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China's Belt and Road Initiative

BRI report card: deeper linkages, greater caution

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January 2019

Executive summary

» **The Belt and Road Initiative (BRI) continues to expand:** it now encompasses 115 countries, from 64 in 2013.

» **There are indications that China is becoming more selective in which BRI projects it pursues** as the value of new contracts in the BRI has significantly declined since 2016. The change could be due to several factors, including tighter funding conditions in China and domestic political reactions in several BRI countries.

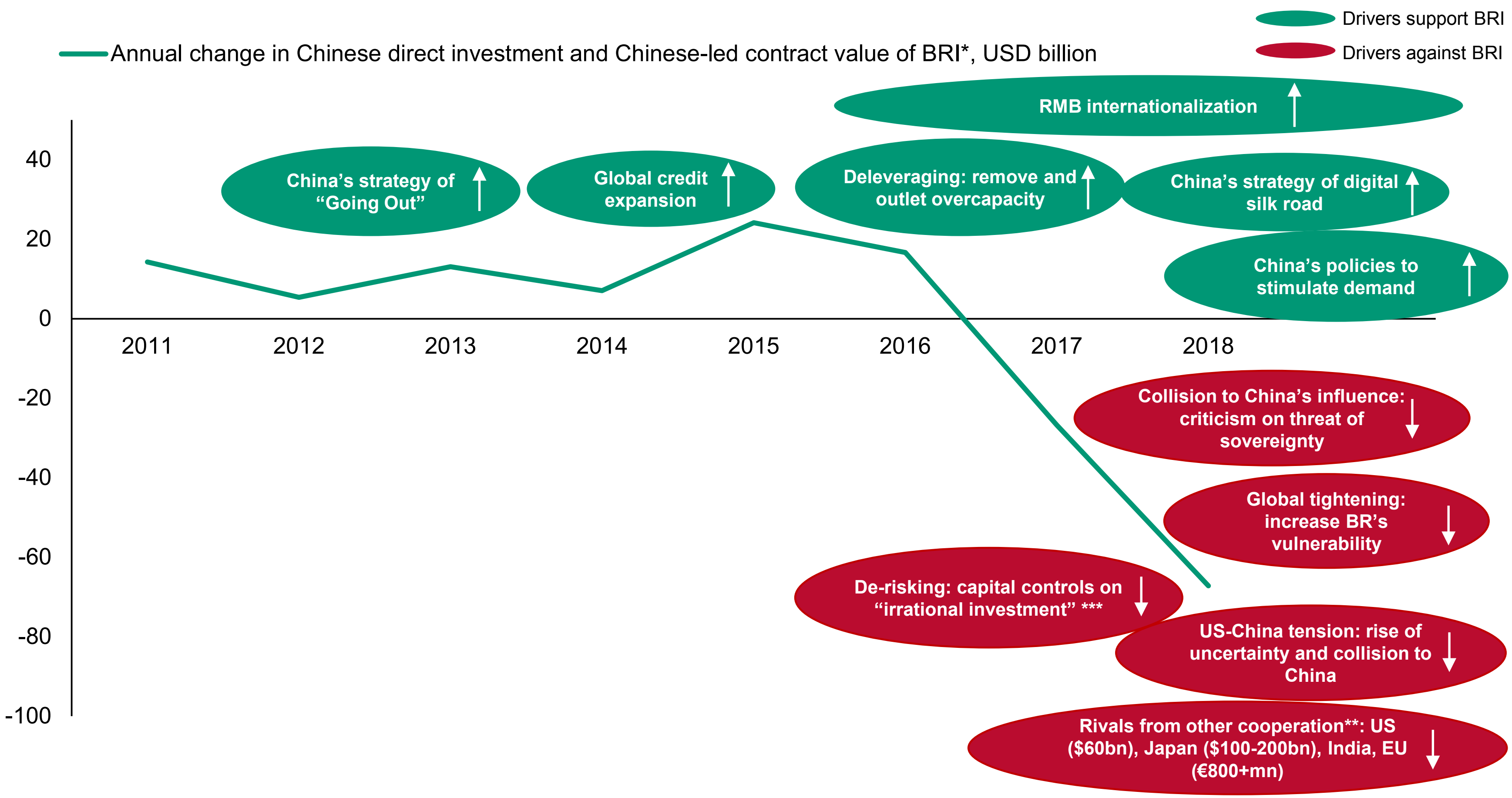
» **We expect the economic linkages formed through BRI projects to become more important to China as its relationship with the US sours.** The BRI provides China with a mechanism to develop relationships with recipient countries on trade, investment, regulatory standards, and through forging closer political alliances. An example is the Digital Silk Road, which represents China's vision of global internet expansion through building telecom infrastructure, promoting internet services, cross boarder e-commerce and trading in tech goods.

» **Increasingly, China appears to look to Belt and Road (BR) countries as an important source of export demand as well as a source of vital raw materials.** Over time, we expect BR countries to grow in importance in global supply chains as processing and transportation centers. Improved manufacturing capabilities could foster their export of final value-added goods. Rising costs in China could drive a gradual shift of production from China to some BR countries in Southeast Asia.

Executive summary

- **BRI remains predominately debt-financed, with Chinese entities, particularly policy banks and state-owned enterprises (SOEs), the largest source of funding.** While many BRI countries are comparatively high credit risk, being either speculative grade or unrated, about 40% of the total value of these Chinese direct investments and projects is concentrated in top 10th percentile BR countries, with external debt levels around or below 50% of GDP.
- **Large reliance on Chinese funding could worsen some BR host countries' debt affordability, leading to weaker sovereign creditworthiness.** If invested wisely, BRI funds have the potential to promote productivity and economic growth of BR countries through infrastructure improvement. However, external vulnerabilities, balance of payment pressure and high leverage have been challenging the credit quality of some BRI host sovereigns. Several have a larger than average reliance on Chinese funding. Most Chinese lending in BRI is likely to be on less concessional terms than offered by multinational institutions on average. Maturity of these loans is still long, varying from 12 to 20 years.
- **Data transparency remains a challenge** in calculating debt levels of some BR countries and understanding the real cost of Chinese funding. Unlike those of multilateral official creditors, Chinese lending terms lack conditionality on economic and governance reforms, which may limit the long-term economic benefits to BR countries.

BRI to be tested on multiple fronts



*The value of BR contracts and investments covers around 80 BR countries according to Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. BRI contract value counted could include funding from China and others. **Amount in their announced investment plans; *** Reported by Xinhuanet in 2017, MOFCOM has vowed to refrain "irrational overseas investment" through strengthened scrutiny on capital controls.
Sources: American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

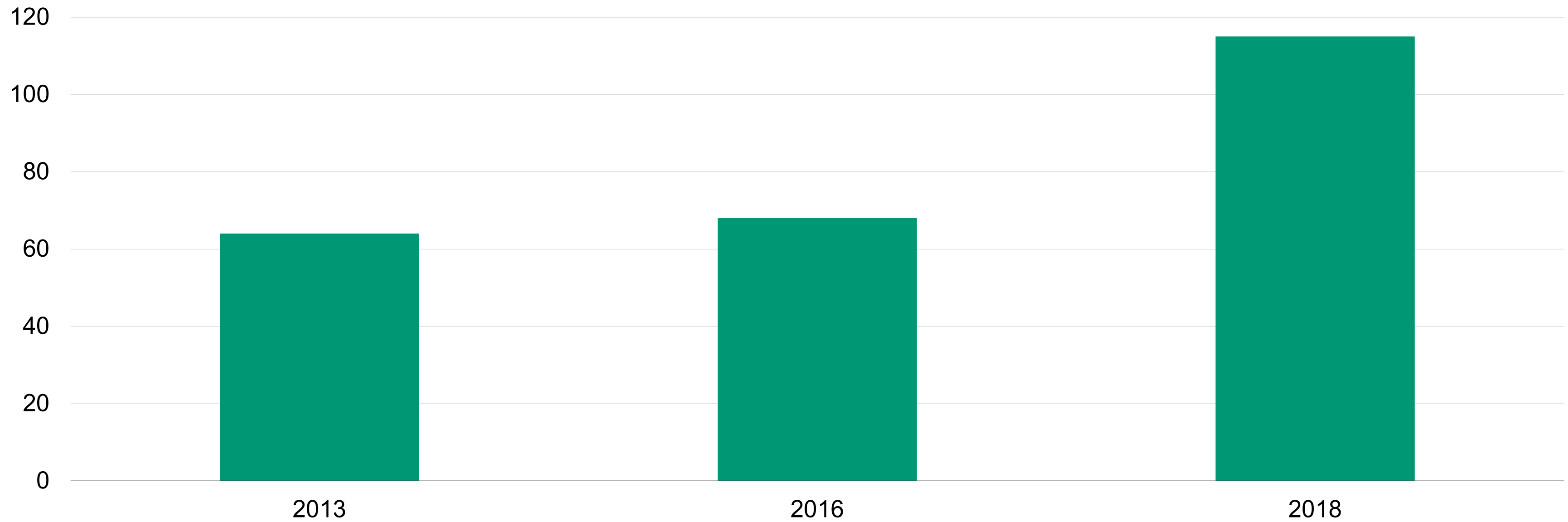
1

BRI: Major trends

BRI an increasingly important tool for China's geopolitical objectives

» As its relationship with the US has soured, China is increasingly looking to the BRI to provide a tool for geopolitical influence through aligning relationships on trade, investment and regulatory standards. According to the Chinese government's BRI official website the number of BR countries has almost doubled to 115 from 64 in 2013 when the BRI was first initiated.

