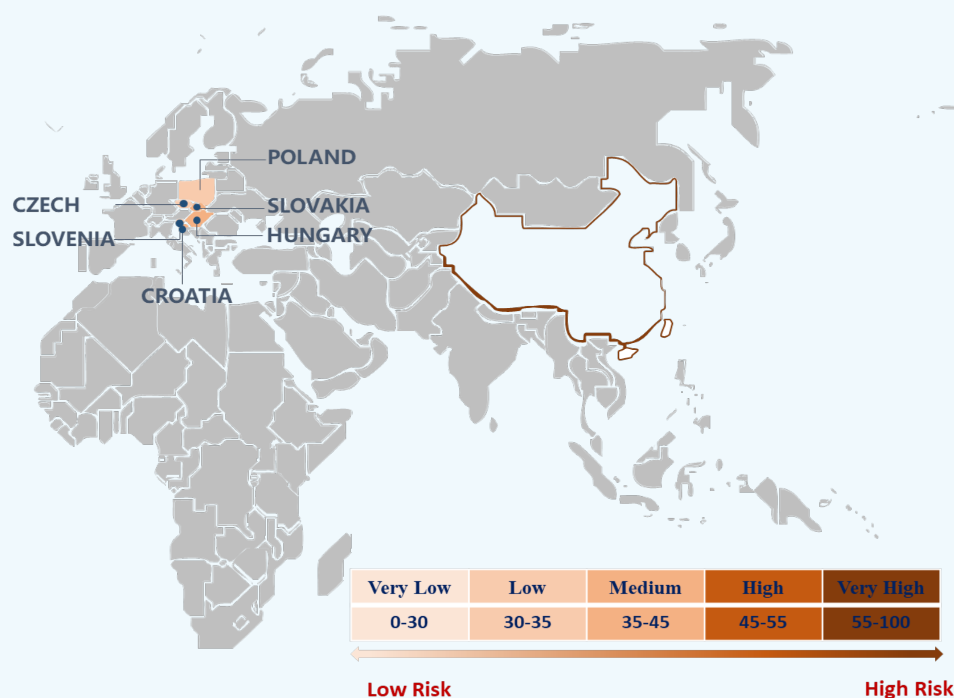


Table 2：Country risk distribution of Central Europe in 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Czech Republic	30.72	28.33	23.71	20.00	56.67	48.54
Poland	33.43	26.67	15.70	38.00	53.33	53.24
Slovenia	33.81	40.00	32.02	27.83	33.33	48.54
Slovakia	37.32	36.67	29.36	29.33	60.00	52.13
Hungary	39.62	46.67	33.02	31.67	53.33	52.13
Croatia	43.33	36.67	48.33	34.50	46.67	59.81
Central Europe	36.37	35.83	30.36	30.22	50.56	52.40

Being the hub connecting Western Europe, Eastern Europe and the Middle East, Central Europe locates at the end of the "Belt and Road" and is the necessary route of the Eurasian land passage. Central European countries generally have strong economic strength and stable development path, making them stand out amongst regions for investment along the "Belt and Road". With profound industrial tradition, Central Europe enjoys advanced industry level than countries with the same income level. Benefiting from the EU integration process, the region has undertaken the industrial transfer from developed countries in Western Europe in recent years, while EU's economy has significant impact on their development. In terms of the overall risk level, country risk in this region remain relatively low despite that the Russia-Ukraine Conflict has introduced some extra risks. The Czech Republic, Poland and Slovenia are low-risk countries along the "Belt and Road", with the Czech Republic having the lowest-risk in this area. Country risks in Slovakia, Hungary and Croatia are higher than that of the previous three countries and are medium-risk countries along the "Belt and Road".

In 2022, country risks in Central Europe generally escalates given the Russia-Ukraine Conflict, among which Poland has been hit more severely. The Conflict impedes the economic rebound in Central Europe and raises economic risks. The Conflict has pushed up the inflation rate above 10% recently, while commodity prices, service prices and energy prices are all on the rise. In order to curb inflation, the European Central Bank, the Central Bank of Poland, the Central Bank of Hungary, etc. have all raised interest rates. Combined with high inflation, tighter monetary policy have dampened consumer and investor confidence, which led to the decline in purchasing power and domestic demand in Central Europe. The slowdown of important trading partners, such as Germany and Italy, will also affect the overall economic growth of this region. The economic growth of Central Europe in 2022 is expected to be much lower than that in 2021 and previous forecast. Meanwhile, the Conflict has reshaped the current geopolitical pattern in Europe, elevating the geopolitical risks in Central Europe. Neighboring Ukraine, Poland faces significantly heightened geopolitical risks since it would be a main recipient of refugees. Likewise, the soaring energy price has hurt the current account balance of Central European countries, intensifying external risks.

Looking ahead to 2023, risks in the Central Europe will be still clouded with strong uncertainty, while Croatia's accession to the Eurozone would help reduce country risk. At present, the ongoing Russia-Ukraine Conflict continue to dampen consumer and investor confidence and thus the economy in Central Europe. Also, the impact of interest rate hikes is expected to be further manifested in 2023, and the growth rate of Central Europe would carry on the trend of slowdown. At the same time, policies such as tax cuts and subsidies may persist in order to cope with inflation, which will curb fiscal balance. High interest rates will push up government interest expenses, which could affect the fiscal strength. Given the generally sound economic fundamentals, Central Europe still has strong economic resilience, which underpins the current country risk level. Meanwhile, Croatia - which has relatively weak industrial strength in the area - will be supported by the rebound in tourism. In addition, Croatia's accession to the Eurozone on January 1, 2023 will be conducive to the stability of its exchange rate and the expansion of financing channels, and thereby dwindle the risks faced by this country.

Figure 7: 2020-2023 Economic growth rate in Central Europe (%)

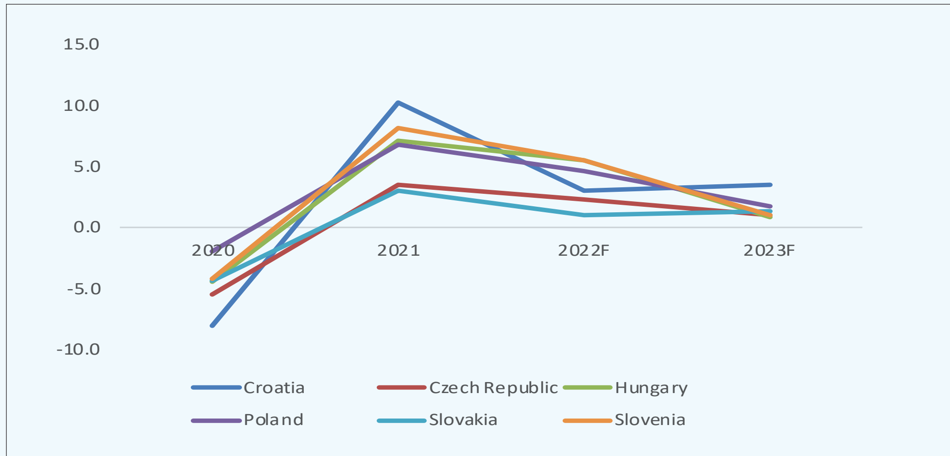


Figure 8: 2019-2022 CPI growth rate in Central Europe (%)

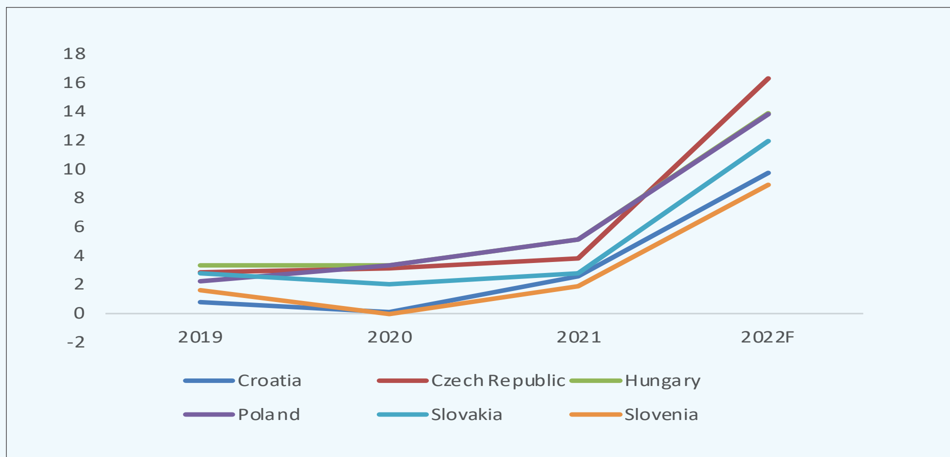
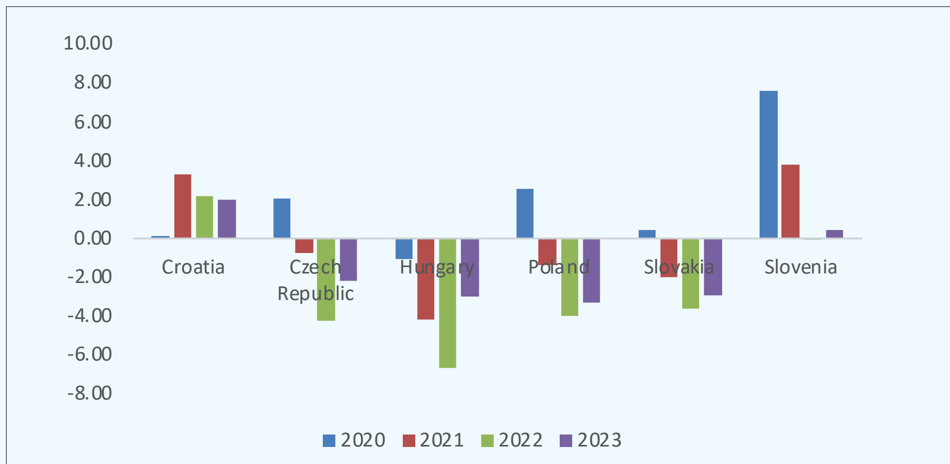


Figure 9: 2020-2023 Central European Current Account Balance/GDP (%)



Eastern Europe: Growing economic divergence and rising geopolitical risks

Figure 10: Country Risk Map for Eastern Europe in 2022

Table 3: Country risk distribution of Eastern Europe in 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Lithuania	34.96	28.33	30.67	26.00	56.67	52.13
Estonia	38.00	21.67	44.67	30.00	50.00	48.54
Latvia	41.36	31.67	45.00	29.67	60.00	52.13
Russia	56.40	23.33	65.00	76.67	26.67	64.01
Bulgaria	41.43	23.33	44.67	36.83	50.00	59.81
Romania	44.59	35.00	29.35	41.83	80.00	59.81
Serbia	42.64	26.67	32.68	51.17	50.00	59.81
Bosnia and Herzegovina	44.12	6.67	38.68	62.17	40.00	68.69
Belarus	66.90	35.00	67.02	75.17	76.67	75.00
Ukraine	76.12	58.33	82.33	79.33	80.00	68.69
Eastern Europe	48.65	29.00	48.01	50.88	57.00	60.86

Eastern Europe, which connects the well-developed Central and Western Europe and Russia, functions as an important entrance to the EU Market and holds the geographical advantage by connecting the East with the West. There are also differences within Eastern Europe: the three Baltic States, namely Estonian, Lithuanian and Latvian, as well as Bulgarian and Romanian are EU member states; Russia, Ukraine and Belarus used belong to the Commonwealth of Independent States; and Serbia and Bosnia and Herzegovina were part of Yugoslavia. The Eastern European countries generally boast abundant natural resources, developed agriculture, and time-honored industrial traditions, therefore, the industry capacity outperforms that of other countries with a comparable income. The industrial and geographic advantages allow Eastern Europe to serve as a regional pivot along the Belt and Road. In terms of the country risk profile, Lithuania is at the low risk level; Estonian, Latvian, Bulgarian, Romanian, Serbian and Bosnian countries are at medium risk along the "Belt and Road"; Belarus, Russia and Ukraine are high-risk countries.

In 2022, the region's overall risks were generally going upwards and at worse levels within the "Belt and Road" range. The economies of the countries directly affected by the war in Eastern Europe are expected to suffer the most severe recessions, but the effects varied due to different national endowments and economic structures. The economies of Eastern Europe, including Ukraine, Belarus and Moldova, which are directly affected by the Russian-Ukrainian conflict, are expected to contract by 20% to 30%. With the recovery of the Ukrainian economy expected to remain highly uncertain, the normalization of business operations and business activities still needs a long time to recover, and the recovery will be very slow due to the strengthening of consumer demand and the large-scale stagnation of industrial production. Besides, affected by the massive influx of refugees, rising commodity prices and the impact of deteriorating confidence on demand, some neighboring countries also faced a certain degree of downside risk. The economic growth of Eastern European countries, including Bulgaria, Croatia, Hungary, Poland and Romania, will decline to 2-3%. At the same time, most of the Eastern European economies, which are heavily dependent on energy imports, will be broadly affected by rising and volatile price of European gas and oil, leading to a generally higher inflation risk. Countries such as the Latvian, Lithuanian and Estonian Baltic States, which import a large share of Russian gas, oil and other energies, are expected to have inflation rate above 10% for 2022 and economic growth will drop to 1-2%.

Looking ahead to 2023, the recovery of Eastern European countries is full of uncertainties, and downside risks still persist. Benefiting from the restoration in domestic demand and higher energy prices, the Russian economy will show a sustained recovery, which can drive the growth of the Belarusian economy to a certain extent. However, there is uncertainty about the growth of the Russian economy, considering the enormous geopolitical challenges under the Russia-Ukraine War. Belarus will continue to be affected by the geopolitical turmoil of the Russia-Ukraine War, and its economic growth may continue to slow down. Ukraine's economic development will still face a high degree of uncertainty risk, and country risk may continue to be at a high level. Affected by the disruption of logistics and production, and the forced large-scale population migration under the impact of the war, it will take a long time for the economy to recover, production and investment to resume normal operation conditions. The economic prospect may continue to stagnate, and the country's risk may remain at a high level. Rising and volatile gas and oil prices in Europe will continue to affect Eastern European economies, which are heavily dependent on external energy. As commodity prices rise and global supply chains tighten, the Baltic States' inflation levels will rise significantly and the fiscal deficit rate may continue to rise with the continuation of the fiscal stimulus, fiscal risks could rise further.