Number of countries*

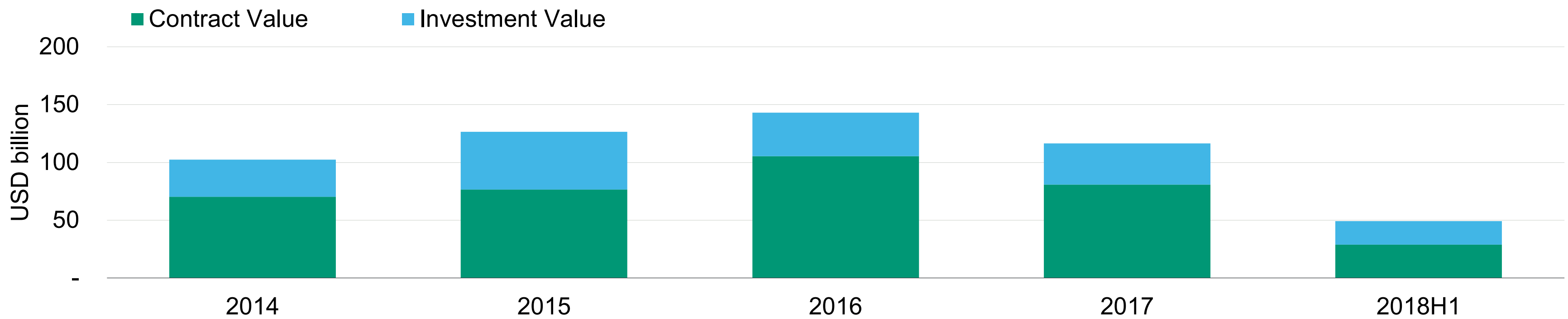


* The coverage is expanding and reported as 115 countries, according to the Chinese government's Belt and Road official website, yidaiyilu.gov.cn. The 115 countries in this report are the ones that have been named by various Chinese ministries.
Sources: yidaiyilu.gov.cn, Moody's Investors Service

… but China is becoming more selective with BRI contracts

- After four years of increases, Chinese-led new contracts and direct investments in BR countries declined to $116.4 billion in 2017 from $143.2 billion in 2016, largely driven by the drop in value of new contracts to $80.7 billion from $105.4 billion. The total value in first-half 2018 was only 42% of that in 2017.
- In the same year, Chinese direct investment flows to BR countries have decreased slightly to $35.7 billion from $37.8 billion, while as a share of Chinese total outbound direct investment (ODI), it surged to 23% from 19%, mostly led by investment rise in Southeast Asia and Northeast Asia.
- A recalibration of Chinese investment and lending in BRI projects seems to be underway. Chinese official sources** have emphasized the importance of applying the experience and standards of multinational development banks and setting up comprehensive evaluation systems for long-term projects so as to improve risk control.

Chinese-led new contracts and direct investments in BR countries*

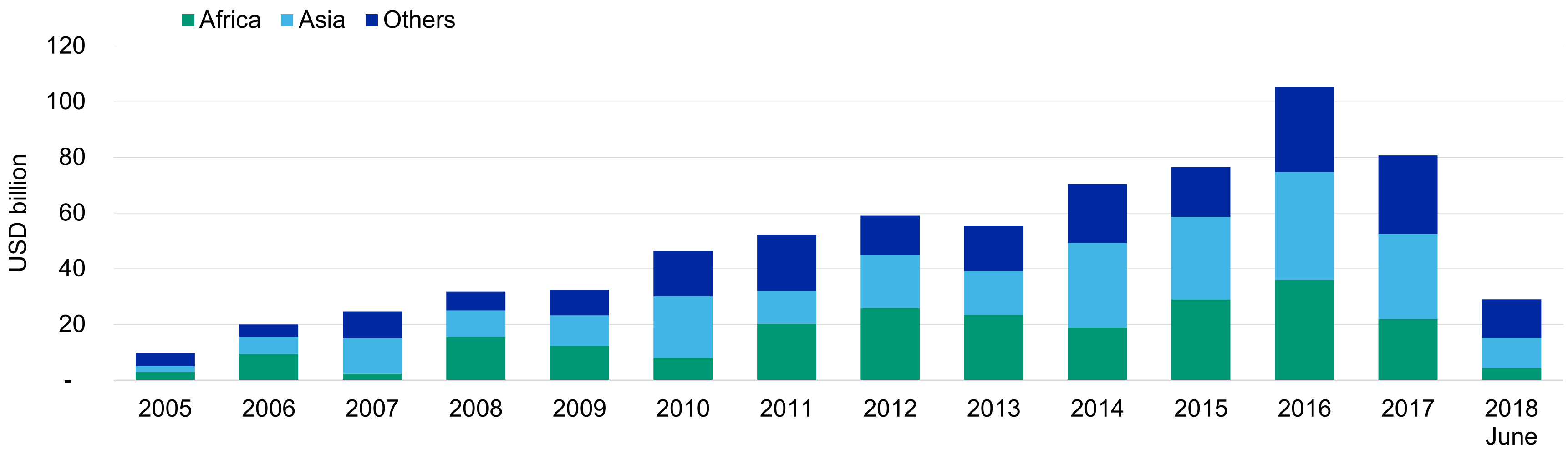


* The chart covers around 80 BR countries with investment and contract value data from Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. BRI contract value could include funding from China and others. ** According to Yidaiyilu official website and President Xi Jinping's speech at the Central Economic Work Conference in December 2018.
Sources: American Enterprise Institute and the Heritage Foundation, Moody's Investors Service, yidaiyilu.gov.cn

Asia outpaces Africa to hold the most contract value in BR regions

- On average, 39% of contract value was located in BR countries in Asia during 2014-June 2018, while in the same period, 30% of contract value was located in Africa*. From 2014, Asia outpaced Africa for most contract value among BR regions.
- Top 10 countries ranked by contract value holdings in 2014-June 2018 were Pakistan, Nigeria, Bangladesh, Egypt, Malaysia, Indonesia, Russia, Laos, United Arab Emirates and Iran.

Total value of BRI contract by region*

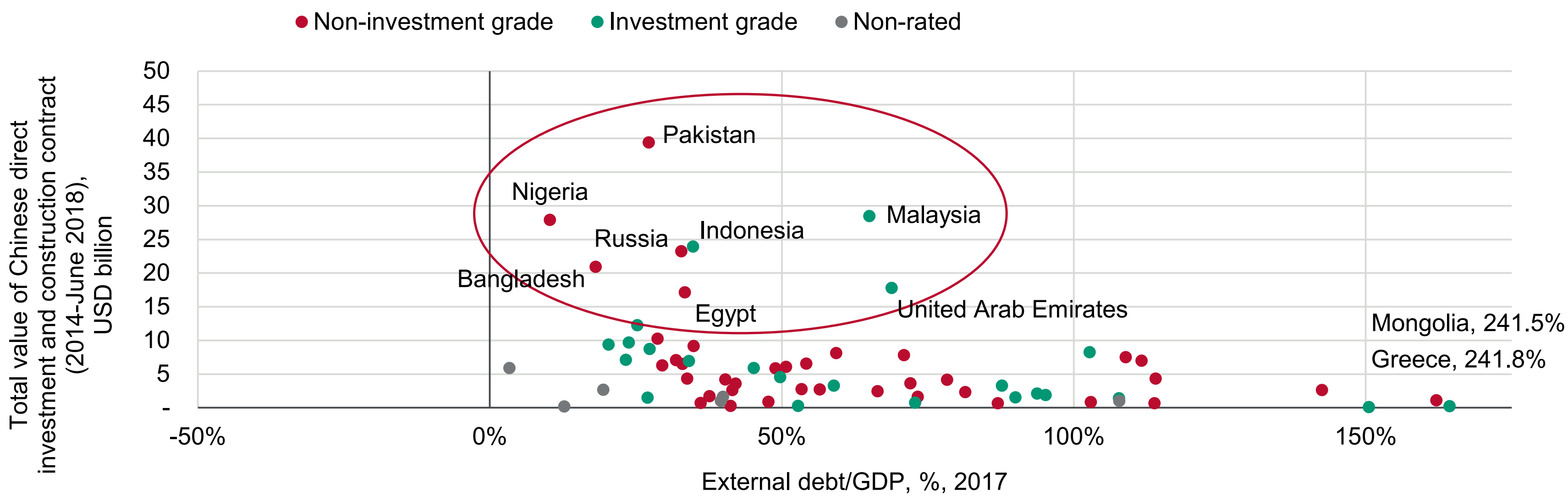


* The value of BR contracts covers around 80 BR countries according to Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. BRI contract value counted could include funding from China and others.
Sources: American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

BRI contracts and direct investments concentrate in a few countries

» Around 40% of Chinese-led direct investments and construction contracts is concentrated in the countries in the top 10th percentile. These are Pakistan, Malaysia, Nigeria, Indonesia, Russia, Bangladesh, United Arab Emirates, Laos and Egypt. The external debt levels of these countries are around or below 50% of GDP. Only three of these sovereigns have investment-grade ratings.

Total value of Chinese-led direct investment and contract in BRI by region*

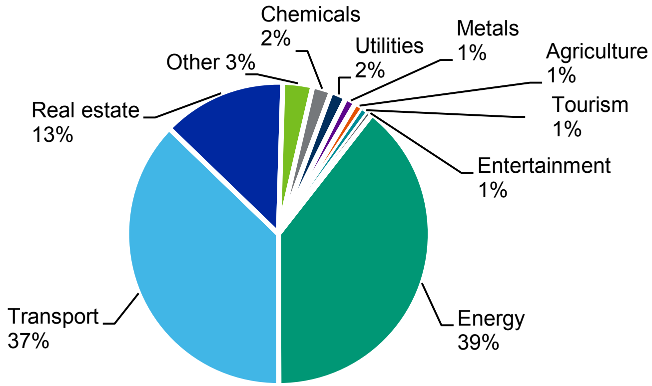


* The chart only covers 69 BR countries that have both external debt and investment, and contract value data. The value of Chinese-led contracts in the BRI counted could include funding from China and others.
Source: World Bank, Haver Analytics, American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

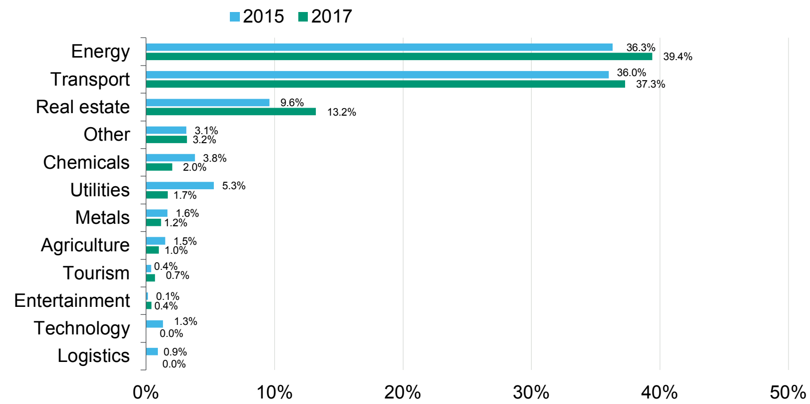
Highest contract value in energy, transport and real estate sectors

- In 2017, Chinese contracts in BR countries with highest value were in the energy (39%), transportation (37%) and real estate (13%) sectors. High contract value in the energy and transportation sectors is in line with rising infrastructure projects in BR countries.
- Contract value in energy increased by 3.1 percentage points (ppt), in transport 1.3ppt, and real estate 3.6ppt from 2015 as a share of total contract value in 2017, reflecting increasing construction activities.