Figure 11: Economic Growth Rate in Eastern Europe (%), 2016-2022

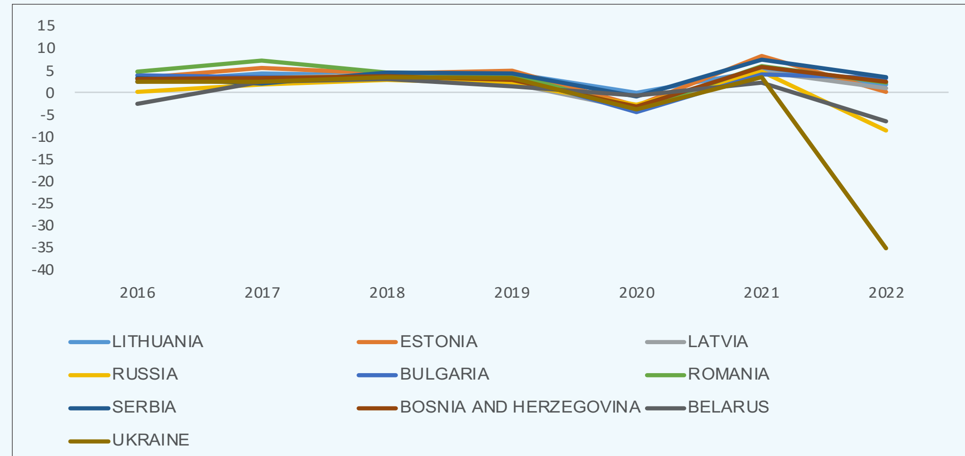


Figure 12: CPI Growth Rate (%) in Eastern Europe, 2016-2022

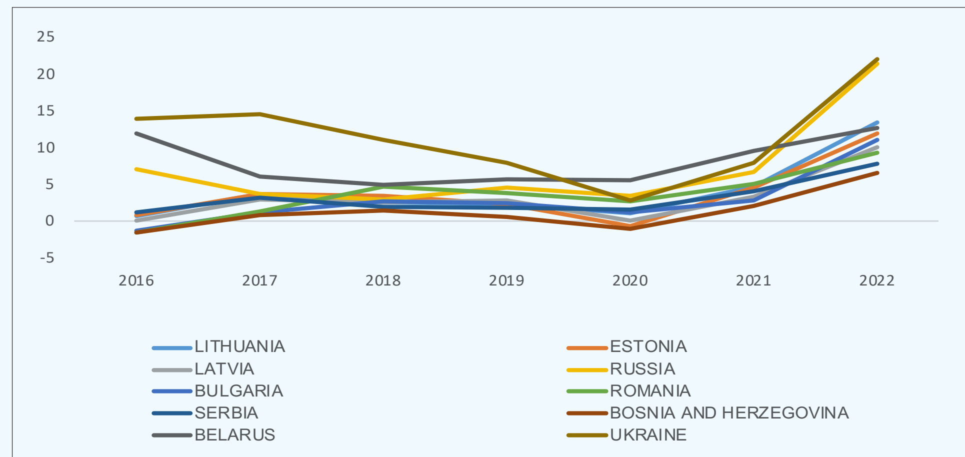


Figure 13: Fiscal Deficit Ratio (%) in Eastern European, 2016-2022

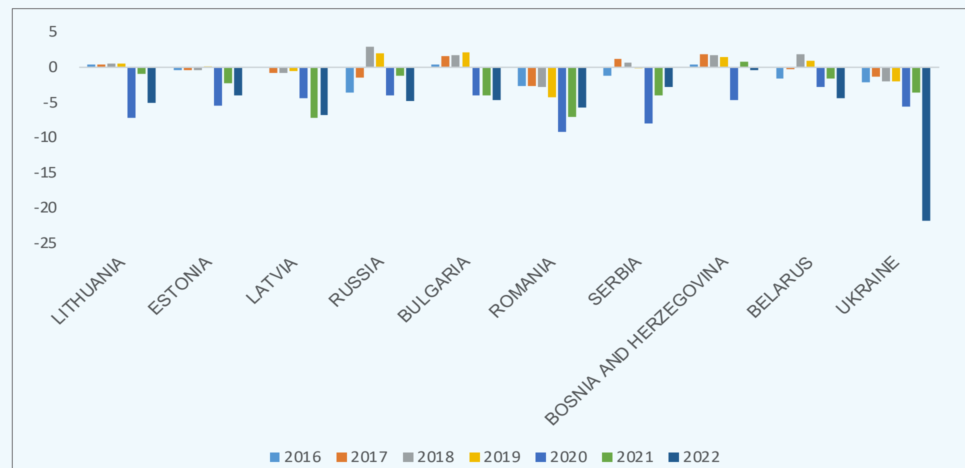


Figure 14: General Government Debt/GDP (%) in Eastern Europe, 2016-2022

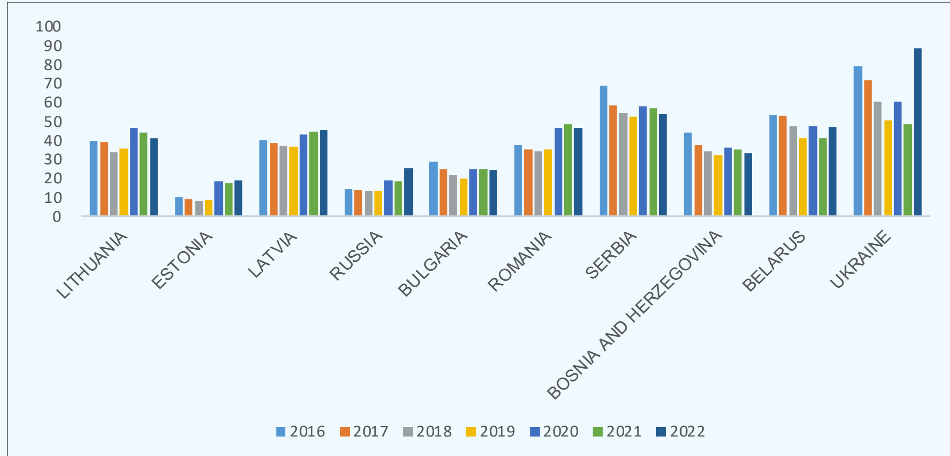


Figure 15: Eastern Europe's current account balance/GDP (%), 2016-2022

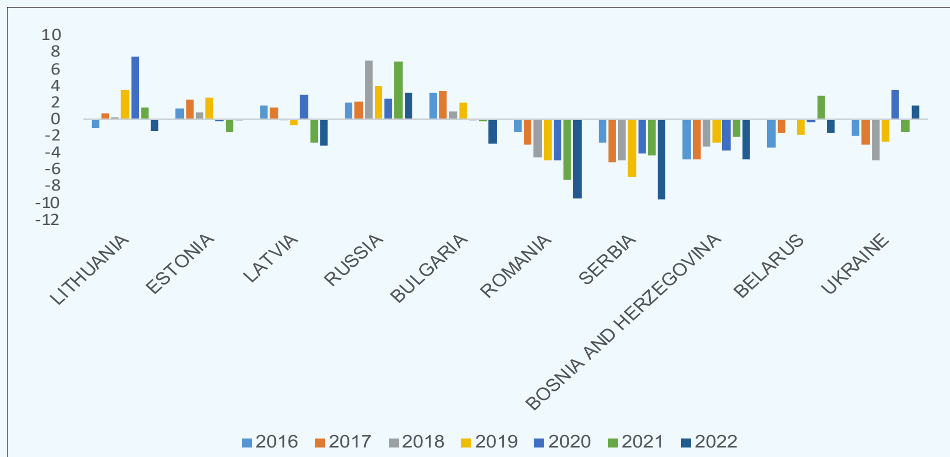
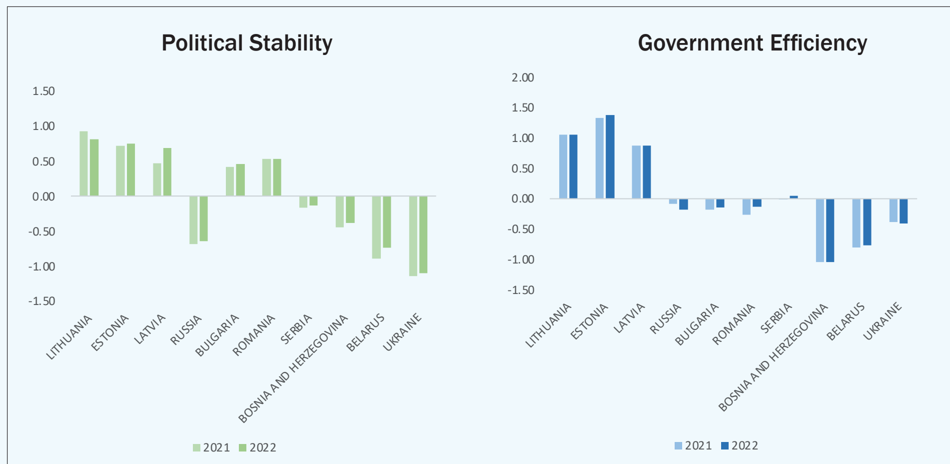


Figure 16: Political performance in Eastern Europe, 2021-2022



Southeast Asia: Continuous economic recovery while downside risks persist

Fig. 17: Country Risk Map for Southeast Asia in 2022

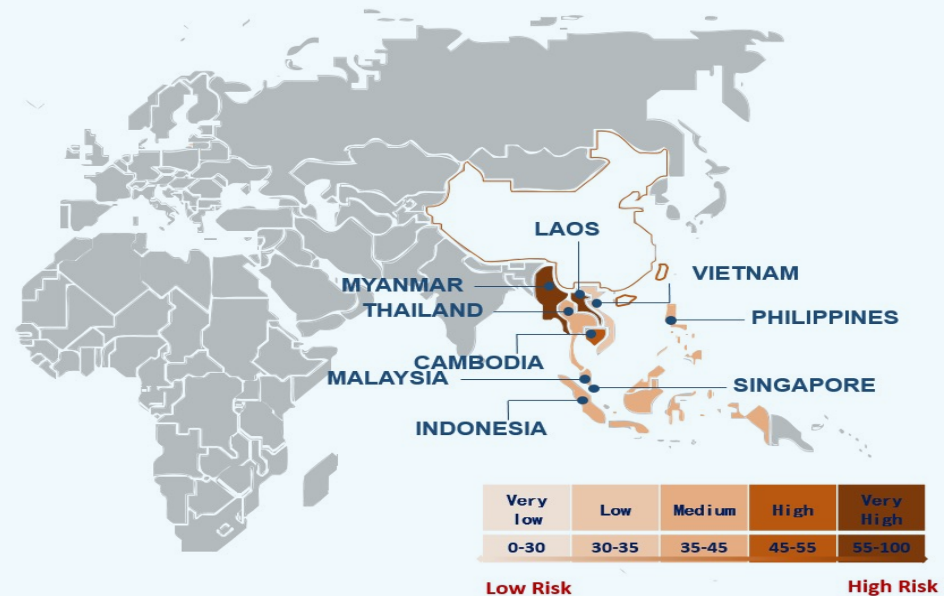


Table 4: Country risk distribution of Southeast Asia in 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Singapore	15.33	18.33	12.05	6.00	20.00	41.70
Vietnam	34.85	33.33	14.67	50.17	26.67	64.01
Malaysia	37.91	71.67	18.03	33.00	46.67	48.54
Indonesia	39.29	58.33	21.33	45.17	33.33	55.87
Thailand	41.70	40.00	28.36	52.00	40.00	55.87
Philippines	44.82	41.67	33.68	55.83	43.33	52.13
Cambodia	54.51	33.33	52.64	57.83	63.33	68.69
Laos	60.56	66.67	53.64	53.67	76.67	68.69
Myanmar	71.15	68.89	85.64	80.33	26.67	70.26
Southeast Asia	44.46	48.02	35.56	48.22	41.85	58.42

Southeast Asia is located at the crossroads between Asia and Oceania, and between the Indian Ocean and the Pacific Ocean. It is a region that has a close relation with China since ancient times, with frequent trade contacts and much cultural similarity. This region functions as an important hub of the 21st Century Maritime Silk Road and also a major magnet of strategic investment along the Belt and Road. In terms of country risk, Singapore remains at a very low level; Vietnam proves to be one of low-risk countries;

Malaysia, Indonesia, Thailand and the Philippines fit under the category of medium-risk countries; Cambodia is grouped into high-risk countries; Laos and Myanmar have high risks in each sub-category and belong to the highest-risk countries along the Belt and Road.

In 2022, the overall risk in Southeast Asia was similar to that in 2021. Southeast Asian countries continued to recover as domestic output stabilized and demand accelerated, while encountering elevated external risks. Driven by the global economic recovery and the gradual relaxation of epidemic prevention measures, domestic demand has gradually recovered and manufacturing output has stabilized. The economies of the countries in the region continue to recover. Besides Myanmar, Laos and Cambodia, other countries largely returned to pre-pandemic economic growth levels. Supported by supply chain diversification and foreign investment, production and business activities of enterprises in Singapore and Vietnam have returned to normal. The rise of tourism and service output have underpinned the economic recovery of Thailand and Malaysia. Benefiting from rising palm oil, coal and natural gas prices, Indonesia maintained the resilience of its foreign exchange reserves and was able to fund the government's subsidy program. As a result, Indonesia's exposure to both fiscal and external risks declined. Since 2022, rising commodity prices have pushed up inflation in the region, and monetary policies have tightened in various countries. As of September 2022, inflation in countries has reached levels above 4%, with food and energy prices rising significantly. Within the region, Malaysia and the Philippines rose most sharply and the current account deteriorated. Under the context of the Fed's interest rate hike, currencies other than the Indonesian Rupee have depreciated for two consecutive quarters. The Lao Kip, Philippine Peso and Thai Baht depreciated sharply, putting pressure on the balance of payments and raising external risks. The external financing environment has tightened since 2022, and the risk of capital outflow from Southeast Asian countries has intensified. Fiscal and external risks to heavily indebted countries such as Laos have further increased. In addition, while Myanmar's industrial and service sectors showed improvements, political risk remains high and economic growth is still weak amid political instability.

Looking ahead to 2023, the outlook for economic recovery in Southeast Asia is optimistic, while facing multiple downside risks. Manufacturing and services output of Southeast Asian countries will continue to increase as tourist arrivals pick up, with regional economic growth expected to be 5.1% in 2023. Economic growth in the Philippines, Indonesia and Malaysia will be between 4- 6%; Vietnam's status as a global supply chain logistics center has been strengthened, and the economic growth prospects are more optimistic; tourism booms in Cambodia and Thailand; nevertheless, due to the political instability, uncertainties clouds the outlook of Myanmar’s economic recovery. Inflation risks remain in Southeast Asia due to the input effects of rising energy prices and rice prices, and the overall inflation rate in the region will be expected to reach 3.4% in 2023. In terms of external risks, although currencies are under depreciation pressure, currency crises are less likely to occur under flexible monetary and exchange rate policies and macro prudential management. Risks continue concentrated in small and medium-sized economies such as Laos and Cambodia. As most countries in the region are export-oriented, high prices of upstream raw materials such as commodities and supply chains disrupted by the Russia-Ukraine conflict have increased the vulnerability of Southeast Asian economies. Also, slower growth in the world's major economies will disrupt manufacturing and export sectors of the region. Considering the aspect of fiscal risks, in addition to the heavily indebted country Laos which is facing elevated refinancing risks, economic activity in Singapore, Indonesia and Thailand have gradually recovered, and tax revenues have rebounded. Fiscal risks will be eased as large-scale stimulus fiscal policy withdraws and the budget shifts to help low- and middle-income households offset cost-of-living inflationary pressures. Overall, Singapore will remain relatively low country risk; Vietnam's country risk will below, and its development will continue to improve. Malaysia, Thailand, Indonesia, Thailand and the Philippines will probably maintain their country risk at a medium level. Cambodia, Myanmar, and Laos will still need to deal with their relatively high country risk.

Fig. 18: Economic Growth Rate in Southeast Asia (%), 2016-2022

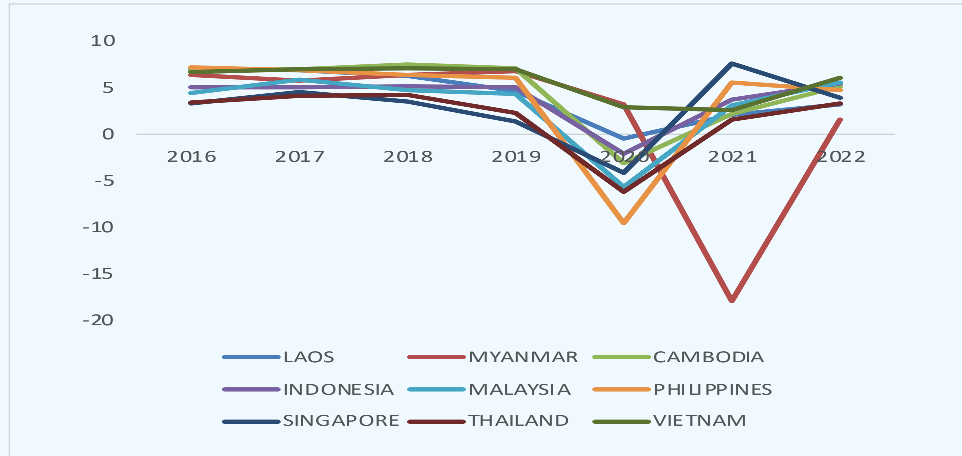


Fig. 19: CPI Growth Rate (%) in Southeast Asia, 2016-2022

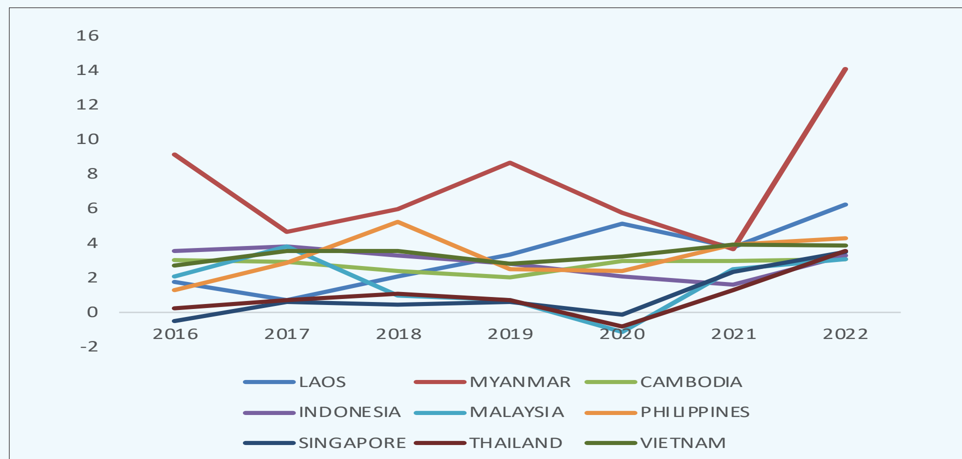


Fig. 20: Fiscal deficit ratio in Southeast Asia, 2016-2022

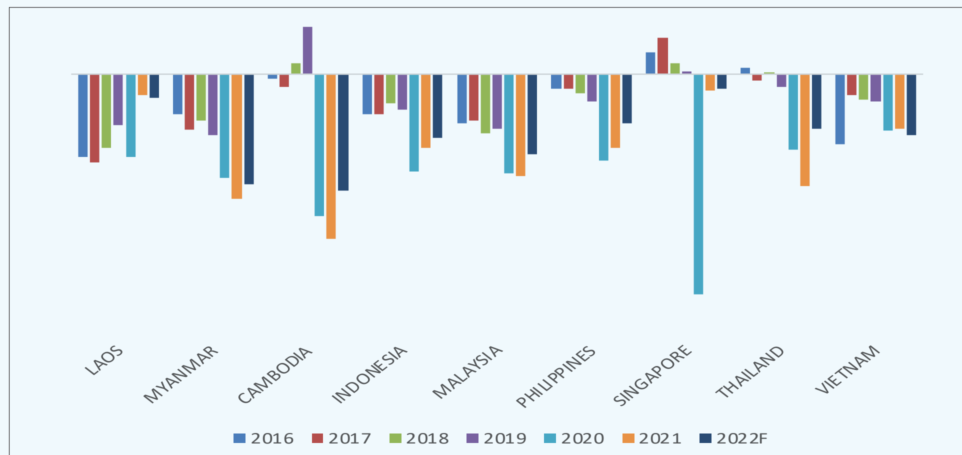


Fig. 21: General Government Debt/GDP (%) in Southeast Asia, 2016-2022

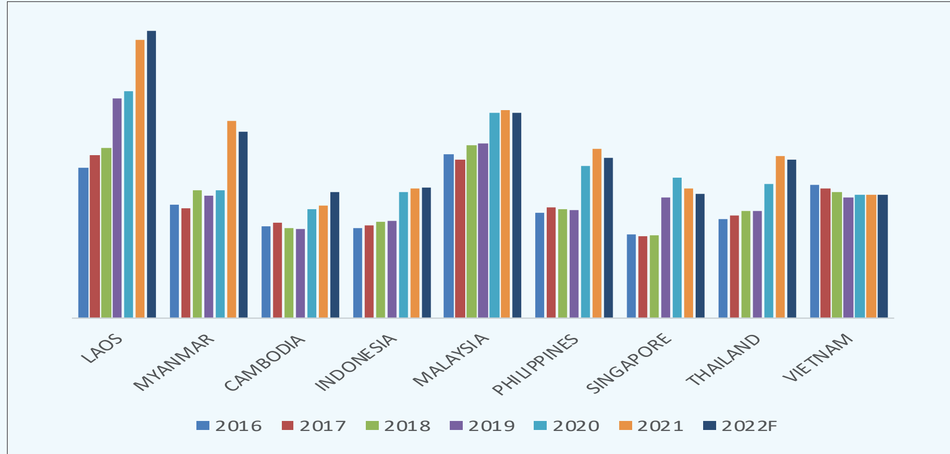


Fig. 22: Southeast Asia's current account balance/GDP (%), 2016-2022

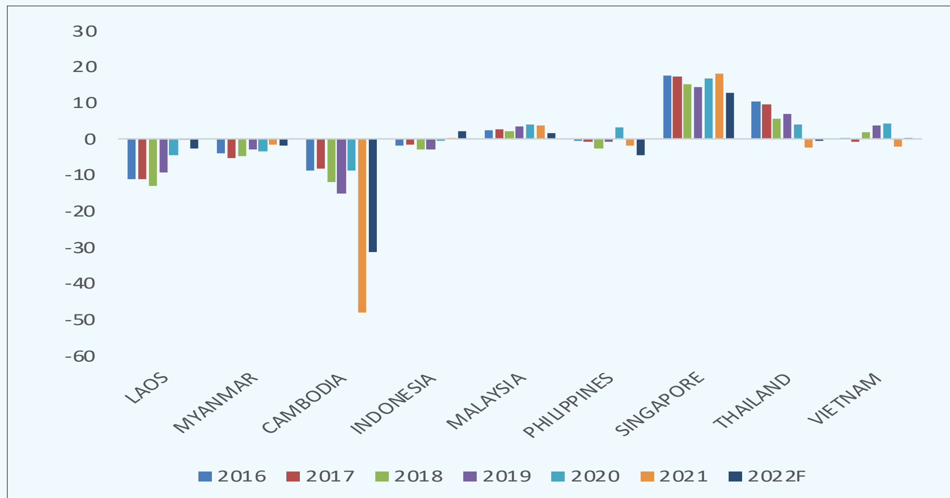
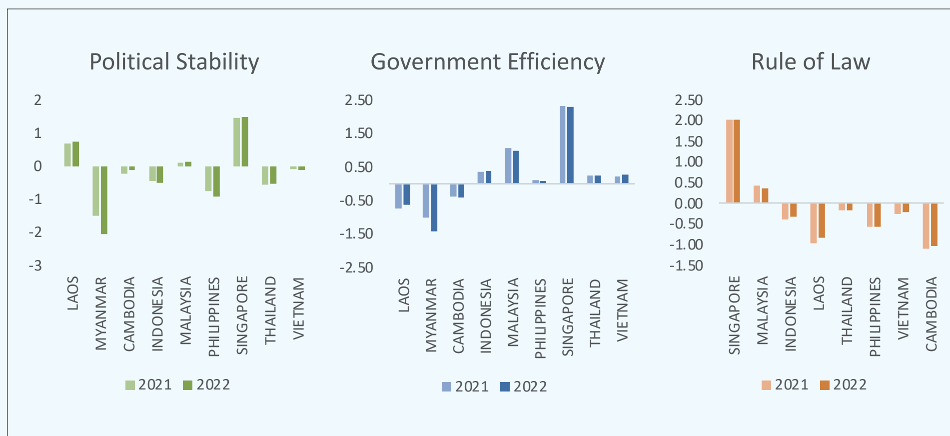


Fig 23: Political performance in Southeast Asia 2021-2022



South Asia: Economic recovery under pressure with prominent external and political risks

Figure 24: Country Risk Map of South Asia Region in 2022

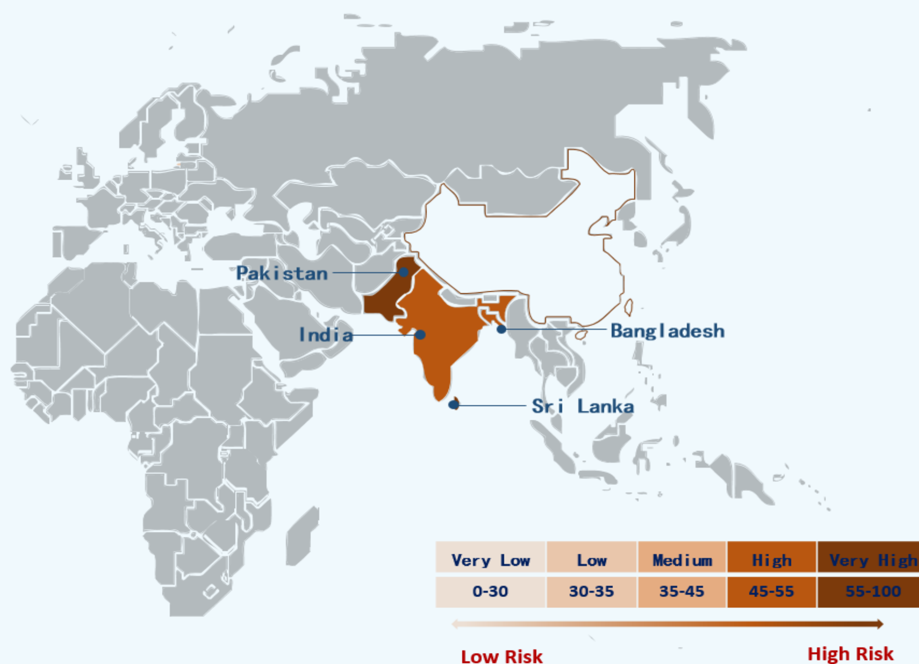


Table 5: Country Risk Distribution in South Asia for the Year 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Bangladesh	47.21	65.00	20.65	56.33	50.00	68.69
India	50.17	80.00	32.68	53.83	46.67	52.13
Maldives	55.11	73.33	55.64	40.17	56.67	68.69
Pakistan	63.71	85.00	37.65	71.00	76.67	68.69
Sri Lanka	66.84	90.00	64.97	47.83	80.00	75.00
South Asia	56.61	78.67	42.32	53.83	62.00	66.64

South Asia region serves as the relay stations and land-sea interface in China's One Belt One Road blueprint. Two of the corridors runs through the region – the Bangladesh-China-India-Myanmar economic corridor and the China-Pakistan economic corridor. With its critical geographical position, abundant human resources and vast market space, the region enjoys enormous potentials along the Belt and Road. However, it is also a region that features high country risks. Within the region, Bangladesh and India has

high overall country risks, whereas Maldives, Pakistan and Sri Lanka's country risks are listed as very high. From the perspective of sub-factors, it is clear that economic indicators are the main supporting factors, for South Asian economies tend to be large in size with quite robust growth potentials; the fiscal risks are universally prominent throughout the region; external risks are constantly at high levels on account of the countries' quite high dependencies on imports; geopolitical risks in the region, such as the India-Pakistan conflict, have been around for a long time, yet still containable; the banking sector is posing no obvious threats right now but will require further observations.

In 2022, South Asian countries saw their economic recovery under pressure, as overall external risks and political risks in some countries rise prominently; Sri Lanka became the first country to default in the wake of Russian-Ukrainian conflict. Against the backdrop of the Russian-Ukrainian conflict and a stronger dollar, elevated inflation and currency depreciation, as well as dwindling foreign reserves have become a common theme for South Asian countries. Central banks maintained tight monetary policies throughout the year to curb inflation, putting the economies in the region under significant pressure. Overall, the region saw a growing divergence of risk performance in this year.

For **Bangladesh,** import demands of certain major trading partners were significantly affected by geopolitical factors, and its impact on Bangladesh's export and economy as a whole is expected to materialize in fiscal year 2023[1]. In the meantime, the country's external risks rose significantly as high import prices and weak exports exacerbated the decline in its foreign reserves. India has a large and diversified economy with robust growth potential and a favorable debt structure. So despite constantly elevated debt burden, **India** enjoys the lowest external and banking system risks within the region. Even with RBI stepping up its effort to curb inflation, putting downward pressure on its economy, India is expected to record a very high real GDP at about 7% for the year 2022. As India's economy recovers, the government will see fiscal risk ameliorate as fiscal deficits mitigates and external risk remains relatively low, even with a widening current account deficit. The recovery of the **Maldives's** tourism sector in 2022 has been better than expected, effectively supporting the country's economic recovery. Its real GDP growth is expected to exceed 8% and inflation remain at around 3.3% for the year 2022. Nevertheless, the government's fiscal imbalance deteriorated during the year. The fiscal deficit is expected to exceed the original budget at the beginning of the year by around 11.7% of GDP, leaving less and less policies rooms for the government.

Pakistan's economic recovery was in good shape during the first half of 2022. Yet external risks were elevating and the balance of payments crisis surfaced again. The second half of 2022 featured the worst floods in Pakistan's history, with preliminary estimates putting the cost at nearly one tenth of the country's GDP. Overall, Pakistan's real GDP growth is down to about 3.5% for the year 2022. An inflation rate over 20% hit hard on its citizens' daily life, as well as the country's currency and foreign reserve. Even with IMF's newest financing, Pakistan's foreign reserve is still struggling to cover two months of import, and its external risk is quite acute. To make things worse, economic downturns exacerbated social and political turmoil: In April 2022, Imran Khan became the first prime minister in the country's history to be removed from office, and since then, the ousted party have repeatedly pressed the new government and called for an earlier election, which is scheduled for October, 2023. Currently, the political stability in Pakistan is still facing tremendous uncertainty. **Sri Lanka** plunged into a full-blown economic crisis, external repayment crisis, sovereign debt crisis and political crisis in the year 2022. In May, Sri Lanka declared world's first

[1] Bangladesh's fiscal year ends on 30 June.

sovereign default in the wake of the economic repercussions of the Russian-Ukrainian conflict, which is also the country's first sovereign default since its independence from the UK in 1948; In July, the Mahinda Rajapaksa government stepped down and the former Prime Minister Ranil Wickremesinghe was reelected. The economy of Sri Lanka was hit hard in 2022. Its real GDP is to contract about 9%, its inflation to rise to about 60%, and exchange rate to depreciate about 80% over the year. For the whole region, real GDP growth is expected to be around 6.5% in 2022.

Looking into 2023, economic risks are tilting to the downside, as external and fiscal risks expected to remain high for the region as a whole; for some countries, political stability could improve. After the Black Swan events in 2022, the region is expected to see further economic recovery in 2023, despite that monetary policy will continue to tighten. **Bangladesh's** real GDP will slow to about 5.5% in fiscal year 2023, on account of inflationary pressures, falling remittances and slowing export growth. Plus, policies introduced in August, 2022, cutting fuel subsidies by half, is another downward pressure on the economy, which will put further pressure on household consumption. Although the risks posed by **India's** high debt burden and weak debt capacity will remain, the country's large domestic financing base, relatively strong external position and more than-expected resilience of the domestic financial system, will safeguard economic recovery in 2023, against the backdrop of a challenging global economic situation. India is expected to maintain a high GDP growth rate of around 6.5%, and the positive economic outlook will help mitigate the country's fiscal and external risks. **Maldivian** economy will recover further and its real GDP is expected to grow by more than 10%. Maldives' fiscal and external risks are expected to remain prominent, and the potential turmoil in global financial markets would have a very significant impact on the country's debt affordability. Reconstruction efforts in the wake of the floods will further strain **Pakistan** government's financial strength. At the same time, external risks will remain high, and political uncertainty will be an issue until the next election, which could compound the government's difficulties in securing sufficient financing to meet its needs. Currently, the government of **Sri Lanka** is negotiating with the IMF to push through a $2.9 bn rescue package and to start a debt restructuring around June next year. Sri Lanka's economy is expected to pick up in the second half of 2023, but its real GDP will still contract by about 4% for the whole year. For the region as a whole, in 2023, the real GDP growth is expected to stay at about 6.5% and inflation is to moderate, while the region's overall risk remains high, with external risk and fiscal risk still elevated.