Chinese contracts in BR countries by sector
% of total Chinese contract value in BR countries*, 2017



Value changes in contract value in BR countries by sector
% of total Chinese contract value in BR countries*

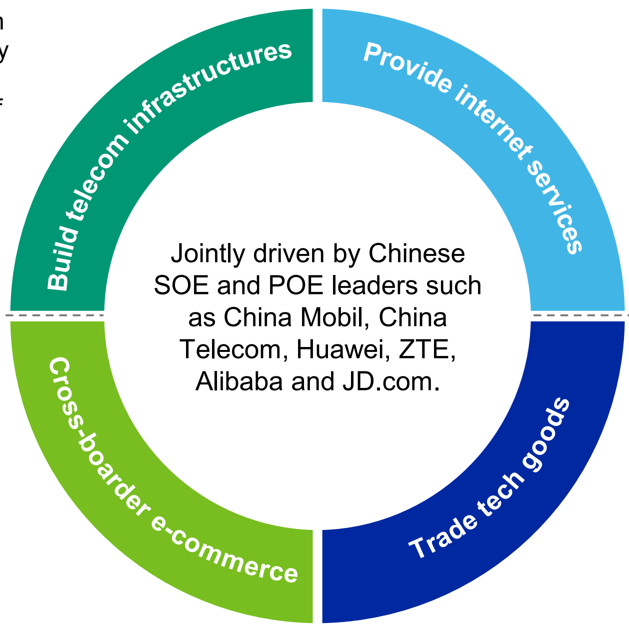


* The charts cover around 80 BR countries according to Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. BRI contract value counted could include funding from China and others.
Sources: American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

Digital Silk Road: BRI not just about physical infrastructure

- Participation in building cross-border submarine cable and land cable transmission systems, satellite relay stations and data processing centers (DPC), etc. Examples are:
- $10 billion Chinese investment expected in Sino-Africa joint plan for building African information highway; an optical cable network of 150,000km covering 48 African countries investment plan by China Telecom; $1 billion investment plan by Huawei and CEXIM in building Africa network of greater than70% LTE speed, mobile-based communication system.
- A 25,000km AAE-1 submarine cable transmission system connecting Asia, Africa and Europe by Reliance Jio.

Digital Silk Road



- Provide services such as satellite and telecom, digital transformation, fintech, cloud storage. Examples as below:
- Alibaba launched a digital free trade zone to ease customs checks, provide logistical support and promote export for Pakistan, Malaysia and Thailand.
- Inspur, the largest server maker in China, formed a strategic digital economy alliance with global IT companies to provide data centers and fintech-related services along the BRI.
- China encourages the adoption of its Beidou satellite network in BR countries from power transmission to transportation. Beidou piloted in Karachi, Pakistan.

- Online exports to 54 BR countries in 2016 including cell phones (33% of total), computers (12%), electronics (12%),and household products (11%).
- JD.com plans to set up more than 20 overseas warehouses to store and transfer goods from more than 100 countries and regions including those along the BRI.
- Renminbi cross boarder e-payment system covering 40 BR countries.

- China exported $350 billion in tech goods to BR countries in 2017, an 11.3% increase from 2016, including telecommunications equipment and electrical machineries such as transistors.

Sources: 2017 “Belt and Road” cross border e-commerce report by JD research, China e-commerce report 2017 by MOFCOM, beltandroad.hktdc.com, UN Comtrade, Moody’s Investors Service

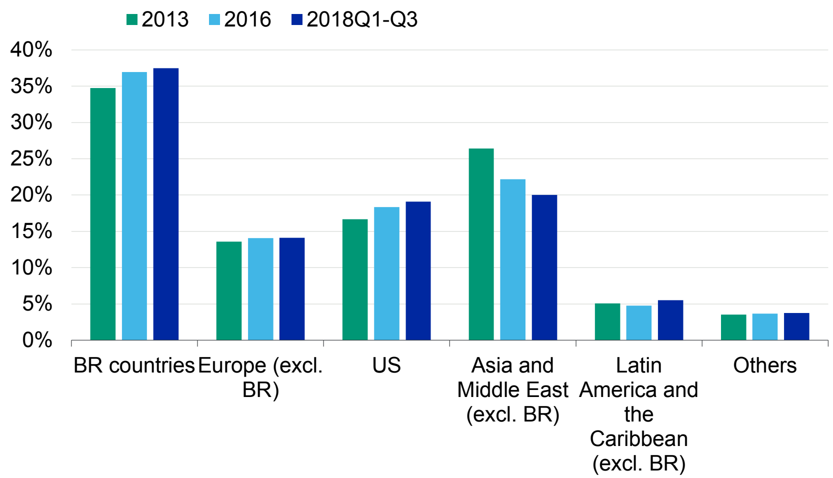
2

Evolving trade relationship between China and BRI countries

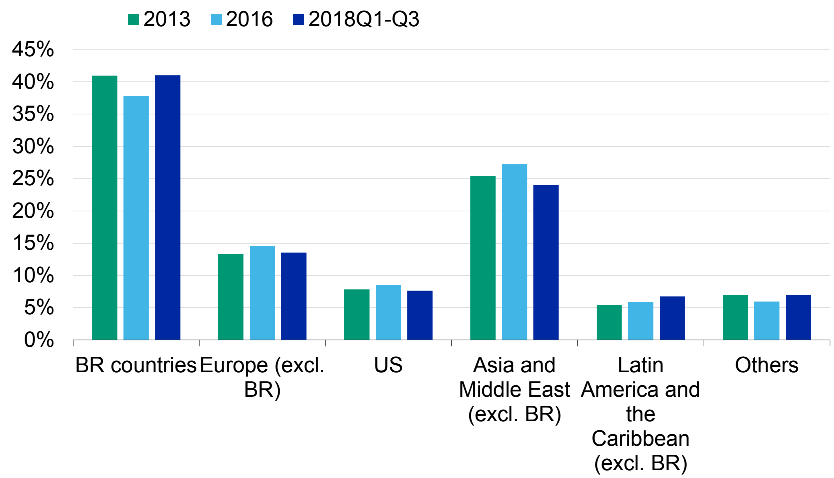
China sees BR countries as increasingly important trade partners

- China's total trade with BR countries grew by 8.3% for first three quarters of 2018, higher than China's average global trade growth of 7.5%. BR countries accounted for 37.5% of China's exports and 41.0% of imports in this period.
- BR countries are likely to become relatively more important trade partners with China as trade tensions with the US lead to trade diversion; a shift of China's trade flows from the US to other countries and regions.

Shares in China's total goods exports



Shares in China's total goods imports

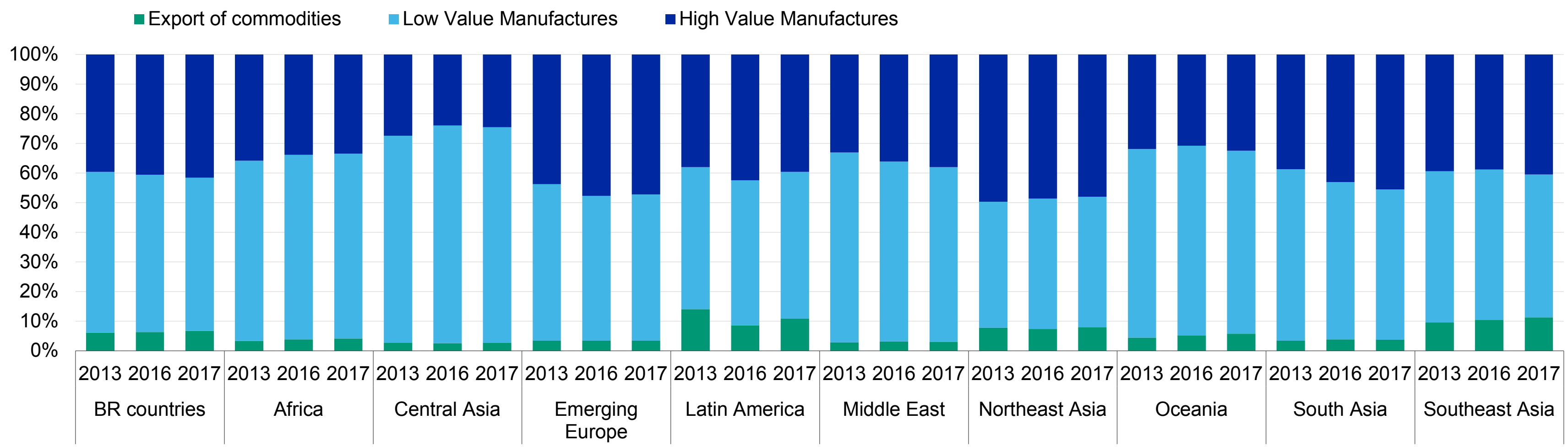


"Others includes countries not covered by other subgroups.
Sources: IMF, China Customs, Haver Analytics, yidaiyilu.gov.cn, Moody's Investors Service

Modest rise in China's exports of high value manufactures in BRI

- China's aggregate exports to BR countries increased modestly to $843 billion in 2017, or 37.2% of China's total good exports, from $775 billion in 2016 (37.0%). More than 50% of the increase came from exporters of higher value-added goods related to increasing infrastructure and construction projects in BR countries.
- The rise in high value-added exports was most significant in South Asia, as infrastructure and construction projects in countries like India, Pakistan and Bangladesh are growing faster than others.

China's goods exports to BR countries by category*

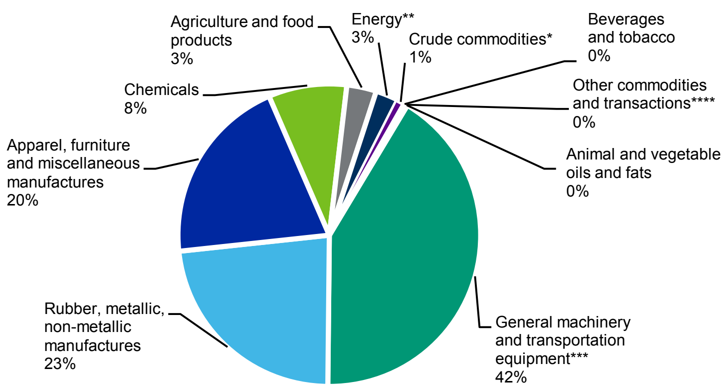


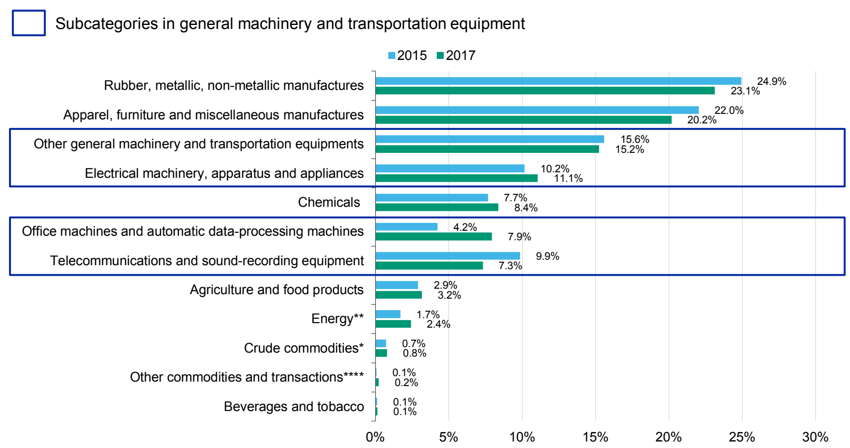
*Includes all BR countries.
Sources: UNCTADstat, Moody's Investors Service

Transportation-related machinery dominates China's goods exports

- » General machinery and transportation equipment account for the largest share (42%) of China's total goods exports to BR countries, followed by rubber, metallic and non-metallic products (23%), driven by the needs of construction and infrastructure projects in BR countries.
- » However, office machine and automatic data processing machine exports show the greatest increase of 3.7ppt in a year, followed by electrical machinery at 0.9ppt. Telecommunications equipment declined by 2.6% as the largest decline among all sectors.