Figure 25: 2016-2022 regional economic growth in South Asia (%)

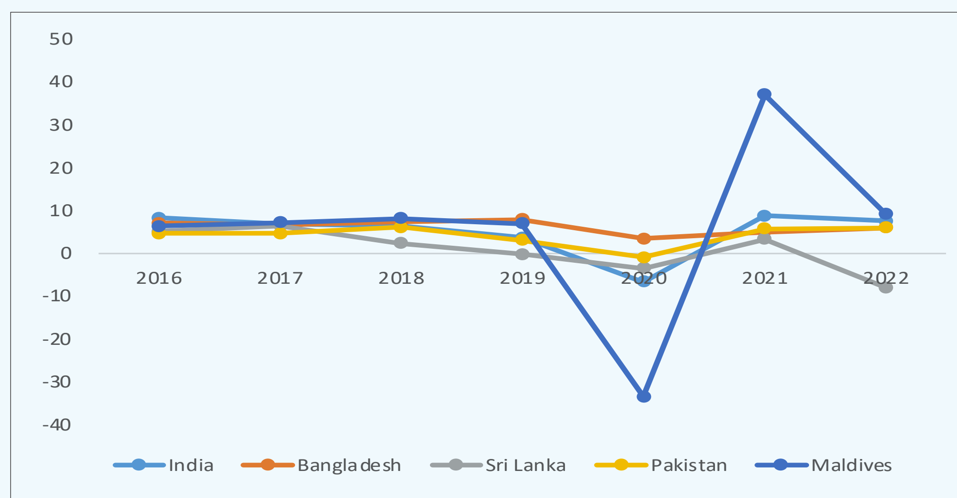


Figure 26: 2016-2022 CPI growth rate in South Asian (%)

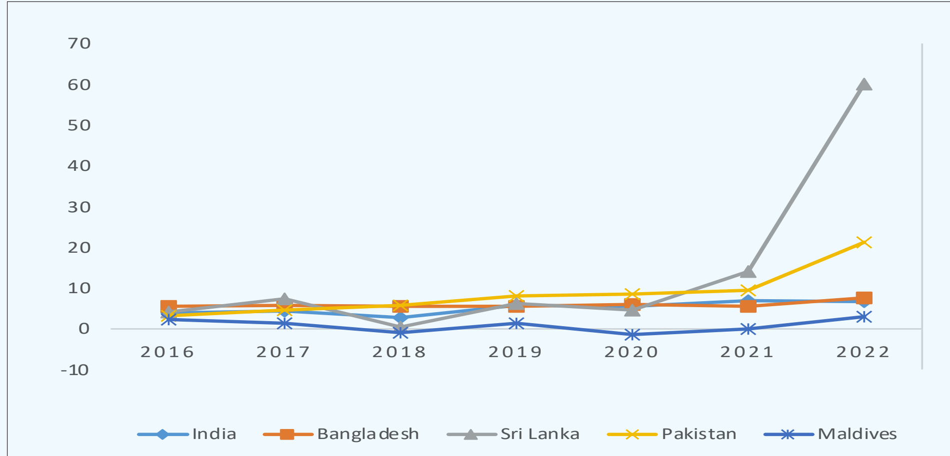


Figure 27: 2016-2022 fiscal deficit rates in South Asia

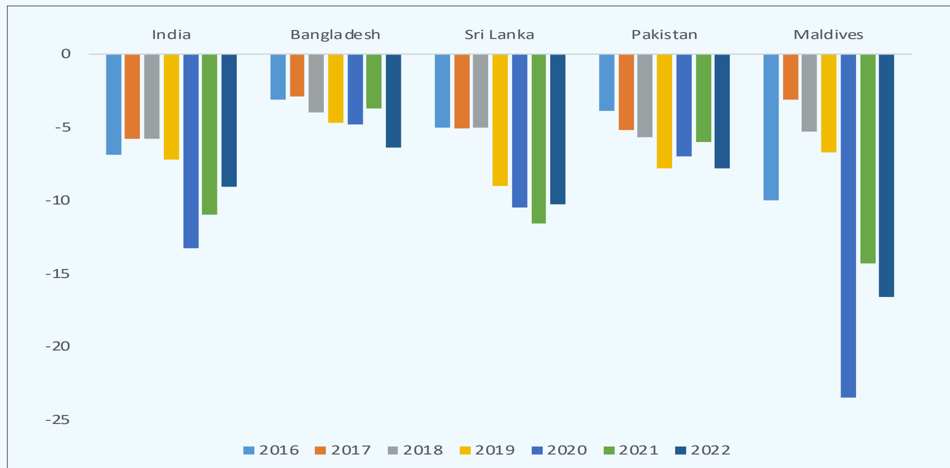


Figure 28: 2016-2022 General Government debt/GDP (%) in South Asia

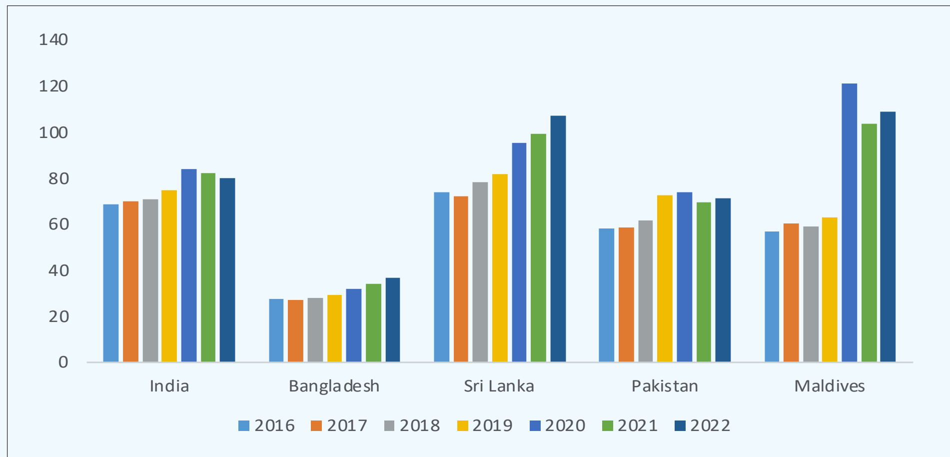


Figure 29: 2016-2022 Current Account Balance/GDP in South Asian (%)

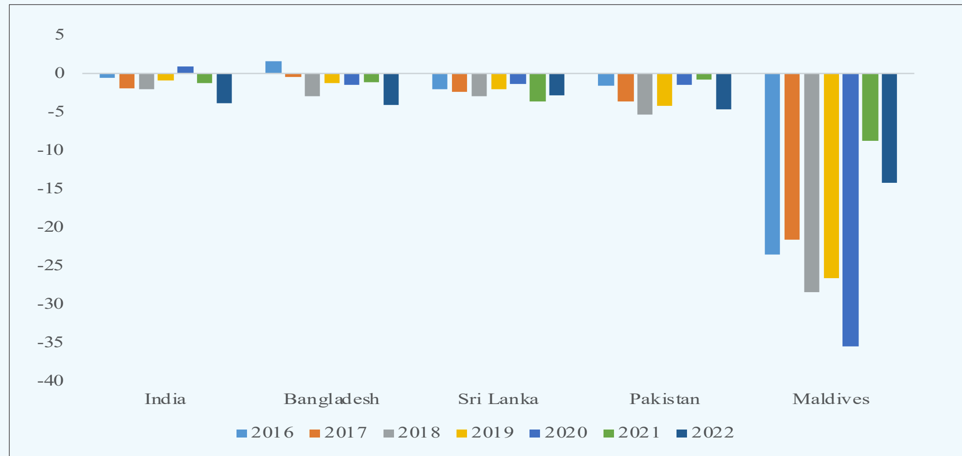


Figure 30: 2016-2022 exchange rate movements in selected South Asian countries

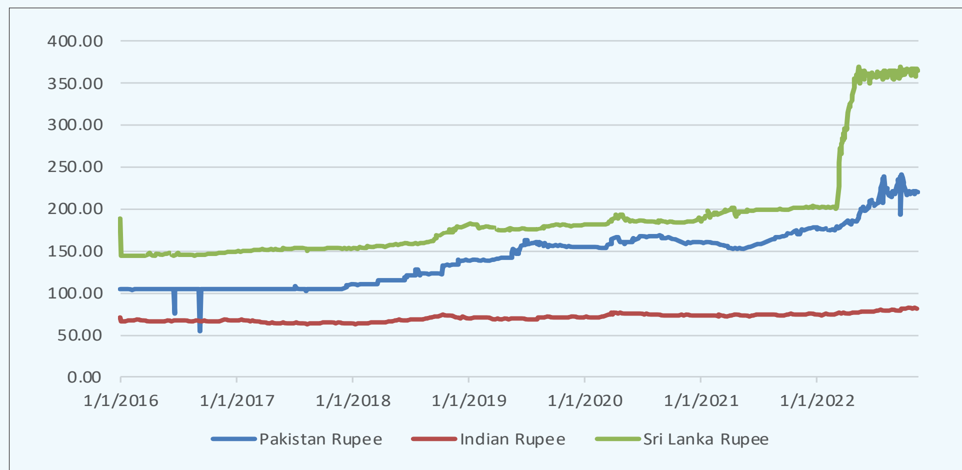
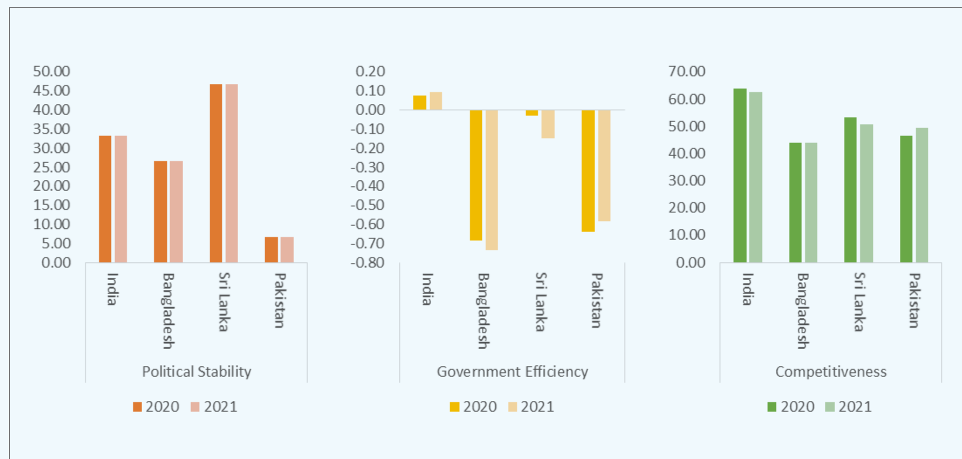


Figure 31: 2021-2022 political performance in South Asia



Central Asia: Steady recovery given the weakening spillover effect of the Russia-Ukraine conflict

Fig. 32: Central Asia Country Risk Map 2022

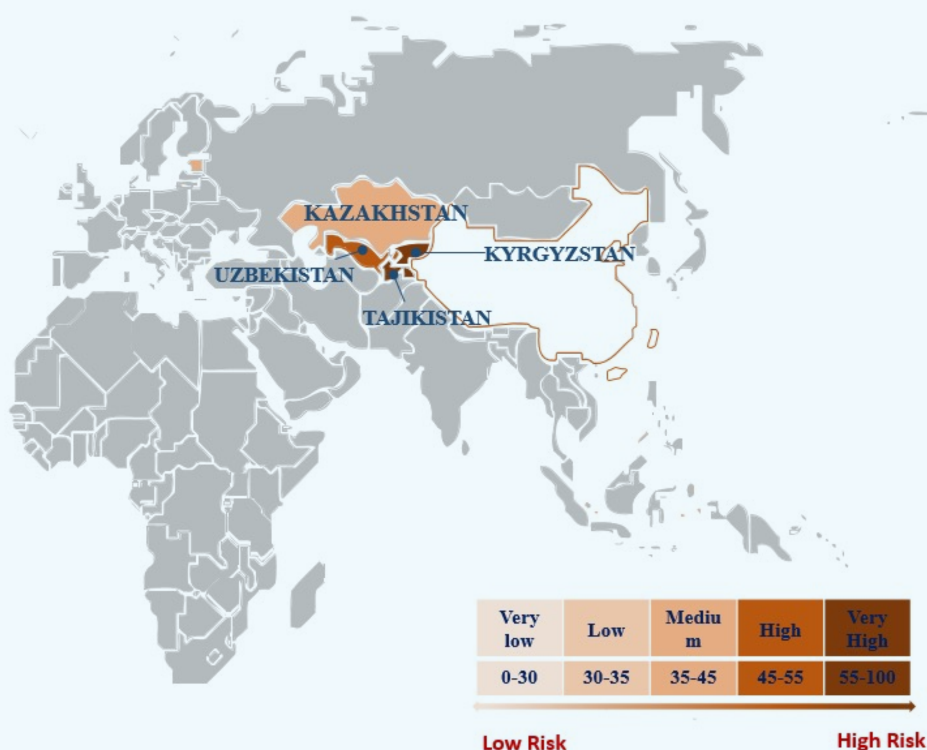


Table 6. Country risk distribution of Central Asia in 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Kyrgyzstan	65.26	28.33	83.97	61.50	70.00	68.69
Uzbekistan	46.91	21.67	42.64	55.00	50.00	68.69
Kazakhstan	43.36	25.00	32.98	51.17	50.00	68.69
Tajikistan	55.51	38.33	45.30	64.33	66.67	68.69
Central Asia	52.76	28.33	51.22	58.00	59.17	68.69

Over the past decade, driven by factors such as resource exports and foreign direct investment, Central Asian countries have generally achieved rapid growth. However, there emerges some defects in their development mode, such as the strong state footprint, the remarkable resource-oriented feature, dependence on foreign labor remittances and preferential loans, as well as limited institutional capacity. Currently, the increasingly complex gaming among the great powers has led to evident geopolitical risks in Central Asia, while the severe energy and food shortage on a global scale has further enhanced the strategic importance of this region. In order to improve the investment environment and to boost economy, Central Asian countries have continued to promote structural reforms in recent years. Their overall country risk remains at a "high" level in 2022, among which Kyrgyzstan and Tajikistan has "very high" country risk, Uzbekistan has "high" country risk, and Kazakhstan renders "medium" country risk, the lowest level in this region.

In 2022, the overall risk in Central Asia has remained flat as compared with 2021. Countries in this area has generally demonstrated some resilience to the spillover effect of the conflict and manage to show steady recovery in economy. While some countries see eased fiscal risks, they still face prominent risks in banking and political sector. As to risk performance in the economic sector, the smaller-than-expected shrinkage in the Russian economy has enabled solid demand for migrant workers, while strong remittance inflows from foreign workers and the appreciation of the rouble have boosted consumption in countries such as Kyrgyzstan. At the same time, higher commodity prices have contributed to strong export growth in Kazakhstan and Uzbekistan. Yet, consumption in all countries got somewhat curbed by high inflation. In terms of fiscal risk, the fiscal deficit ratio of Kazakhstan and Uzbekistan are expected to narrow slightly, given the support of gold, oil and gas export revenues. However, Kyrgyzstan and Tajikistan could see their fiscal deficit ratio on the rise given the ongoing financial support measures. These two countries' fiscal debt risk is still under control given that the majority of debt is concessional loan, with relatively long maturity and low debt-servicing costs. In terms of external risk, Kyrgyzstan and Tajikistan, as net energy importers, face greater pressure in the balance of payments given the higher demand and price in imports. However, their foreign currency reserve can still meet certain import coverage and external debt servicing requirements[2]. Geopolitical risks in this region stem largely from the Russia-Ukraine Conflict, which has potentially far-reaching implications, notwithstanding the near-term resilience as demonstrated by the performance of the regional economy. In addition, this region continues to face security threats from Afghanistan, while the border dispute between Kyrgyzstan and Tajikistan lingers. Lessened risks around mineral extraction joined by the resolution of disputes concerning the ownership of the Kumtor Mine bode for broader prospects for gold investment in Kyrgyzstan, helping boost foreign direct investment in this country. Yet, the uncertain domestic political environment may still have an impact on foreign investor sentiment.

[2] According to the report of IMF International Financial Statistics, Tajikistan's foreign currency reserve excluding gold increased from US $2.3 billion at the end of 2021 to US $3.1 billion as of August 2022, which is still sufficient to meet next year’s external debt servicing requirements; as of June 2022, Kyrgyzstan's FX reserve buffer can make about eight months of import coverage.

Looking ahead to 2023, the obscure evolvement of the Russia-Ukraine conflict joined by the slowdown of global economic growth continue to cloud this region's prospect, yet high commodity prices and advancing structural reforms in various countries underpin the overall performance, while the country risk in Central Asia would remain at the level of "high". The price outlook for commodity prices in 2023 remaining high, and the ongoing economic and institutional reforms are expected to further attract investment, this region is expected to carry on the route of economic recovery. However, the unpredictable resolution of the conflict has increased the uncertainty in foreign labor remittances, regional investment and domestic output level in Central Asian countries. Kazakhstan particularly would incur serious economic and financial losses if the CPC is under long term suspension. In terms of fiscal debt risk, the fiscal consolidation of Kazakhstan, Kyrgyzstan and Tajikistan is expected to proceed in an orderly manner given the growth of nominal GDP, the increase in mining revenue and the support of relevant government measures to raise taxes, and their fiscal deficit ratio may narrow slightly. As for banking system risk, the Central Asian countries are characterized by the highly dollarized banking sector and the foreign currency-dominated debt mix, which makes them vulnerable to local currency depreciation. Furthermore, the shift in monetary policy given various inflationary expectations may add to the pressure for local currency depreciation and push up the banking system risk. In terms of political risk, the dynamism of the international relations in 2022 have strengthened the momentum of regional integration in Central Asia, and countries have paid more attention to the integration in regional trade and investment. However, the protracted conflict and the complex geopolitical patterns may have a structural impact on the potential growth in Central Asia. At the same time, the political situation in Afghanistan remains uncertain, which could weaken the growth prospects of Central Asian countries if the spillover risks of terrorist activities along the border increases.