China's exports to BR countries by category
% of China's total exports to BR countries, 2017





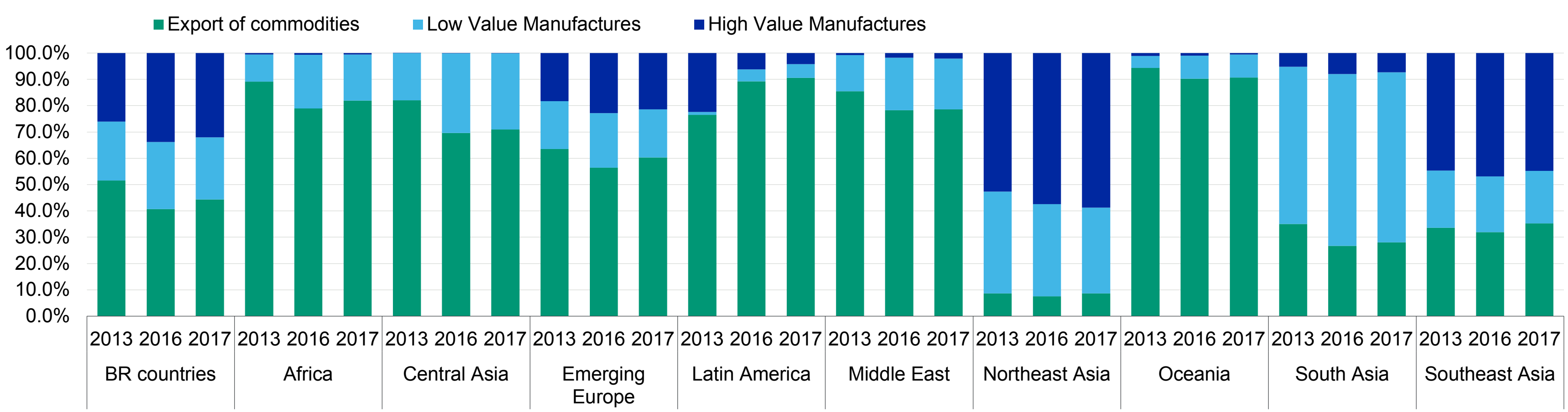
* Includes oil seeds, cork and wood, textile fibers, crude animal and vegetable materials. ** Includes petroleum, gas, electricity. *** Includes power generating equipment, general industrial machinery, office machines, telecommunications equipment, road vehicles, electrical machinery, etc. **** Other commodities and transactions refer to those not classified elsewhere in the Standard International Trade Classification (SITC, Revision 3).
Sources: UN Comtrade, Moody's Investors Service

BR countries account for a growing share of China's commodity imports

» BR countries' aggregate exports to China increased by 22% to $729 billion in 2017 from $599 billion in 2016.

» An increase in commodity exports accounted for over 60% of the total increase. The modest rise in commodity exports to 44.4% as a share in total exports from BR countries to China in 2017 compared with 40.7% in 2016, in part reflects recovery in commodities prices. But it may also be due to trade diversion of Chinese commodity imports from non-BR countries (like Australia) to BR countries (like those of Central Asia).

BR countries' goods export to China by category*

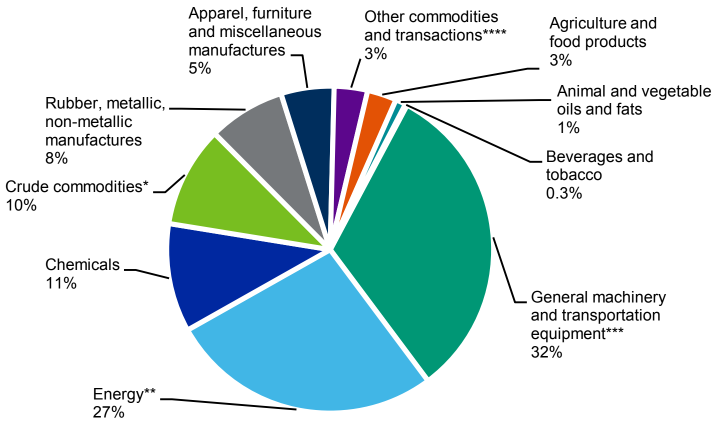


* BR countries comprise all BR countries.
Sources: UNCTADstat, Moody's Investors Service

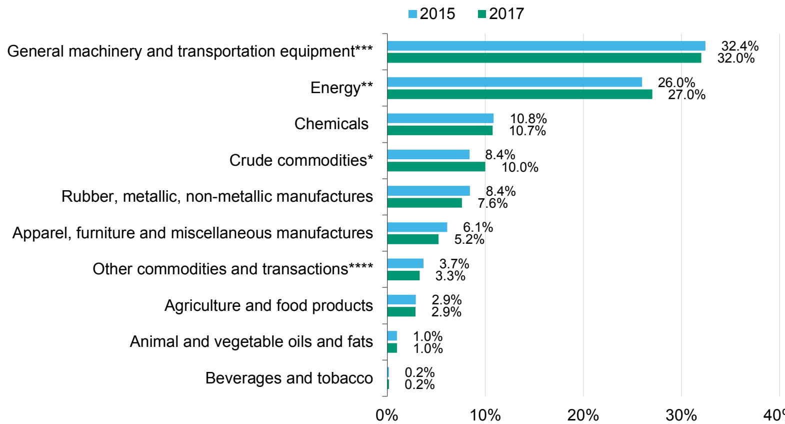
BR countries export energy, machinery, chemicals and commodities to China

- » General machinery and transportation equipment (32%), energy (27%) and take the largest share in BR countries' total goods export to China, followed by chemicals (11%) and crude commodities (10%), reflecting BR countries' important role as energy and commodity suppliers to China.
- » Crude commodities and energy show the greatest increase as of 1.6ppt and 1.0 ppt from 2016 to 2017.

BR countries exports to China by sector
% of total BR exports to China, 2017



Change in BR countries exports to China by sector
% of total BR exports to China



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Sources: UN Comtrade, Moody's Investors Service

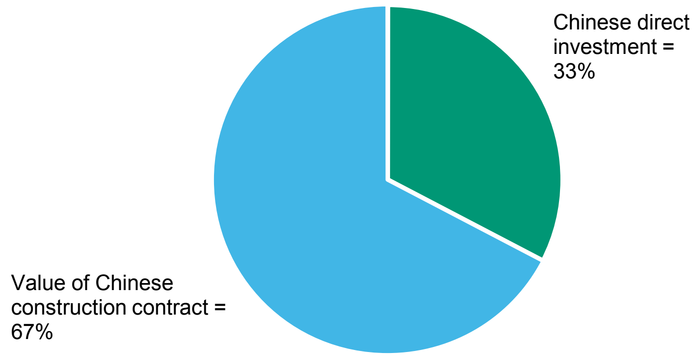
3

Funding BRI

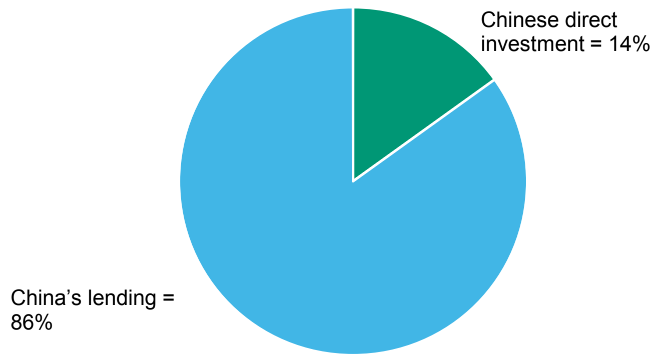
Lending, rather than direct investment, is the major funding channel for BRI

- Project finance mainly through Chinese lending is the major funding channel of BRI contracts led by Chinese state-owned enterprise (SOE) contractors. Project finance was 67% of total Chinese funding in BRI from 2014-June 2018, while direct investments (greenfield and M&A) was 33%.
- Chinese lending was 86% of Chinese total funding in Africa BR countries from 2014-16.

Chinese funding to BR countries*
As % of total Chinese funding
2014-June 2018 = $ 537 billion



Chinese funding to Africa BR countries**
As % of total Chinese funding
2014-16 = $ 54 billion

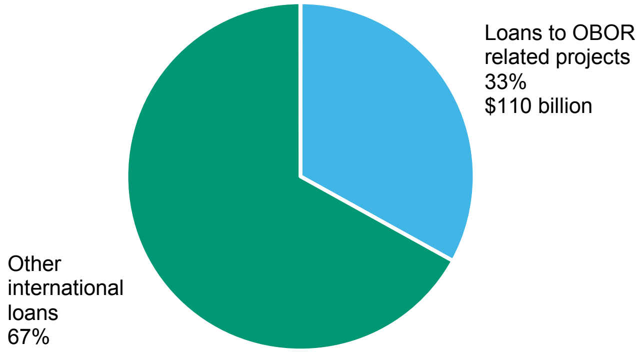


* These charts cover around 80 BR countries according to the Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. The value of Chinese-led contracts in the BRI counted could include funding from China and others. ** Data of Chinese funding to Africa BR countries is from Johns Hopkins research.
Sources: Johns Hopkins School of Advanced International Studies, China-Africa Research Initiative, American Enterprise Institute and the Heritage Foundation, WIND, Moody's Investors Service

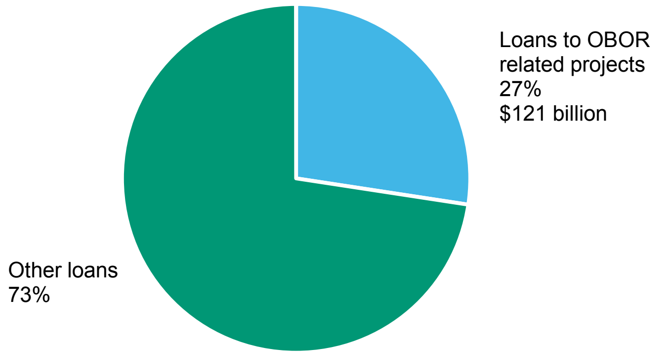
Chinese policy banks the main source of BRI loans

- China Development Bank Corporation (A1 stable) has around $110 billion in outstanding loans related to BRI projects in 2017, accounting for 33% (35% in 2016) of the bank's international loans or 6.5% of total gross loans as of the end of 2017. New lending in 2017 was $17.6 billion.
- The Export-Import Bank of China (A1 stable) has extended around $120 billion of outstanding loans to BRI projects, accounting for around 27% of the bank's total loans as of 2017 (25% in 2016).
- Large funding from policy banks to BR countries with a high implementation risk could lead to asset quality erosion at the banks and increase contingent liabilities for the Chinese sovereign over time.

China Development Bank outstanding international loans
2017 Total = $332.7 billion



The Export-Import Bank of China outstanding loans
2017 Total = $442.2 billion

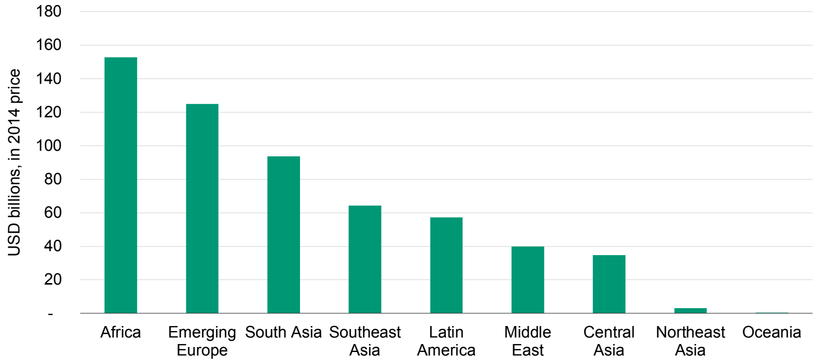


Sources: Banks annual reports, People's Bank of China, Xinhuanet.com, Moody's Investors Service

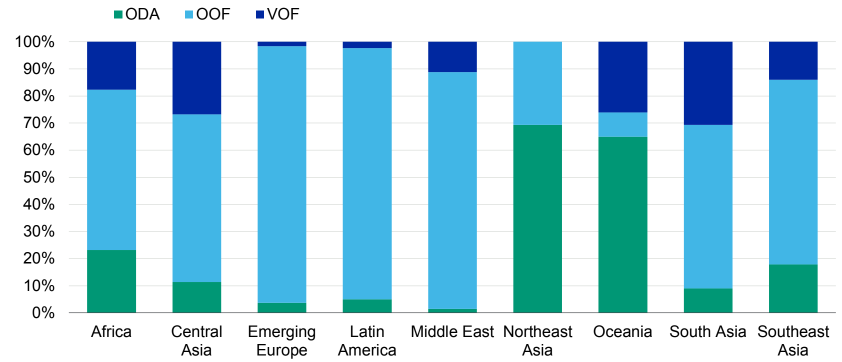
Chinese lending tends not to be on concessional terms

- Only $70 billion or 12% of total Chinese lending in countries that now have BR status during 2000-14 had official development assistance*.
- $153 billion or 27% of total Chinese lending in BR countries during 2000-14 were concentrated in Africa, which received the most Chinese lending. A total of 23% of this lending was official development assistance.
- In addition, the lack of transparency over the conditions attached to Chinese lending and lack of reform and governance requirements compared with those required by multilateral official creditors, could limit the long-term economic benefits to BR countries.*

Chinese lending distribution by BR region
Cumulative 2000-14



Share of Chinese lending by type and by region**
Cumulative 2000-14

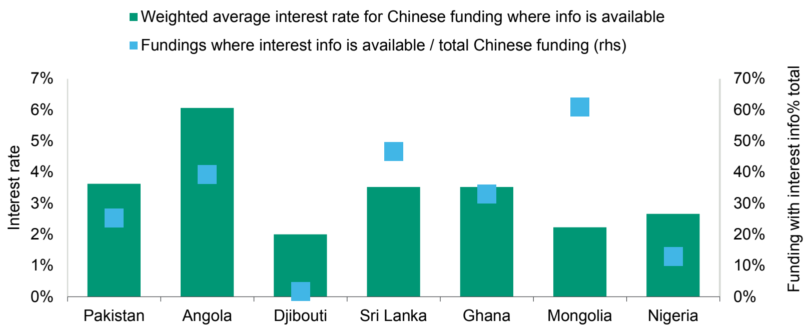


*For details, please see China's lending supports growth, exacerbates fiscal and external pressures in Sub-Saharan Africa
**Official development assistance (ODA): projects with a development focus and with at least 25% concessionality; Other official flows (OOF) projects not primarily focused on development and not sufficiently concessional, often in countries that are not eligible for ODA; Vague official finance (VOF): projects for which there is insufficient information and/or criteria to determine whether or not it is either ODA or OOF.
Sources: AidData, Moody's Investors Service

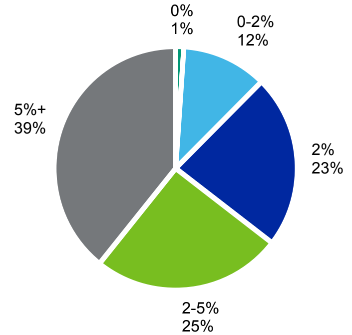
Average cost of Chinese lending could be higher than multinational institutions

- Only 20% of Chinese funding to BR countries in AidData statistics has a specified interest rate. Of these loans, around 40% have an interest rate higher than 5%, and a quarter are between 2%-5%. Thus the weighted average interest rate on Chinese funding for these countries is between 3.5%-5.0%. Numerous cases have reported that high interest rates of more than 6% have been charged on Chinese funding to some BR countries, including Pakistan, Sri Lanka, Angola, Ghana, Mongolia and Nigeria.
- In comparison, lending rates from World Bank for most of these countries range between LIBOR plus 1.0%-2.0% and most IMF lending is priced from the interest rate on Special Drawing Rights (SDR).
- On the other hand, the maturity of these loans is generally long, varying between 12 years and 20 years. Moreover, the private sector also accounts for a portion of BRI loans, for example representing two-thirds of the disbursed China-Pakistan Economic Corridor-related loans. The pricing of these loans is comparable to loans to the private sector from multinational institutions.

Chinese lending to selected BR countries, 2000-2014



Interest rate on Chinese funding, 2000-2014
Weighted average by lending amount



Debt to China in Africa is estimated from the sum of the Chinese annual lending to Africa over past five years.
Source: AidData, World Bank, Moody's investors Service

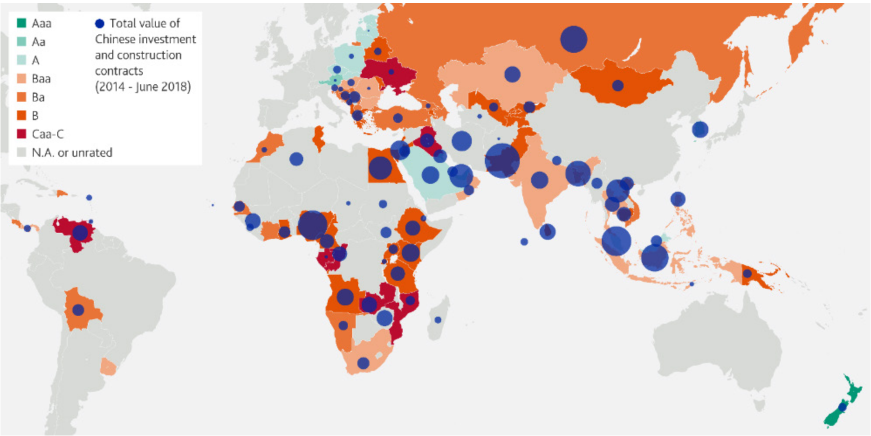
4

Challenges and credit risks to China and BR countries

China's exposure to riskier regions and countries increases as BRI expands

- By November 2018, around 75% of the 115 BR countries, are either rated below investment grade (Ba or lower) or not rated by Moody's. 62% of BR countries are not investment grade in our last report published on September 2017.
- Total value of Chinese direct investment and Chinese-led contracts in BR countries reached $537 billion from 2014-June 2018. Of this amount 30% was in countries that are rated investment grade, Singapore excluded.
- Riskier BR countries receive more loans, but less direct investment, leading to higher debt pressure on weaker countries. A total of 47% of China's BRI direct investments has flowed to non-investment grade BR countries, while 74% of Chinese lending in BRI contracts is in non-investment grade BR countries.

Distribution of Chinese-led direct funding in BRI

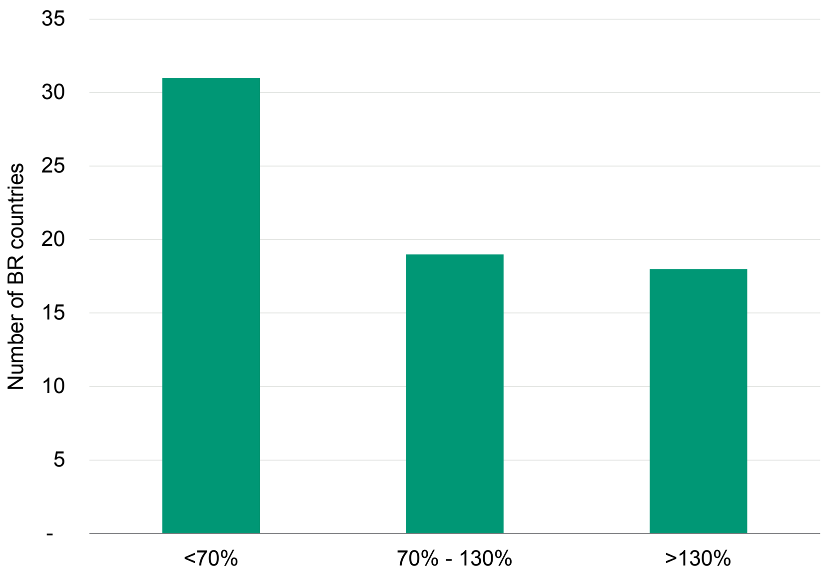


Grading is based on foreign-currency long-term sovereign issuer ratings. Bubble indicates total value of Chinese direct investments and Chinese-led construction contract value between 2014-June 2018. The chart covers around 80 BR countries according to Chinese Investment Tracker by American Enterprise Institute and the Heritage Foundation. BRI contract value counted could include funding from China and others.
Sources: American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

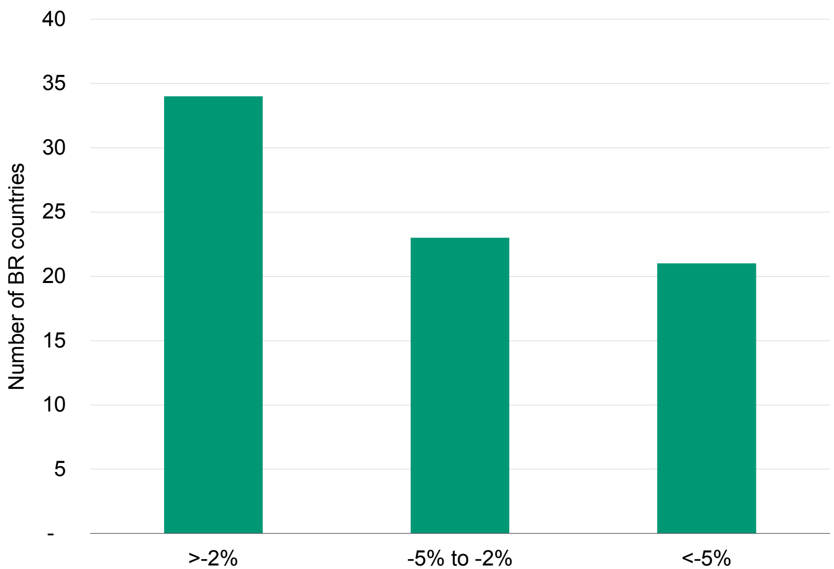
More than half of BR countries face external vulnerability and balance of payments pressure

» A total of 54% of BR countries* are highly vulnerable to external risk, with an external vulnerability indicator (EVI) of more than 70%, while 56% of these counties have current account deficits of more than 2% of GDP.