Fig. 33: Economic Growth Rate in Central Asia (%), 2016-2022

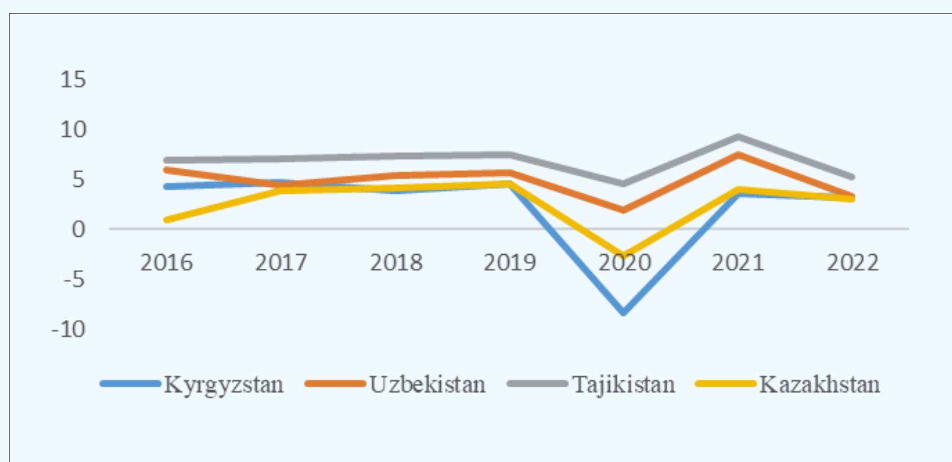


Fig. 34: CPI Growth Rate (%) in Central Asia, 2016-2022

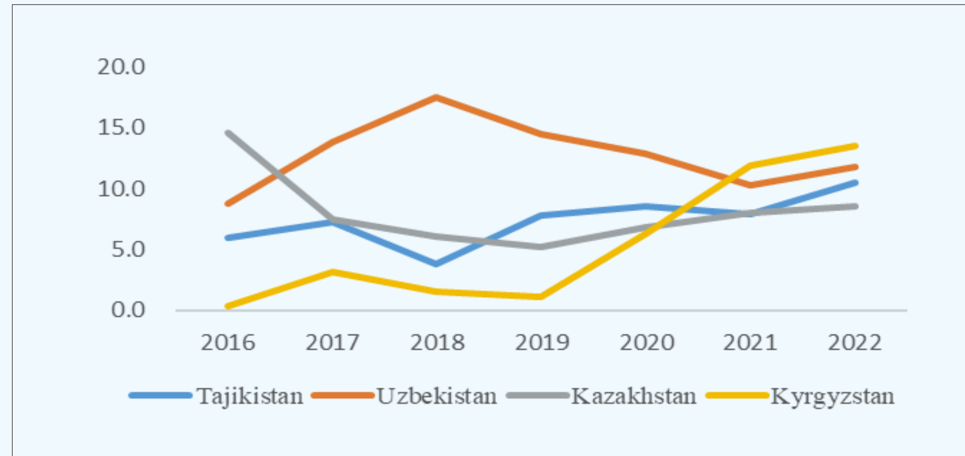


Fig. 35: Fiscal deficit ratio in Central Asia, 2016-2022

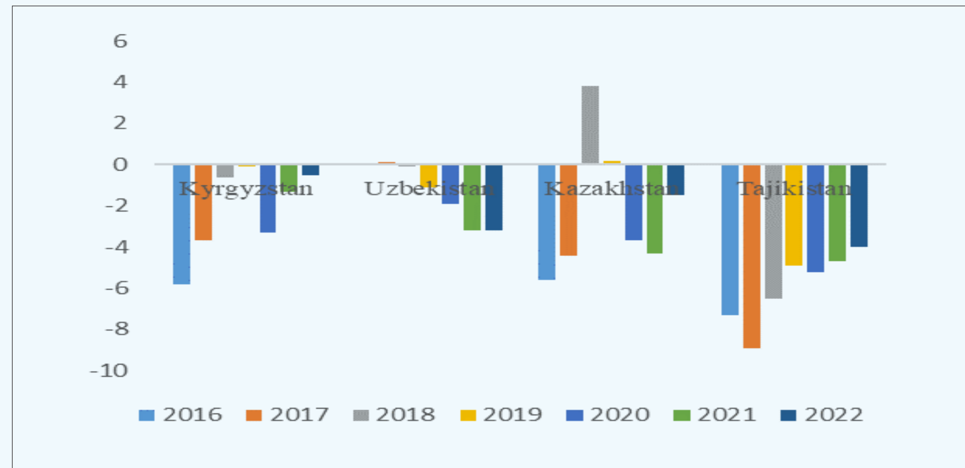


Fig. 36: General Government Debt/GDP (%) in Central Asia, 2016-2022

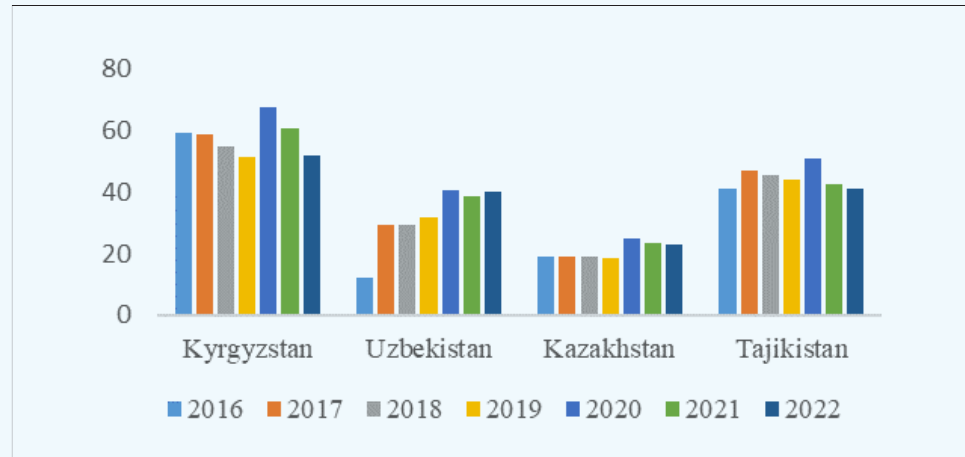


Fig. 37: 2016-2022 Central Asia Current Account Balance/GDP (%)

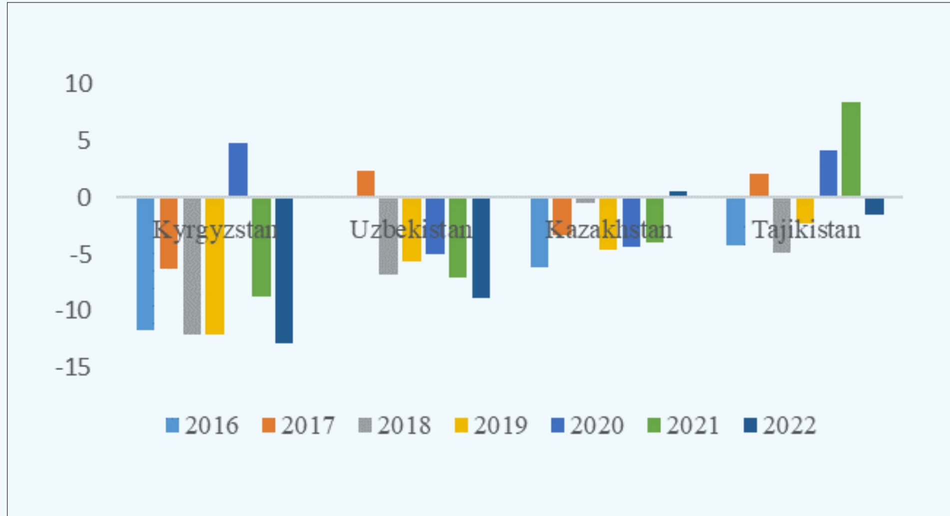
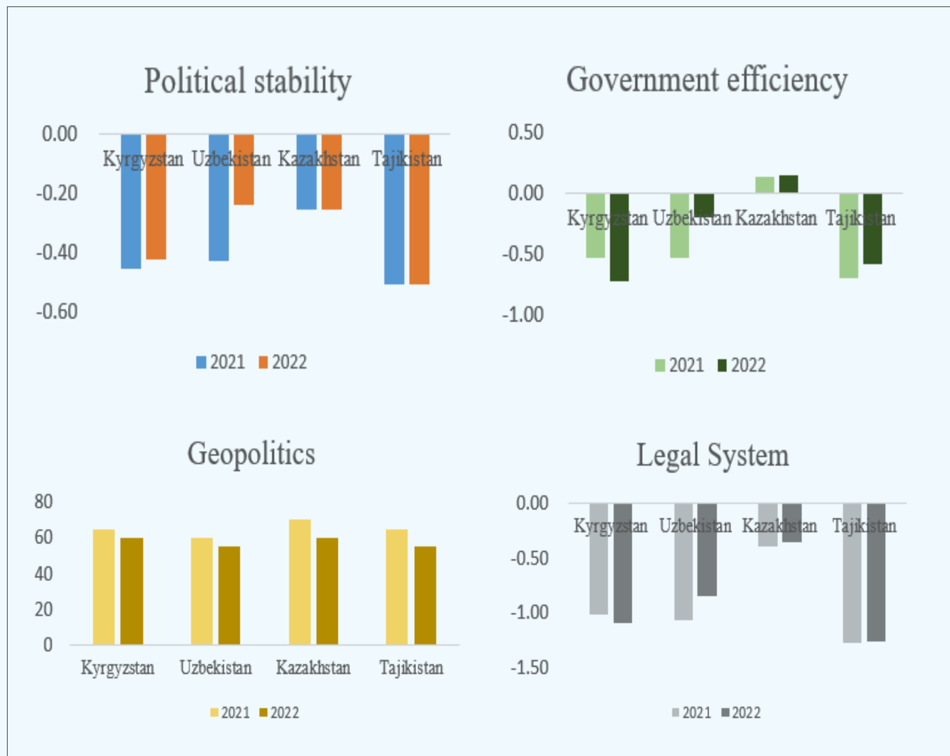


Fig. 38: Political performance in Central Asia 2021-2022



Middle East and North Africa: Windfall revenues mitigate oil producers' overall risk, while non-oil-producers face imported inflationary pressure

Fig. 39: MENA Country Risk Map 2022

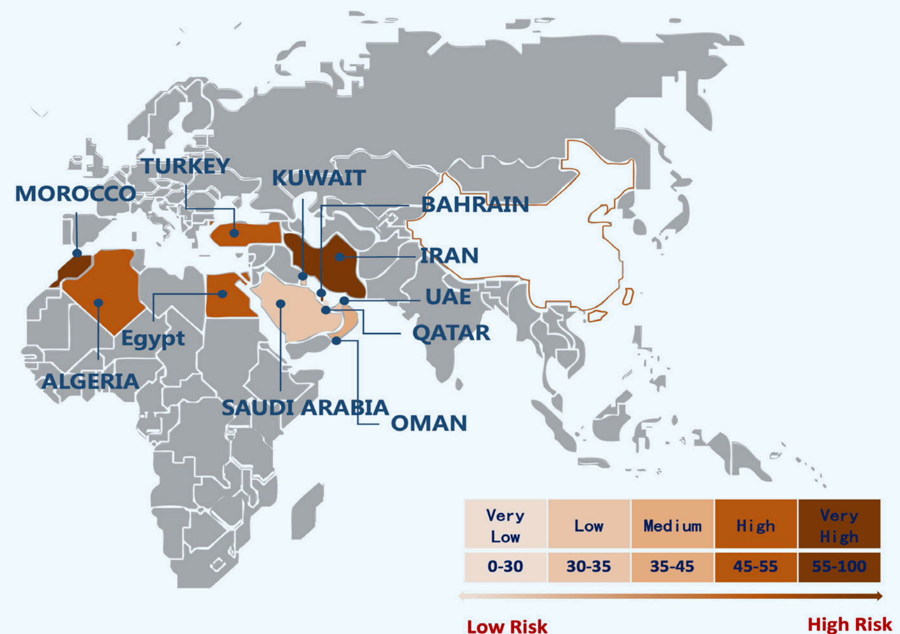


Table 7. Country risk distribution of MENA in 2022

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
UAE	31.36	1.67	39.67	25.00	43.33	52.13
Egypt	54.85	85.00	28.65	60.33	60.00	64.01
Qatar	28.84	5.00	31.68	20.00	46.67	55.87
Saudi Arabia	33.05	0.00	40.32	48.17	13.33	45.07
Turkey	53.28	36.67	25.36	70.50	80.00	70.26
Iran	64.47	60.00	67.68	82.67	23.33	68.69
Bahrain	56.13	78.33	53.64	52.33	46.67	55.87
Oman	39.68	11.67	52.64	41.83	26.67	55.87
Kuwait	31.90	0.00	42.98	45.50	3.33	48.54
Algeria	52.36	53.33	62.97	55.33	13.33	68.69
Morocco	56.73	60.00	55.65	54.83	60.00	55.87
MENA	45.70	35.61	45.57	50.59	37.88	58.26

The Middle East and North Africa is located at the confluence of the three continents of Europe, Asia and Africa, an area adjacent to the Atlantic and Indian Oceans. This region has been of extremely strategic significance since ancient times. With enormous energy reserves, vast potential for infrastructure building and highly complementary industrial cooperation with China, there presents huge room to build connectivity networks under the BRI framework. Rich oil resources compounded by religious, ethnic, and cultural collision as well as its geostrategic significance all contribute to unceasing geopolitical tension in this region in the post-WWII stage, and make its economy, finance, balance of payments performance and internal and external environment closely related to the trend in global oil market. In 2022, the successively climbing energy prices fueled by the Russia-Ukraine conflict have brought vast windfall fiscal savings to the Middle East oil producers, and their economic and external account performance managed to continuously recover from the pandemic-hit level. Meanwhile, net energy importers such as Turkey and Egypt are facing greater imported inflationary pressure, which continues to test their external account balance. In view of the 2022 country risk performance, Qatar's country risk level has been reduced from "low" to "very low"; Saudi Arabia and Kuwait also render descending risk levels, ranking as low-risk countries along with the United Arab Emirates; Oman's country risk level has been reduced from "high" to "medium", and Algeria has joined Turkey and Egypt as high-risk countries; Iran, Bahrain and Morocco remain as high-risk countries.

In 2022, the strong upward trend of global energy prices fed by the Russia-Ukraine Conflict drove the overall risk of oil producers in the region to carry on a mitigation route, while non-oil-producers such as Egypt, Morocco and Turkey were troubled by imported inflation pressure, with their current account deficits generally expanding and external risks remaining high.

To take a more specific view, the United Arab Emirates, Qatar, Saudi Arabia, Kuwait, Oman, Bahrain, and Algeria have generally benefited from the strong uptrend in oil and gas prices since the start of the year. As a surge in export revenues has repaired balance sheets that were hit by the pandemic, events such as the World Cup have also instilled vigor and vitality into the region, adding up to deliver varying degrees of improvement in economic performance as compared to 2021.

Among them, Bahrain and Algeria – countries with the weakest financial and economic foundation – have rapidly replenished their foreign reserve given the large export income made from aluminum, oil and gas. Specifically, Algeria's growth forecast has been substantially raised, and economic reform has also made remarkable achievements. Iran's performance in the fiscal and external sectors has also made a noticeable improvement. However, there is strong wait-and-see sentiment given the zigzag progress made in the nuclear talks, which brings some slack in consumption and investment. The soaring food inflation – which reaches an alarming 80% in May-June 2022 – made the overall point-to-point inflation rise by 52.5% on an annual basis, and the depreciation of the Iranian rial also pushed up the price of raw materials. It follows that the ongoing social and economic tension has hurt government stability.

Egypt, Morocco and Turkey continue to feature high risk in the external sector. Among them, Egypt and Morocco are enduring some hardship in people’s livelihoods brought by soaring food and energy import bills. Turkey carries on to deal with the unorthodox landscape of rapidly rising (and persistently high) inflation coupled with a loose monetary policy – a monetary stance that is contrary to most economies throughout the second half of 2022, which adds up to bring noticeable deterioration in currency stability and external balances. Meanwhile, the downturn in Europe as well as credit growth at home could bring some subpar performance in its economic activities, which have been driven largely by unsustainable credit creation over the past years.