External vulnerability indicator (EVI)
%, 2019F



Current account balance
% of GDP, 2019F

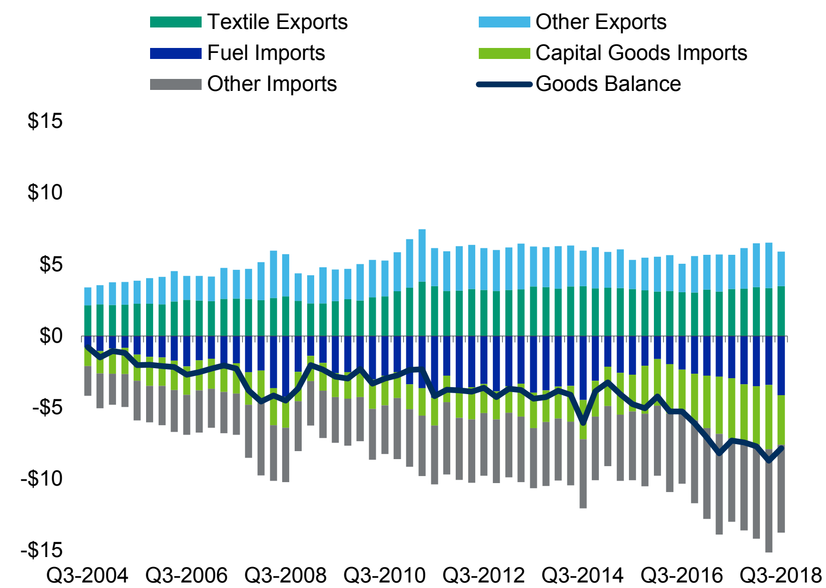


* Only 68 and 78 countries are included in EVI and current account charts respectively due to data limitation
Sources: Haver Analytics, Moody's Investors Service

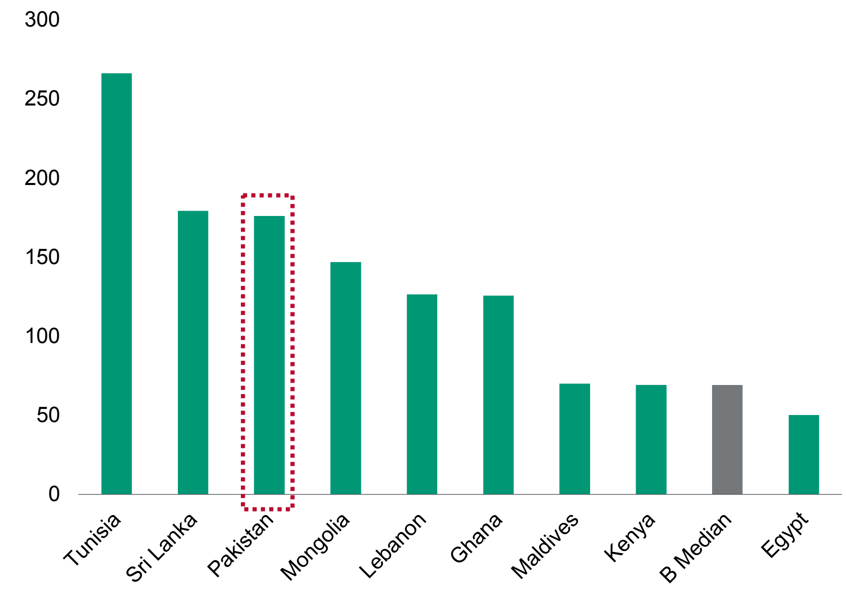
Some BR countries could suffer from deep involvement in BRI

- Weak exports and growing capital goods imports have pressured the current account of Pakistan
- Coverage of public and private external debt due in Pakistan has deteriorated to one of the weakest among BR peers

Current account balance of Pakistan
USD billions



External Vulnerability Indicator
2019F, %



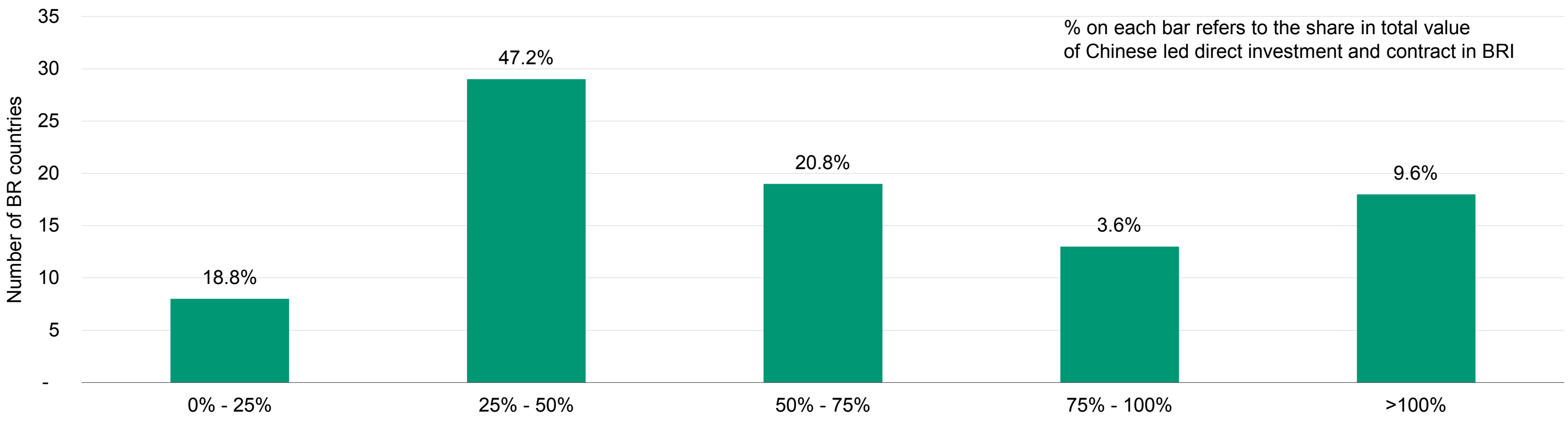
Sources: State Bank of Pakistan, Haver Analytics, Moody's investors Service

More than a quarter BR countries have high external leverage

- There has been a gradual rise in government and external leverage across Emerging Europe, South and Southeast Asia. For example, general government leverage of Indonesia increased to 29% in 2019 from 24.9% in 2013, with external leverage rising to 34.4% from 29.2%, based on our estimates.
- Around 36% of BR countries have higher than 75% external debt/GDP. A total of 13.2% of total Chinese led BRI investment and contracts is in these countries.

External leverage of BR countries

External debt as % of GDP, 2019F



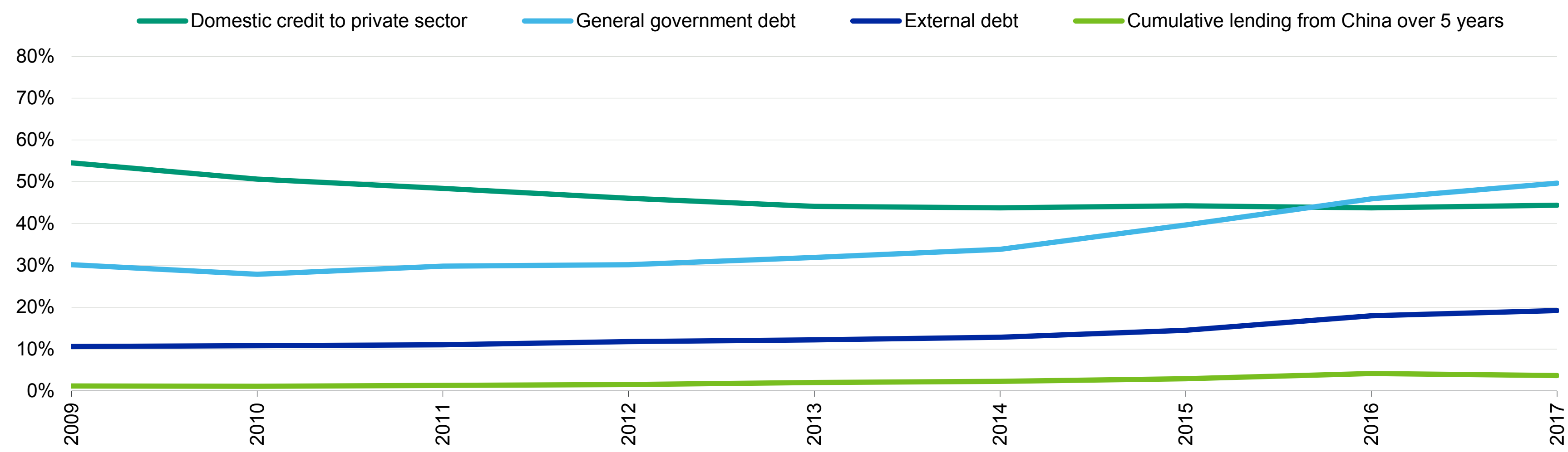
* This chart covers around 80 BR countries due to the data limitation of external debt. The value of Chinese led contracts in BRI counted could include funding from China and others.

Source: World bank, Haver Analytics, American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

Some BR countries face a large rise in government and external leverage

- In Africa external and government debt have risen significantly since 2013 till 2017, even while domestic credit to the private sector has declined. For example, government and external leverage levels in South Africa have risen by around 10ppt to about 53% and 50%, respectively.
- Over the same period, cumulative lending from China rose to 4% of Africa's GDP from 2% in 2013.