Looking ahead to 2023, the global energy price is expected to fluctuate around an elevated level,

while the gloomy outlook in global economy could set a limit on the upside margin. This in turn would constrain the dynamism of the regional economy in the outlook, as compared to the vibrant performance in 2022. As to oil price dynamics, as buffered by the OPEC+ decision to have large-scale supply cuts almost till the end of the year, the global oil price generally fluctuates at around USD90/bbl in recent months. Meanwhile, short-term signposts include that the G7 is looking at a cap on Russian seaborne oil at $65-70 a barrel to take effect in early December, following the US's failure to pressure OPEC+ to increase production as the midterm elections approach. As the G7's intended price cap could potentially squeeze Russian crude out of the market and push oil prices higher, bullish factors are taking the upper hand these days, and the average Brent oil price is expected to stay above $90/bbl next year. Yet, factors such as the pessimistic macro environment and path of interest rate hike in major economies render the growth in global oil demand to slow down, limiting the upside range of oil prices. On the whole, the global oil price would exhibit some fluctuation around an elevated level. OPEC+ is expected to maintain supply cuts through 2023, yet possibility for some step back in cuts is not ruled out. As the European embargo on Russian oil begins, the export volume in non-US and European regions may not be able to replace European exports, which bodes for a contained volume in Russian production, another variant to watch in the market.

In a neutral scenario, oil producers in the region could still face pressure made by the global economic slowdown on oil prices and production, yet significant savings made during the last oil boom would enable their fiscal performance to carry on the recovery since hit by the pandemic. This could mitigate the vulnerability of fiscal performance to potential downturns in energy income and cushion their economic, fiscal and external solvency prospects to varying degrees. Qatar, Egypt and Algeria would continue to benefit from robust gas exports, which underpin their economic performance. Net energy importers such as Turkey would still face issues marked by depletion of foreign-currency reserve, yet with Russia resuming its participation in the Black Sea Grain Deal, global food trade could see some shift from the previously tightening pattern, helping to ease its imported inflation. Meanwhile, tail risks of geopolitical tension remain. Spillover risks from the conflict in terms of people's livelihood and diplomacy would continue, and the exposure to issues such as elevated unemployment and poverty rate in some regions could potentially interfere with the macro stability.

MENA's growth trend in 2023 could face varying downside risks in growth as compared to its optimistic performance in 2022. The fallout of the conflict could support oil producers' performance in the fiscal, economic and external sectors in short term. Overall, economic activities in the region are still resilient and are expected to achieve a moderate growth of about 3.6% for the whole year, while the continued repair of the fiscal base is conducive to the growth of the non-hydrocarbon sector and the persisting route of economy diversification.

As for non-oil producers, Egypt's high stock of government debt, volatile energy prices and challenges in food security all add up to pose downside risks to its outlook. Meanwhile, pressure on its balance of payments persists despite the IMF Staff-Level Agreement reached on a 46-month, $3 billion Extended Fund Facility Arrangement (EFF) in late October. The Turkish authorities continue to face the mixed challenge of stabilizing the currency, restoring FX buffers and containing inflation. It remains to be seen whether the goal could be achieved through an increasingly complex set of regulatory and macro-prudential measures, while the flare-ups in underlying discontent related to the sharp shrink in real disposable income already brought some concern to the prospects for the next general elections, which are scheduled to be held in June 2023. Morocco, as one of the most food and energy import-dependent economies in the region, is also exposed to global economic headwinds in the post-Russia-Ukraine-conflict era, yet the effective subsidy reforms would make households and the economy more resilient to shocks, while the cushion from sufficient foreign reserve could help provide room for improvement in its debt affordability indicators.

Fig. 40: Economic Growth Rate in the Middle East and North Africa (%), 2016-2022

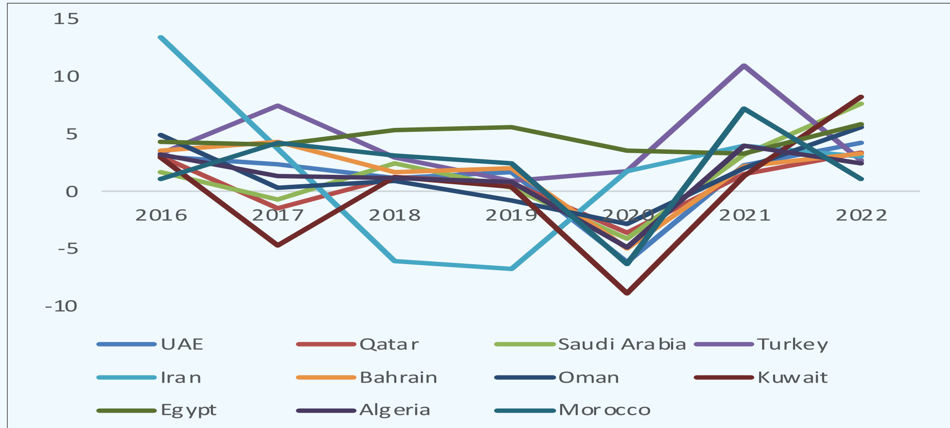


Fig. 41: CPI Growth Rate (%) in the Middle East and North Africa, 2016-2022

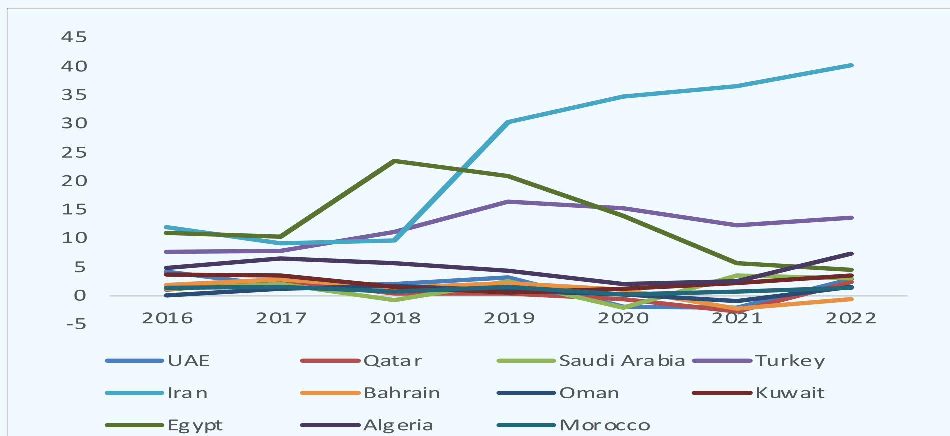


Fig. 42: Fiscal deficit ratio in the MENA region, 2016-2022

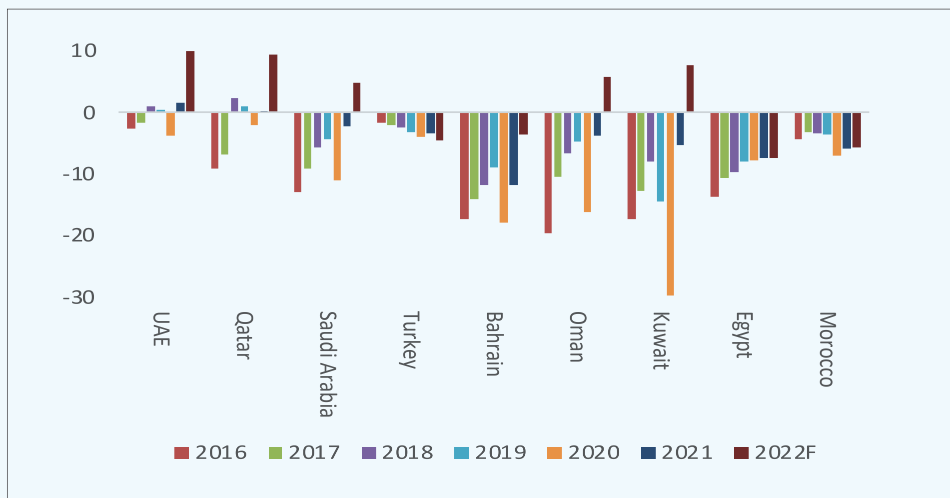


Fig. 43: Middle East and North Africa General Government Debt/GDP (%), 2016-2022

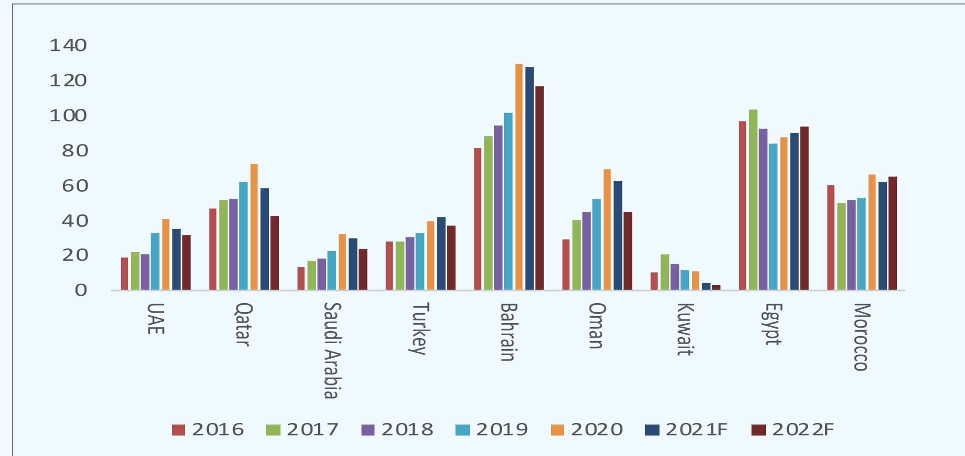


Fig. 44: 2016-2022 MENA Current Account Balance/GDP (%)

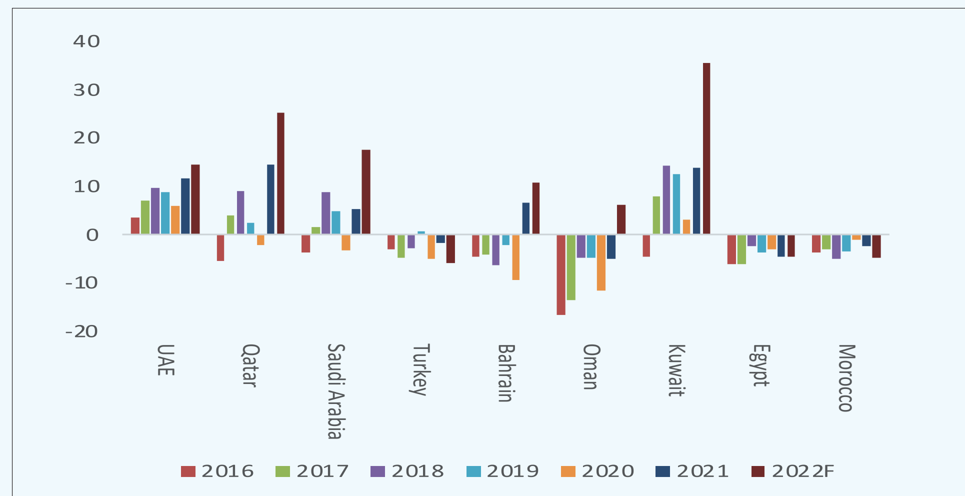
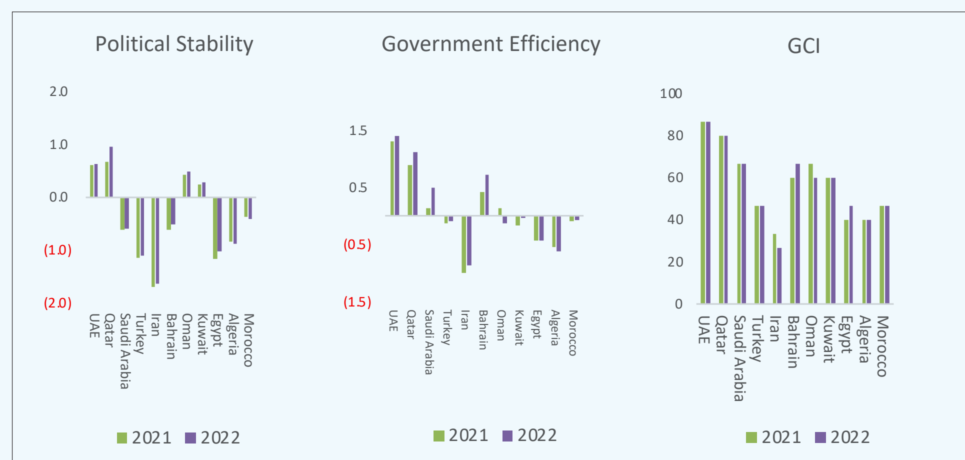


Fig. 45: Political performance of the MENA region in 2021-2022



Part III: Risks Facing the International Contracting Industry in 2022

Since the introduction of the Belt and Road Initiative (the BRI), Chinese infrastructure enterprises have accelerated their pace of going global, which is exemplified by the scale of international contracting projects and the rankings in the global market. In this context, China has become the largest international contracting country around the world. However, the outbreak of the COVID-19 pandemic has exposed higher risks, thus the Chinese enterprises engaged in international contracting projects are confronted by greater challenges. In 2022, the Russia-Ukraine conflict broke out, the global economic recovery remains sluggish, the trade and investment environment has further deteriorated, and the geopolitical risks are rising. Such a volatile macro situation, therefore, has worsened the external environment facing Chinese companies. The supply chain crisis, soaring costs of raw materials, logistics, etc., and the increased exchange risks further squeezed the profit margins of enterprises, and the risks associated with sovereign debt defaults exacerbated the financing problems of enterprises. At the same time, the disruptive factors of the COVID-19 pandemic still linger. The different policies on pandemic response at home and abroad have pushed up the risks of construction delays, while Chinese enterprises are also facing fiercer competition as well as higher security and compliance risks both at home and abroad. In addition, the increasingly complex ecological environment triggers more prominent ESG risks worldwide, and the goal of peaking carbon emissions before 2030 and achieving carbon neutrality by 2060 (the dual carbon goal) has been set out in China. In these tough situations, Chinese enterprises face greater challenges from the green transition and urgently need to transform or upgrade their business models.

The Overview was compiled after in-depth surveys and interviews were given to more than 100 member enterprises. The average score of each risk type was obtained using the feedback from the surveyed enterprises, and then the percentage describing the degree of each risk type was calculated according to the distribution of the weighted scores. The remaining parts focus on analyzing all risk types according to decreasing level of severity.

Top 10 risks facing the international contracting industry in 2022

Top 1 Intensified market competition

Degree of risk: 88%

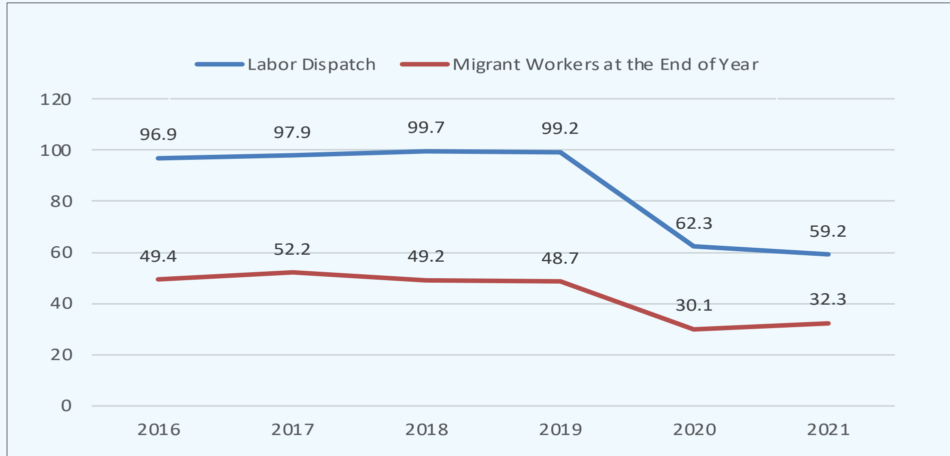
Increased competition from both Chinese and foreign contractors led to a narrowing of the overseas market share and profitability for Chinese companies. In terms of external competition, developed countries have further increased their global presence in the infrastructure sector, which might have a "crowding-out effect" on China's contracting business in developing countries such as Asian and African ones. With respect to internal competition, since the proposal of the BRI in China, a large number of central and local state-owned enterprises (SOEs) have rushed to go global, leading to the serious business homogenization and intensifying the peer competition among Chinese enterprises. In the absence of scientific demonstration and systematic planning, some Chinese enterprises used low prices, instead of their own expertise or superior resources, to contract projects. With the double squeeze of intensified competition from domestic and foreign international contractors, Chinese enterprises saw their overseas market share and profit margins both on the decline.