Africa BR countries
% GDP



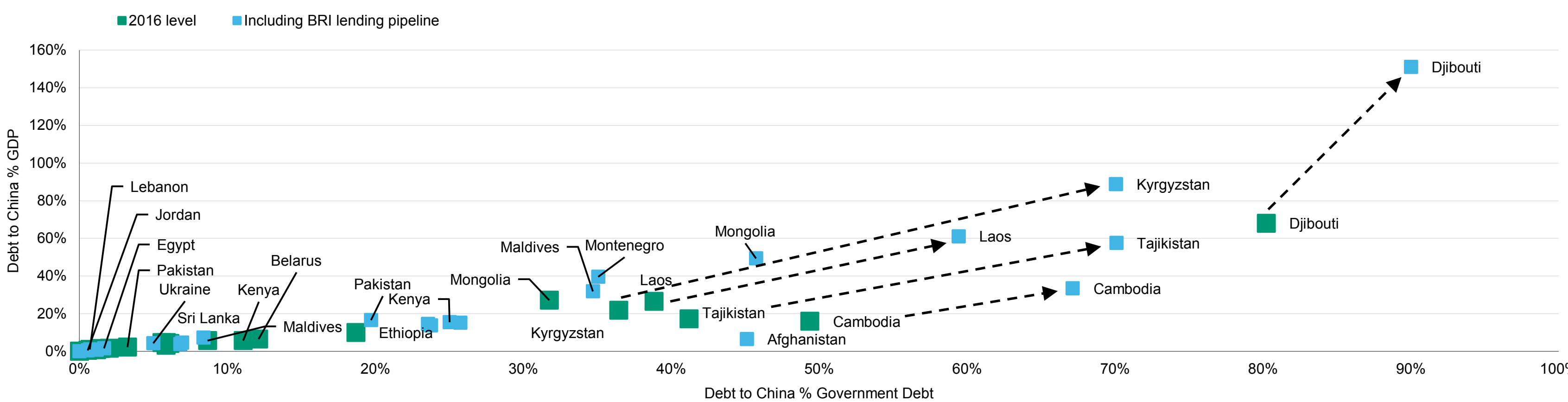
* Debt to China in Africa is estimated from the sum of the Chinese annual lending to Africa over past five years.
Sources: World Bank, Haver Analytics, Johns Hopkins School of Advanced International Studies, Moody's Investors Service

High reliance on China likely to further raise external leverage

» If invested wisely, BRI funds have the potential to promote productivity and economic growth of BR countries. Improving infrastructure connectivity could lead to more trade, increased investment and enhanced production capacity. However, until investment generates significant growth returns, BR countries' debt burden will increase.

» In countries such as Djibouti, Cambodia, Tajikistan, Laos, Kyrgyzstan and Mongolia, debt to China accounts for more than a third of general government debt, and more than 15% of GDP (figures as of 2016.) These countries' reliance on Chinese lending will continue to increase because of the large size of BRI projects in the pipeline. The comparative lack of transparency around the terms of Chinese loans means liquidity risks of these countries will be less visible.

Debt to China (BR countries), 2016

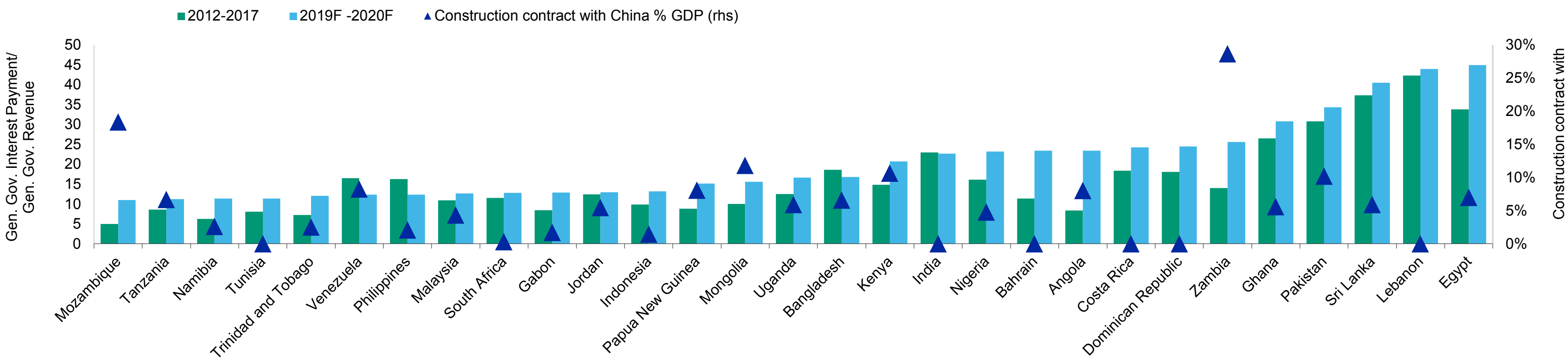


* BR pipeline includes contracts post 2016 value estimated by Center for Global Development
Sources: Center for Global Development, Moody's Investors Service

BRI projects could worsen debt affordability in BR countries

- » For BR countries where data are available, two thirds will see higher interest rate payments in relation to government revenue over the next two years compared with the average between 2012-17. Angola, Bahrain and Zambia will see a sharp increase of more than 10ppt in interest rate payments in relation to government revenue. Others will face high costs in the future, such as Ghana, Pakistan, Sri Lanka, Lebanon and Egypt.
- » While the BRI is not the only or even the main factor behind weak debt affordability for a number of these countries, the large BRI contracts with China tend to exacerbate already high debt costs.

General government interest rate payment as % government revenue
Selected countries with interest rate payment above 11% between 2019-20



* General interest payment as % government revenue is a sub-factor in Moody's sovereign rating methodology. 11% corresponds indicates M+(Median pus) risk according to sovereign methodology.
Sources: Center for Global Development, American Enterprise Institute and the Heritage Foundation, Moody's Investors Service

5

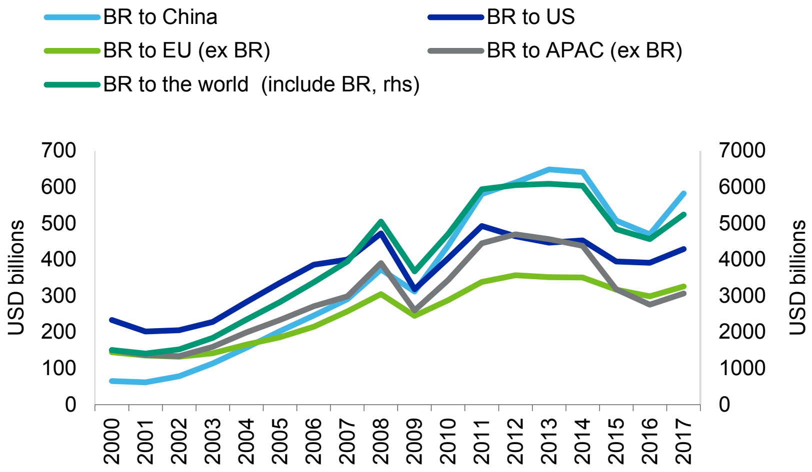
Potential future trends

BR countries will become increasingly important for Chinese exports

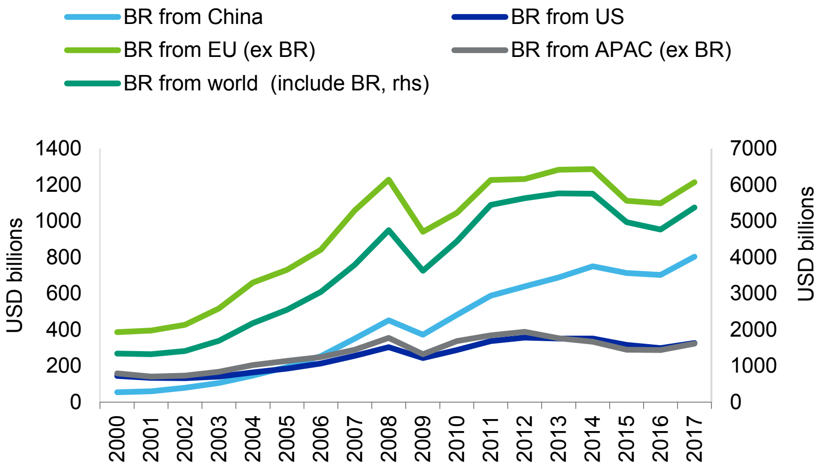
» BR countries' exports to China have been broadly inline with their global export trends and reached 11% of their total exports in 2017. BR countries' imports from China have seen a significant rise, accounting for 15% of their total imports in 2017 from 9%10 years previously.

» The BRI deepens trade relationship between BR countries and China. China views BR countries not only as commodity suppliers but also strategically important sources of export demand, in particular when US-China trade tension is escalating and demand from developed countries is weakening.

BR countries' exports*



BR countries' imports*



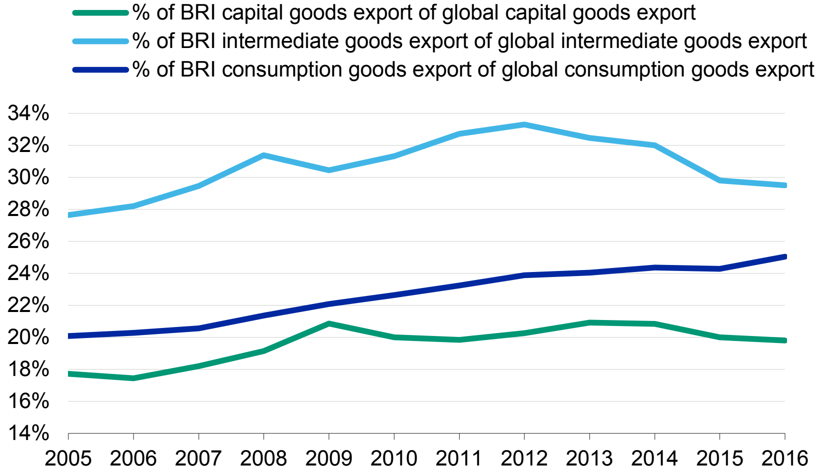
* The trade data in this slide are reported by BR countries.
Sources: Haver Analytics, Moody's Investors Service

BR countries will become increasingly important in global supply chains

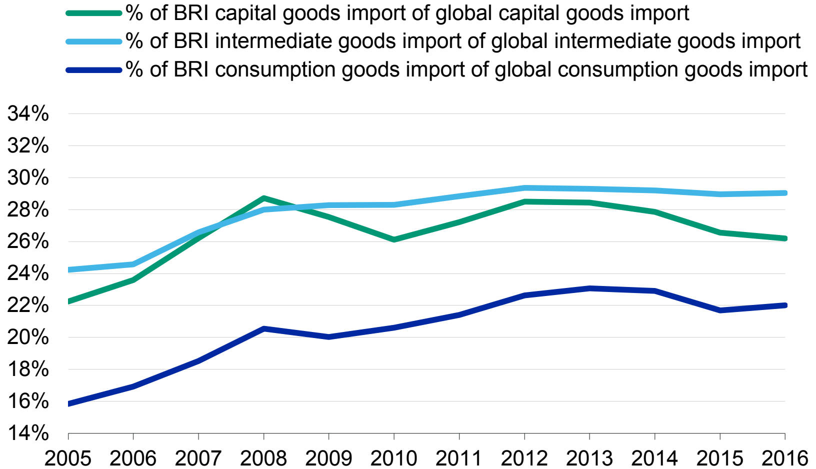
» BR countries' annual real GDP growth rate has been higher than global average at 4.1% compared with 2.7% between 2005-16, which drives their imports of final consumption goods. Rising competitiveness and manufacturing capabilities foster these countries' export of final consumption goods, in particular value-added goods exports.

» BR countries maintain a substantial role in the global supply chain in terms of intermediate goods trade, for which both exports and imports accounted for more than 29% of global trade in past five years.

BR countries in global export*



BR countries in global import*

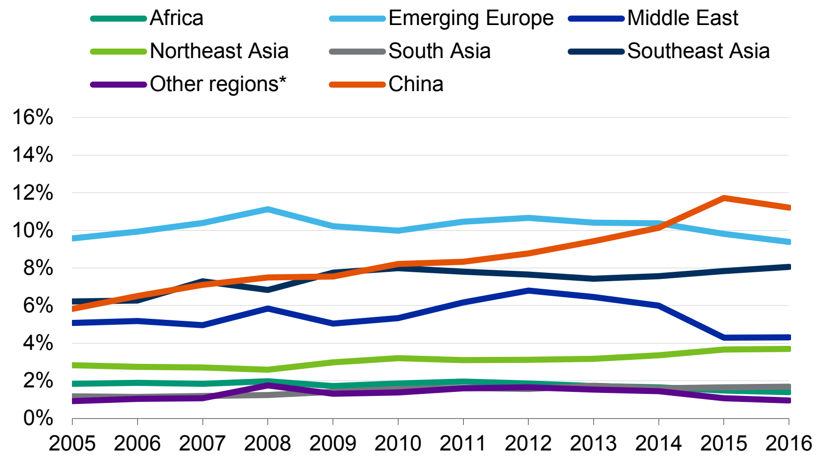


* Due to data limitation in the period from 2005 to 2016, only 65 BR countries are accounted for BR and 118 countries accounted for global.
Sources: UN Comtrade, Moody's Investors Service

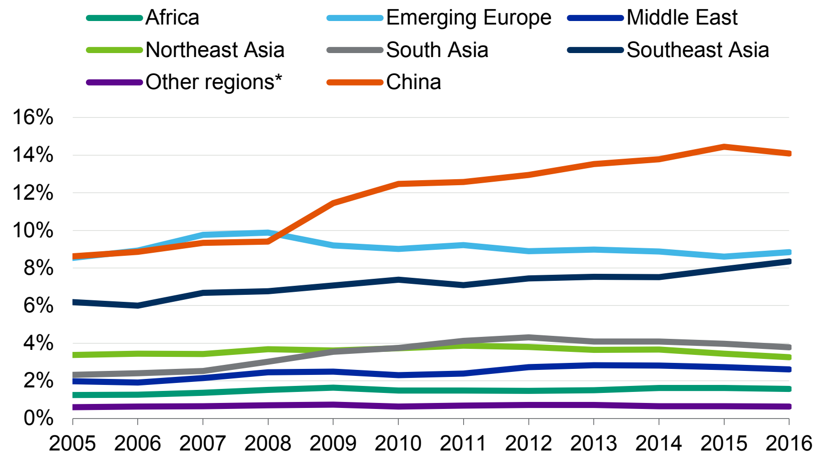
BRI could facilitate the gradual shift of supply chains from China to SE Asia

- Large manufacturing companies have been moving their production or assembling centers to countries like Vietnam and Cambodia as production costs in China have risen as Chinese products move up the value chain.
- While US-China trade tensions is likely to further speed up such a shift, the BRI could also facilitate this through improving infrastructure in those countries.
- In addition to Southeast Asia, Emerging Europe has a leading role in terms of intermediate goods trade among BR countries, accounting for 9%-10% of total BR intermediate goods trade in the last five years.

Share of China and BRI by region in global export of intermediate goods



Share of China and BRI by region in global import of intermediate goods



Due to data limitation from 2005-16, only 65 BR countries are accounted for BR and 118 countries accounted for global.
*Other regions include Central Asia, Latin America and Oceania
Sources: UN Comtrade, Moody's Investors Service

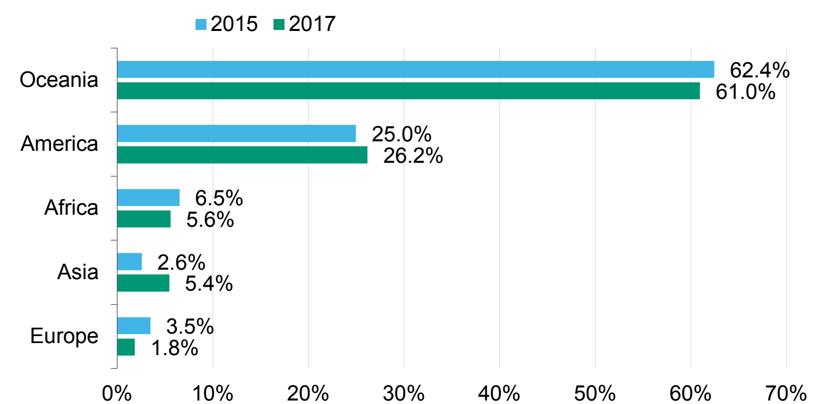
BRI likely to lead to further trade diversion

» Although the BRI has led to only marginal changes in the pattern of Chinese imports to date, these changes could accelerate in future.

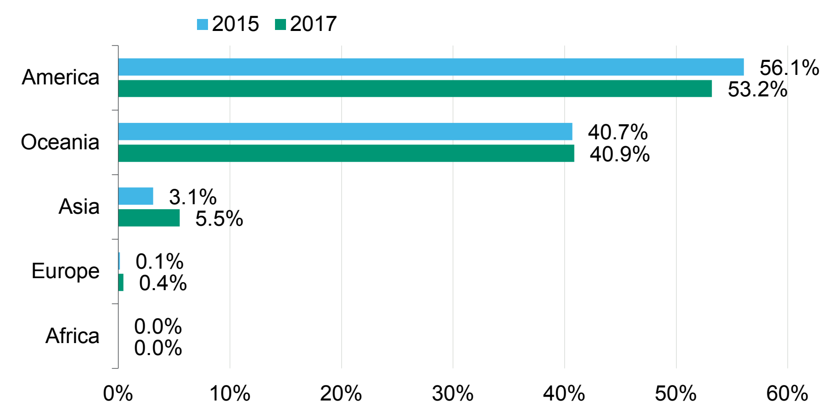
» Chinese imports of iron ore from Asia increased to 5.4% of total iron ore imports in 2017 up from 2.6% in 2015. Meanwhile the import share from Europe and Australia has declined. For example, import of iron ore from India increased to 2.3% of total in 2017 from 0.2% in 2015 while that for Australia fell to 60.8% in 2017 from 62.3% in 2015.

» Chinese imports of wheat and meslin* from Asia rose to 5.5% of the total in 2017, up from 3.1% in 2015. By contrast, imports from America declined from 56.1% to 53.2%. The import of wheat and meslin from Kazakhstan rose to 5.5% of total in 2017, compared to from 3.1% in 2015, while that for Canada declined sharply to 15.3% in 2017 from 35.2% in 2015.

Chinese imports of iron ore by regions



Chinese imports of wheat and meslin* by regions

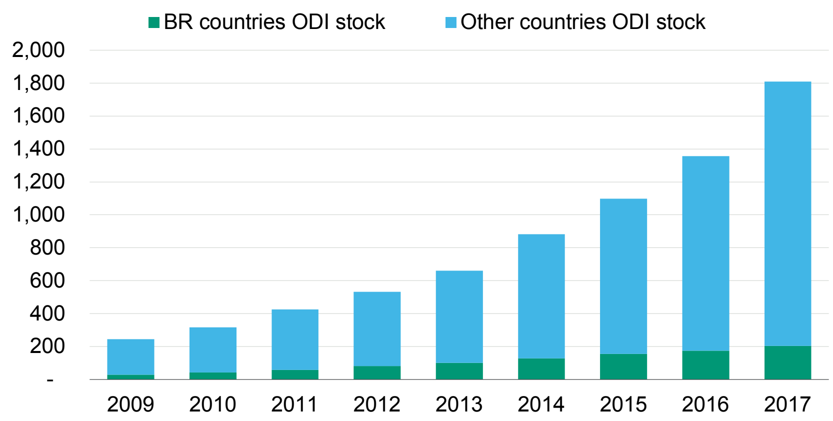


* According to UNCTAD, meslin is a mixture of wheat and rye that is sown and harvested together
Sources: UNCTADStat, Moody's Investors Service

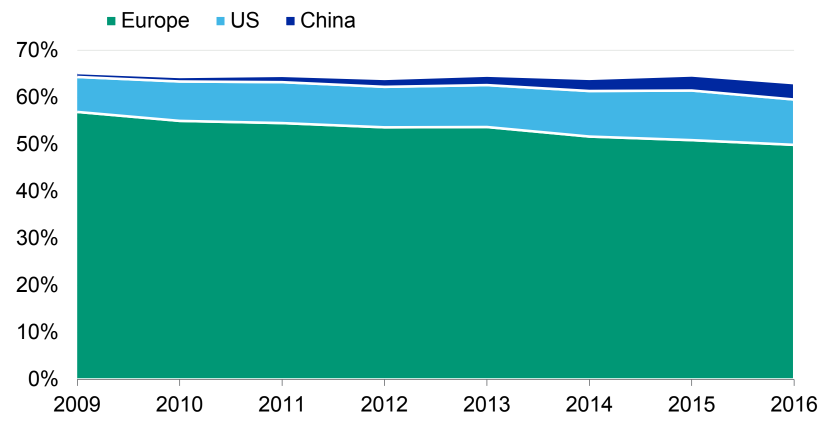
Chinese direct investment in BR countries will rise further

- » Total direct investment stock from China to BR countries nearly doubled to $205 billion at the end of 2017, from $100.3 billion in 2013. However, the share of outbound direct investment (ODI) to BR countries in China's total ODI stock has declined to 11.3% from 15.2% in the past four years.
- » Nevertheless, there is still large space for China's ODI to rise as China only accounted for around 3.5% of total foreign investment stock in BR countries in 2016, considerably below that from Europe (50%) and the US (10%).

China's total ODI stock*
USD billions



BR countries' total foreign investment stock
%



* China's ODI stock is from China Ministry of Commerce, while direct investment in other slides is collected by American Enterprise Institute and the Heritage Foundation through bottom up approach.
Sources: IMF, China Ministry of Commerce, Moody's Investors Service

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* discontinued in 2017

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