Top 2 Mounting risks of construction delays

Degree of risk: 87%

The different policies for COVID response at home and abroad hindered the free flow of production factors, thus causing construction delays. Considering the pandemic control, countries all over the world generally put in place stricter quarantine measures. As a result, the cross-border flow of people and logistics, two factors closely related to the international contracting industry, got severely impeded. Meanwhile, as project owners' management personnel worked from home, many work flows were adversely affected, including approval of drawings and auditing of quantity of work performed. Consequently, a large number of international contracting projects saw their construction slowing down significantly. At the same time, due to the varying anti-pandemic policies adopted in different countries, Chinese enterprises not only needed to strictly comply with the pandemic control requirements prevailing in China and the countries where the projects were located, but also were required to make proper explanations to the project owners. If they couldn't obtain the owners' consent, there would be greater risk of not being able to perform contracts as scheduled. In this case, Chinese enterprises would face huge construction delay claims.

Figure 46 Business trends of the international labor cooperation industry

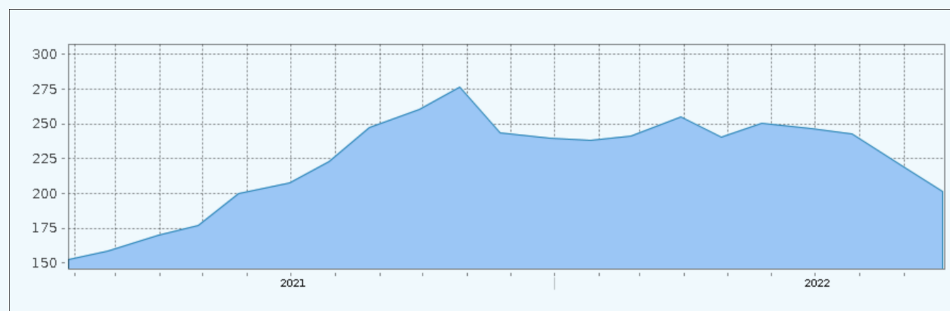


Data sources: CHINCA

Top 3 Aggravated supply chain crisis

As the supply chain crisis intensifies, the costs of raw materials, shipping, logistics, etc. have all risen sharply, which adversely affects the profitability of enterprises. To date, large corporations across the world have generally established a globalized production system and formed relatively fixed procurement patterns. Since the beginning of 2022, the Russia-Ukraine conflict and the COVID-19 resurgences in major cities as transport hubs have disrupted supply chains, severely battering the global production system. Many raw material and equipment manufacturers were unable to start production in time, and some suppliers even went bankrupt due to the broken capital chains, which entangled some construction units. The World Bank expected that the prices for non-energy goods, including metals,

Figure 47 Changes of the containerized freight index along China's Maritime Silk Road



Data sources: Shanghai Shipping Exchange
Note: It is 100 points in January 2015, the base period selected.

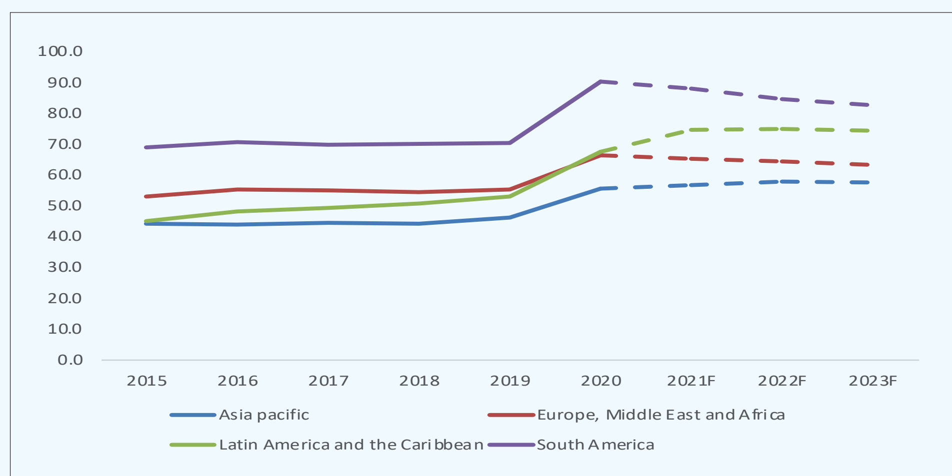
would increase by 19.2% in 2022. The prices of steel, cement, and other raw materials rose to varying degrees, putting considerable cost pressure on transport facility projects and construction projects. As the ports of major countries are in serious congestion, logistics and transportation costs are much higher than the pre-pandemic levels. Amid the increased uncertainty about the transportation of heavy cargo used in international contracting projects, the supply period was prolonged due to the aggravated transportation difficulties, which adversely affected the income of related enterprises.

Top 4 Pronounced financing problems faced by international infrastructure.

Degree of risk: 82%

EMDEs are exposed to the mounting sovereign debt default risks. In some of them, both scale of infrastructure investment and space for further development are limited, which makes financing problems faced by international infrastructure more prominent. After the outbreak of the COVID-19 pandemic in 2020, sovereign debt in EMDEs kept reaching record levels, and the costs of debt financing were soaring. The debt problems of some Asian and African countries became further salient, with the risk of debt default by country continuing to increase. Governments were less expected to meet economic development needs by expanding infrastructure construction, and limited fiscal funds were spent on infrastructure construction[3]. Meanwhile, against the backdrop of rising debt default risks, infrastructure

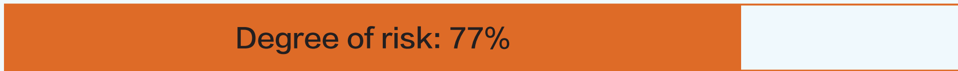
Figure 48 General government debt/GDP by region, 2015-2023 (%)



[3] Take the Latin American region for example. The overall outdated and lagging infrastructure has become an obstacle to sustainable growth of the regional economy. However, infrastructure investment in Latin American countries is very limited, with a funding gap accounting for 2.5% of the region's total GDP, or USD150 billion, per year. Typically, developing countries would contribute 6% of their GDP to infrastructure investment, a level largely adequate for economic growth.

financing problems became more prominent. Specifically, the number of sovereign-financing projects in the international contracting market declined, many projects under construction got their loans suspended or cut off, and new projects had no access to financing. Domestically, Chinese enterprises usually lack diversity in financing sources. At present, they mainly rely on export credit and sovereign-guaranteed loans. For Chinese contractors, the relatively high financing costs narrowed their profit margins and undermined their competitiveness.

Top 5 Sluggish world economic recovery as well as deteriorating trade and investment environment



The sluggish recovery of the world economy and the deterioration of the global trade and investment environment hindered the development of international contractors. According to the World Economic Outlook released by the International Monetary Fund (IMF) in October, global growth would slow from 6.1% in 2021 to 3.2% in 2022. As a result of the global economic downturn, tightened monetary policies, and soaring food and energy prices, some EMDEs were hit so hard that their infrastructure investment got hampered, a change that squeezed the market space for international contractors. At the same time, the backlash against globalization undermined the rules-based multilateral trading system. The growth of global trade volume declined in the midst of the intensified trade protectionism. The rampant trade protection measures reduced the efficiency of contracting projects, as the key equipment and components & parts used in international contracting projects would mainly rely on global procurement and transportation, and include specific trade in service. In addition, restrictive

Figure 49 IMF's global economic growth forecast

Data sources: IMF

measures amounted to 41% of the new foreign direct investment (FDI) policies introduced by countries in 2020. This phenomenon was particularly evident in developed countries with the proportion as high as 81%. Developing countries such as India even set special restrictions for a few countries like China and imposed a stricter investment review policy, making it more difficult to engage in foreign capital merger and acquisition (M&A) projects.

Figure 50 Global trade volume and growth in 2018Q1-2022Q2

Data sources: UNCTADStat

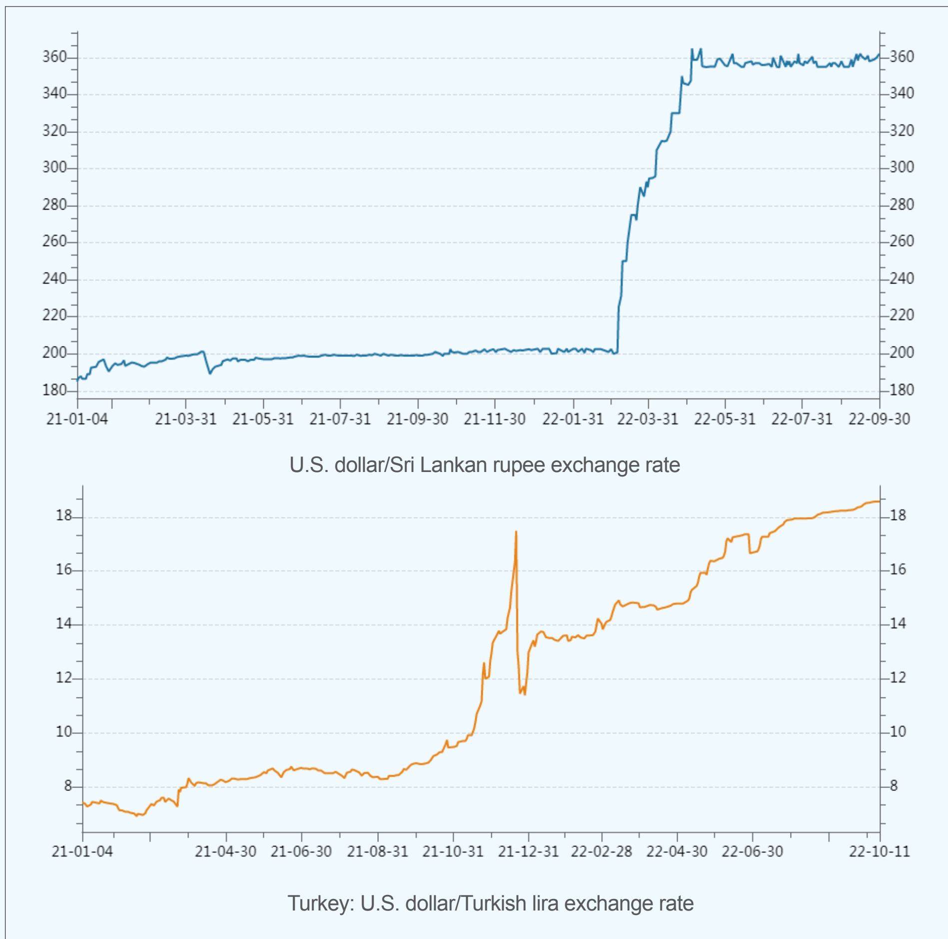
Top 6 Exacerbated exchange risks

Degree of risk: 75%

The accelerated tightening of monetary policies by major central banks all over the world led to the increased exchange rate volatility in EMDEs. In this context, Chinese enterprises were exposed to the mounting exchange rate risks. The U.S. Federal Reserve (the Fed) has raised interest rates by a total of 300 basis points since it started a new rate hike cycle in March 2022. There might be more rate hikes to come, despite a significant rate raise in September and inflation still at a high level. At the same time, the demand for risk aversion also pushed up the pressure on capital outflows, reducing foreign exchange reserves in EMDEs and increasing the exchange rate volatility. In international engineering contracts, bids are usually made in a certain proportion of local currency, and it is inevitable to use in the process of overseas construction a large amount of local currency to purchase supplies and equipment, pay staff salaries, and disburse operating & administrative expenses. In the case of significant exchange rate volatility, many Chinese enterprises are unable to accurately identify or predict the trend and magnitude of exchange rate fluctuations, and lack an exchange rate risk prevention mechanism, which

leads to increased construction costs and shrinking project revenues. Especially for the power projects with long construction periods and massive costs, huge amounts of accounts receivable denominated in local currencies would be generated in the construction process. That being so, exchange rate fluctuations could have a great impact on the profitability of such projects.

Figure 51 Movements in the exchange rates of U.S. dollar against Sri Lankan rupee and Turkish lira



Top 7 Increased security, external sanctions, and public opinion risks caused by geopolitical conflicts

Degree of risk: 58%

The Russia-Ukraine conflict further elevated geopolitical risks worldwide, with Chinese enterprises exposed to increased security risks. After the outbreak of the Russia-Ukraine conflict, Europe suffered from intensified political polarization and uncertainty, and Middle East, South Asia, and Central Asia got their internal governance destabilized and even triggered geopolitical conflicts. Anti-government forces, terrorists, pirates, mafia groups, and criminals might attack local Chinese companies, kidnap their employees, and rob their property and equipment, while in war-torn regions, the funds, equipment, or cash invested in projects under construction could be likely confiscated or expropriated by local governments or other political forces.

Table 8 Global infrastructure plans and their distribution

Alliance	Plan name	Timeframe	Key fields	Amount of investment	Financing modes
G7	Build Back Better World	Proposed in 2021	A values-driven, high-standard, and market-oriented green and digitalized infrastructure partnership	——	Invested in by the private sector with the funding support from multilateral development banks and other international financial institutions
	Partnership for Global Infrastructure and Investment (PGII)	Proposed in 2022	Promoting investments in climate protection, energy, healthcare, and other fields	USD600 billion	Public and private capital
European Union (EU)	A Globally Connected Europe	Proposed in 2021	Sustainable, comprehensive, digitalized infrastructure with an emphasis placed on fair play and environmental protection	——	Co-financing from the private sector, international financial institutions, multilateral development banks, and export credit agencies
	The Global Gateway Strategy	2021-2027	Digitalization, green transition, clean energy, transportation network, etc.	EUR300	Guaranteed financing from the European Fund for Sustainable Development, financing from global and EU financial institutions, and financially supported from the EU fiscal budget

Data sources: DATA compiled by CCXI

In addition to the deteriorated security environment, Chinese enterprises also faced the growing sanctions risks overseas. As of June 2022, there were 255 Chinese companies on the World Bank Blacklist, the vast majority of which engaged in infrastructure construction. For example, in June 2019, the World Bank imposed a nine-month debarment and a 24-month conditional non-debarment on China Railway Construction Corporation Limited (CRCC), causing harm to both the economic benefits and international reputation of the enterprise. Meanwhile, the U.S. has repeatedly placed Chinese high-tech companies such as Huawei and ZTE on the “unverified list” and the “investment blacklist”, imposing more stringent controls and technology export restrictions on them.

Meanwhile, the strategic confrontation and malicious smears from the Western world, represented by the U.S., resulted in frequent public opinion risk events. In recent years, many Western countries proposed initiatives such as the Build Back Better World (B3W) and the Partnership for Global Infrastructure and Investment (PGII) to resist China’s BRI. While emphasizing the use of private capital for financing expansion, they maliciously hyped topics such as “China’s debt-trap diplomacy” to attack and discredit China’s normal cooperation with other developing countries. Some hostile forces outside China used labor, environmental protection, and human rights as excuses to provoke protests and demonstrations, forcing local governments to terminate or suspend related projects.

Top 8 To-be-transformed operational modes of Chinese enterprises

Chinese enterprises generally adopt single operational modes and need to build up their capabilities for business transformation. The proportion of sovereign projects in the international infrastructure market is decreasing. The government-funded project development model is being replaced by a diversity of commercial investment, construction and operation models. Consequently, commercial projects represent an increasing share in different countries, while the proportion of traditional engineering, procurement, and construction (EPC) projects is going down. By contrast, most Chinese construction

Figure 52 Whole-industry-chain process

companies pursue single operational modes and are concentrated in business areas with low entry barriers, where competition is fierce and profit is meager. They are usually weak in preliminary design, post-maintenance management, and integration of resources available in upstream and downstream parts of the industry chain. Therefore, it is imperative for them to build up the capabilities for pre-project feasibility research & design as well as post-project maintenance and management and to shift from the one-fold mode of construction management to the integrated mode of investment, construction, and operation.

Top 9 Rising compliance and litigation risks

Degree of risk: 49%

As overseas markets tightened their regulation for Chinese enterprises, these companies have to deal with the increasing compliance risk in overseas Operations. In recent years, countries around the world promulgated laws, guidelines, and other documents associated with compliance management. Under the tightened compliance regulations, contracting enterprises might have to deal with the multi-level and multi-link compliance risks in the process of overseas operations. At the level of daily operation, they often face compliance risks in international anti-corruption, market access, data protection, labor and employment, environmental protection, and other aspects, and need to meet the requirements of local governments and regulatory departments in all dimensions of a project. For the projects financed by international multilateral banks such as the World Bank, Asian Infrastructure Investment Bank (AIIB), African Development Bank (AfDB), and European Bank for Reconstruction and Development (EBRD), Chinese enterprises should also pay extra attention to the compliance standards under the rules of international organizations. In recent years, many Chinese companies have gotten their operations adversely affected and triggered increased compliance risks, In recent years, many Chinese companies got their operations adversely affected, and even saw an increase in compliance risks. Main reasons for this include insufficient due diligence, misinterpretations of the rules of international organizations, and misunderstandings regarding the laws and regulations in the countries/regions where projects were located.

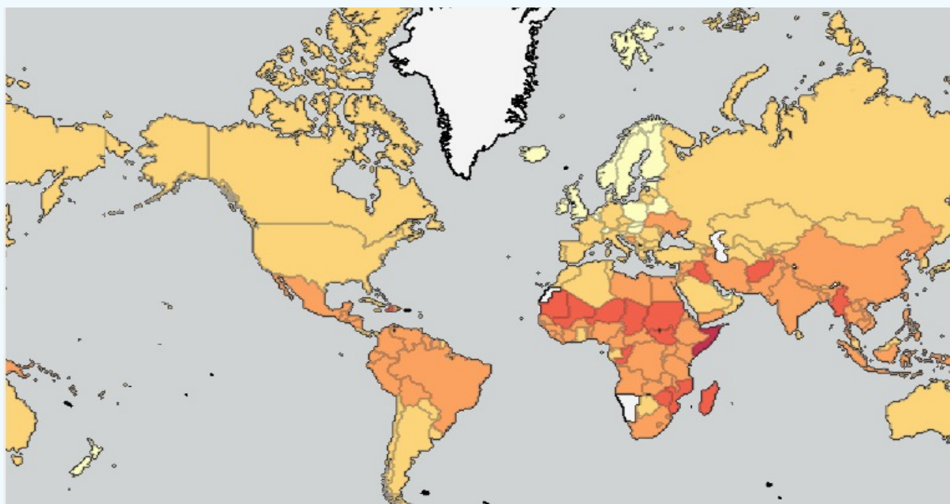
In addition, differences of the countries/regions where projects were located in the thoroughness of legal systems and policies exposed Chinese enterprises to the increased litigation risks. As China's international contractors became more competitive in the international market, they started a large number of projects and served various types of project owners every year across many countries/regions. Overseas projects would vary significantly in terms of legal sources, legal structures, and litigation procedures. Overseas contracting contracts were usually governed by the laws of the countries where the projects were located. However, if these laws were not thorough or stable enough, disagreements or disputes arising in the course of project construction might be left unregulated. In this case, related enterprises would face the increased litigation risks.

Top 10 Greater challenges from the green and ESG transition

Degree of risk: 42%

As the global ecological environment becomes increasingly complex and ESG risks become more prominent, Chinese enterprises have difficulties in replacing old models with new ones, as the entire industry is transitioning to green and low-carbon operation. In recent years, the ecological environment has become increasingly complex worldwide, which is exemplified by the frequent extreme weather conditions. Floods, landslides, mudslides, avalanches, and other risk events caused by extreme weather conditions may have a devastating impact on the secure operation of projects and the normal progress of construction. At a time when carbon emission reduction becomes a global consensus, governments of different countries have put forward higher ESG compliance requirements for international contracting projects such as power stations, ports, and large transportation facilities, as well as more demanding requirements for climate and biodiversity protection during the construction of such projects. In the process where international contracting business transitions from being pollution/emission-intensive to green and low-carbon, some Chinese enterprises have insufficient understanding of the importance of green/ESG transformation for their development, are unclear about green, ESG, or sustainability standards, fail to adapt to policy changes or improve energy use efficiency in a timely manner, and have difficulties in replacing old business models with new ones.

Figure 53 IMF's Climate-driven INFORM Risk index



Note: The figure comes from IMF. The index indicates climate-driven risks and measures the hazards of climate change, vulnerability, and lack of response capacity. The darker the color, the higher the risk.

Risk management and response measures recommended for China's international contractors

Currently, the risks faced by international contractors tend to be more complex and diversified amid the increased uncertainty. In this case, the lack of risk awareness and prevention capabilities will leave business operations seriously affected. To enhance the competitiveness and avoid risks systematically, Chinese enterprises should raise the awareness of risk control, thoroughly study risk management mechanisms for international contracting projects, build risk management systems according to the whole-process management mode, and conduct real-time monitoring of macroeconomic, industry, market, project, and other risks. At the same time, they should continuously strengthen risk management through enhanced response measures.

It is important to make comprehensive use of third-party tools for intensifying short-term risk response. A variety of financial instruments can be utilized to mitigate exchange rate risks. For example, project insurance and security service procurement are advised to prevent personnel and property security risks. Meanwhile, it is imperative to accelerate the building of systematic and institutionalized risk response capabilities. Recommended measures include strengthening ESG capacity building, reinforcing compliance control systems, establishing a legal risk assessment and forewarning mechanism, and increasing cooperation with organizations such as trade arbitration bodies to reduce compliance and litigation risks. Enterprises should continue to innovate and upgrade business models, diversify financing channels, and disperse risks by strengthening tripartite and territorial cooperation. In addition, the overall improvement of the overseas operating environment facing Chinese enterprises also depends on the government departments, financial institutions, and industry organizations, which can introduce special support policies, steer the industry to the path of sound development and healthy competition, and help enterprises consolidate their advantages for business development.

According to the survey findings, enterprises generally believed that it was more important and pressing for government departments, financial institutions, and other relevant bodies to introduce special policies in support of risk mitigation. This measure had an average score of 8.0 points, followed by the use of third-party tools to strengthen short-term risk response, with an average score of 7.6 points. At the same time, the building of systematic and institutionalized risk response capabilities turned out to be another priority move for enterprises to gain development momentum and enhance international competitiveness in the medium and long term. It had an average score of 7.4 points.

I. Using financial instruments to mitigate exchange rate risks

Chinese enterprises should enhance cooperation with financial institutions at home and abroad and using a variety of financial instruments to mitigate exchange rate risks. For example, they can sign forward contracts with Chinese and foreign financial institutions regarding the currencies, amounts, exchange rates, and delivery dates of future settlements, thereby reducing the losses possibly caused by exchange rate fluctuations. Meanwhile, Chinese enterprises should try their best to pursue the use of freely convertible currencies as the pricing currencies for settlement in the stage of project bidding, quotation, and payment. For example, U.S. dollars being used as free foreign exchange can account for

60%-80% of the project price, and the local currency as the pricing currency account for 20%-40%, in a bid to reduce the exchange rate risks facing the Chinese contractor within a reasonable range. In addition, Chinese enterprises, aware of the characteristics of contracted projects, should estimate the risks and costs of existing financial instruments and select financial instruments suitable for their projects through the negotiation with financial institutions, so as to reduce the impact of exchange rate risks.

II. Preventing security risks through project insurance and security service procurement

Chinese enterprises should strengthen cooperation with financial service institutions in the insurance category to reduce personnel and property security risks by means of security service procurement. To ensure the smooth progress of projects, Chinese enterprises should effectively manage security risks by developing an insurance package for overseas projects, including engineering guarantee, builder's risk insurance, personal insurance, cargo transportation insurance, and third-party liability insurance. For example, the "Carefree Overseas Contracting Insurance" product provides four types of risk coverage, that is, accidental/disease death and disability, medical care, emergency rescue, and kidnap for ransom, which could help enterprises as a precaution against property losses caused to their overseas projects by natural disasters or accidents, including possible production interruption and profit shrinkage. In addition, Chinese enterprises can sign service contracts with third-party security agencies to obtain professional armed security services around the clock. Alternatively, they can hire experienced and highly-qualified security managers, whose extensive network of contacts, smooth access to information, and good judgment of local security situation provide an important guarantee for the safety of project personnel and property.

III. Practicing ESG concepts to control ESG risks

Chinese enterprises should fully understand, know well, and apply the internationally accepted ESG standards, put in place sound ESG risk control systems, and thoroughly practice the ESG concepts to control related risks in overseas markets. Chinese contractors and operators should fully understand, familiarize themselves with, and apply the internationally accepted ESG standards, pay adequate attention to communication with project stakeholders in the host countries/regions during the early stage of project construction, comply with the highest international standards such as the Equator Principles (EP), and strengthen information disclosure to continuously improve the ESG management performance. At the same time, they should establish sound ESG risk control systems, accurately identify and analyze environmental, social and governance (ESG) risks, and use a variety of assessment tools for risk screening before making decisions. In addition, they should also carry out internal awareness enhancement programs over the long term, introduce relevant international conventions and domestic laws, make clear the responsibilities of individuals and companies in ESG risk management, and fully practice ESG concepts in risk control.

IV. Building compliance control systems with intensified efforts

Chinese enterprises should move faster to gain a full understanding of overseas compliance environment and compliance requirements, strengthen the building of compliance control systems, and gain sophistication in overseas compliance management. With the continuous implementation of the BRI, international contractors have upgraded their development thinking into long-term strategic planning , with increasingly demanding requirements for international compliance. Therefore, Chinese enterprises should better understand the compliance environment and requirements

of the countries/regions where their projects are located. At the same time, Chinese enterprises in different professional fields should build compliance risk control systems that are operative, well-focused, and fit for their own business models, when carrying out international contracting projects. For instance, they can formulate an overarching manual for overseas compliance, which sets out anti-corruption, data protection, labor rights protection, and other aspects of content. Given specific business processes, employees will be guided to behave in a way that meets the regulatory requirements of both China and the host countries/regions, a prerequisite for continuously doing better in compliance management.

V. Establishing legal risk assessment and forewarning mechanisms and strengthening cooperation with third-party agencies to deal with litigation risks

Chinese enterprises should establish effective legal risk assessment and forewarning mechanisms for overseas projects, while strengthening cooperation with trade arbitration bodies and lawyer teams to actively deal with the risks associated with overseas litigation and arbitration. A set of legal risk assessment and forewarning mechanisms can be established for overseas projects to cover their staffing, institutional establishment, legal research, risk prevention system building, and control situation analysis, among other aspects. Within these mechanisms, Chinese enterprises will be able to carry out legal risk prevention in a targeted manner, and enhance the initiative, foresight, and planning in dealing with legal risks. China International Economic and Trade Arbitration Commission (CIETAC) is the most influential and representative international commercial arbitration institution in China. It leads the world in many dimensions such as the total amount of cases handled, the number of foreign cases handled, the degree of internationalization of clients, and the complexity of application of law. Chinese enterprises are recommended to strengthen cooperation with CIETAC. In doing so, they could make up for the shortfalls of specific expertise, business skills, and experience among in-house legal personnel, thus reducing the adverse impact of legal risks. Alternatively, they can also work with experienced lawyer teams in international markets or in the countries/regions where projects are located to deal with or file overseas litigation and arbitration as actually needed.

VI. Continuously innovating business and financing models and carrying out tripartite and territorial cooperation to disperse risks

Chinese enterprises should continue to innovate their business and financing models, actively explore tripartite and multi-party cooperation to integrate resources and disperse risks, and build up capabilities for localized development and cross-cultural management. Amid the ongoing business model transformation across the global infrastructure market, Chinese enterprises can actively explore new methods for cooperation such as investment-construction-operation integration and tripartite collaboration to move toward the high end of the industry chain. At the same time, they may pilot joint procurement to lower commodity prices and logistics & transportation costs. This attempt would promote project cooperation on the basis of mutual benefits and win-win outcomes. To enhance international competitiveness, Chinese enterprises can also leverage the comparative advantages of developed economies in project design & consulting, operation & management, and other domains to jointly provide high-quality infrastructure projects for the host countries/regions. In face of the increasingly prominent financing problems in the international infrastructure field, Chinese enterprises should actively diversify their financing channels and modes, build overseas business financing platforms, increase cooperation with international multilateral institutions, commercial financial institutions, and local financial institutions

in the host countries/regions of projects to expand direct financing channels, and optimize financing feasibility analysis to reduce financing risks. In addition, Chinese enterprises should improve the quality of employment while focusing on the building of localized teams, move faster to establish a network of localized partners, enhance the use of local resources in personnel introduction, project subcontracting, supply procurement, and other spheres to benefit from dividends of local policies, and promote the integration of employees from different cultural backgrounds through various methods such as strengthened communication and training to enhance cross-cultural management capabilities.

VII. Calling on industry organizations to steer companies towards healthy competition and play the role of an information hub

Industry organizations are called upon to guide and coordinate Chinese enterprises towards healthy competition and orderly cooperation, while playing the role of an information hub among government organs, industry, and enterprises. To address the problem of fierce internal competition among Chinese enterprises in international contracting, it is suggested that industry organizations assist government departments in market order standardization. Efforts such as negative lists or disincentive mechanisms could be created, through which Chinese enterprises are guided to strengthen cooperation, complement each other’s advantages, bring into play their respective strengths, and avoid disorderly competition. Meanwhile, industry organizations can also strengthen information exchange between government organs and enterprises, integrate the resources of information, consulting, training and other institutions across the industry, strengthen the functions of information gathering, early warning release, case referral and supervision, etc., and provide information sharing and other services. Furthermore, industry resource integration, they can assist Chinese enterprises to build risk management platforms and systems, convey national policies and industry guidelines in a more detailed and accurate way, and provide guidance on how to prevent and resolve various types of risks.

VIII. Calling on financial institutions to innovate financing models

Financial institutions are called upon to optimize or innovate financing models, add project financing and equity financing to the financial channels available to enterprises, and strengthen cooperation with international capital sources through syndicated investment and financing services, for example. Financial institutions are encouraged to continuously innovate financial products and services and explore introducing a range of flexible, efficient, and diversified financing products in line with policy guidance and actual needs in the international market and business development of enterprises. In addition to providing professional consulting services for project planning, investment & financing plan design, risk management plan formulation, etc., they can also assist enterprises to access project financing and equity financing as two more investment and financing channels. Moreover, financial institutions can be active in providing syndicated investment and financing services, form a more specialized syndicated service chain, and guide enterprises to cooperate with multilateral institutions, especially with financial institutions in developed countries, thus achieving complementary advantages and win-win outcomes.

IX. Calling on government to roll out relief measures and special support policies

Governments are called upon to improve the relief policies and measures for international contractors, while launching special support policies for new clean energy and infrastructure

projects undertaken overseas. In view of the prominent problems faced by Chinese enterprises, such as resurgent trade protectionism, soaring operation costs caused by disturbed marine logistics, and potential construction delays, government departments are encouraged to introduce more direct and precise relief policies and facilitation measures, to provide necessary legal aid for Chinese enterprises to safeguard their legitimate rights and interests overseas, and to unify the “going abroad” enterprises in regards of mutual help. As to financing difficulties, government departments are called upon to formulate targeted policies to help enterprises obtain necessary support in credit, insurance, foreign exchange collection and payment, amongst other spheres. As the entire industry is shifting its focus to new infrastructure and clean energy, it is suggested that government agencies introduce cross-border support policies and offer special funding support in areas such as clean energy and digital economy, channel resources towards green industries and projects, and steer enterprises through their structural adjustment and green transition.

X. Calling on government departments to strengthen high-level visits in response to Western sanctions

Government departments are called upon to increase high-level visits, encourage media cooperation, and improve response measures against Western sanctions, thus creating a better overseas operating environment for Chinese enterprises. First, the establishment of a strategic dialog and diplomatic consultation mechanism among senior leaders of different countries/regions can boost political trust and safeguard common interests, providing a strong political guarantee for the overseas business development of Chinese enterprises. Second, enhancing communication/cooperation with media outlets in the countries/regions where projects are located and making clarifications on false reports in a targeted way will facilitate the smooth development of international contracting business. Third, as a move to better deal with Western sanctions, a regular meeting system between the embassies/consulates and the overseas agencies of enterprises will be established to guide and assist the overseas dispatched personnel in properly dealing with the risks arising from sanctions and in communicating/coordinating with the local governments and media outlets.

Figure 54 Enterprise scores in terms of risk management and response measures