Which Countries Have Benefited the Most from China’s Belt and Road Initiative?

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KEY POINTS
- Analysis of project-level data on China’s outbound FDI and construction projects finds that the Belt and Road Initiative (BRI) has led to a large increase in China’s outbound FDI in Belt and Road (B&R) countries compared to non-B&R countries, especially for greenfield FDI projects and in the energy sector.
- The importance of economic fundamentals in allocating Chinese investment to different countries has declined substantially under the BRI, raising concerns that the expected returns to such investments has declined.
- The importance of governance quality in explaining China’s outbound FDI increased significantly under the BRI, dispelling concerns that under the BRI China targets investments toward corrupt, poorly governed countries.

Issue

China’s ambitious Belt and Road Initiative (BRI) aims to promote connectivity with countries along China’s traditional trade routes and increasingly with countries throughout the world. Since the Initiative was announced in September 2013, China has committed hundreds of billions of dollars to infrastructure and foreign direct investment projects in B&R countries.

Debates over China’s intentions and practices under the Initiative have been polarized. Some accuse China of seeking out weak, corrupt governments to exploit and create dependency. In contrast, others emphasize that the investments seek to promote development and shared prosperity.

Although six years have now passed since the start of BRI, there has been little systematic analysis of which B&R countries have seen the greatest increase in investments, and what country characteristics best predict which countries have attracted more investments.
from China. A better understanding of these questions can help shed light on which countries are benefiting most from the initiative, and also on the nature of the Initiative itself, since a quantitative assessment can move beyond the rhetoric to uncover the underlying determinants of the flow of Chinese investments to different countries.

Assessment

In order to assess how the BRI has influenced the amount of China’s outbound investments to different countries, we assemble a global dataset of China’s outbound FDI (OFDI) and infrastructure projects. According to bilateral FDI data published by China’s Ministry of Commerce, about 75% of China’s OFDI goes to Hong Kong or tax havens (e.g., British Virgin Islands and the Cayman Islands) with the final destination unknown, making the data unsuitable for analysis. In contrast, our project-level data comes from two independent sources that verify information on Chinese projects at final destination from government, company, and media websites: the Financial Times’ FDi Market (FM) dataset on greenfield FDI projects, and the China Global Investment Tracker (CGIT) of the American Enterprise Institute, which records large (above $100 million) construction and FDI projects (including greenfield and brownfield investments, and mergers and acquisitions). Merging the datasets results in a sample of 5,053 cross-border investment projects from 2010 to 2017 with a total value of $1.22 trillion and 1,184 large construction projects with a total value of $601 billion.

Using these data, we calculate that China’s OFDI increased from $395 billion during the four years before BRI (2010-2013) to US$827 billion during the four years after BRI (2014-2017), an increase rate of 109.4%. The value of construction projects for the same periods increased from $230 billion to $370 billion, or by 60.5%.

In Figure 1, we compare the investment trends in B&R countries and non-B&R countries. Although recently China has dramatically expanded the number of countries invited to participate in the BRI, for this analysis we categorize 61 of the 169 countries in our dataset as B&R countries based on the set of countries initially targeted. B&R countries are located in the Middle East (15 countries), Eastern Europe including Russia (10), other parts of Europe (10), Southeast Asia (9), South Asia (8), Central Asia (5), and East Africa (3). We look separately at total FDI, greenfield FDI, non-greenfield FDI, and construction projects. The plots reveal that FDI in both B&R and non-B&R countries increased over time, but faster in B&R countries after 2013. It is revealing to divide FDI between greenfield and non-greenfield projects. Greenfield FDI increased substantially in B&R countries, but relatively little in non-B&R countries, while non-greenfield FDI increased significantly in non-B&R countries but remained at consistently low levels in B&R countries. This is consistent with much of China’s OFDI in developed countries being in the form of mergers and acquisitions. The value of construction projects also is consistently higher and increased move in B&R countries compared to non-B&R countries. Regression-based
estimates of how the BRI has affected annual investment flows over time within each country, and which account for differential trends in B&R and non-B&R countries prior to the BRI, find that total FDI from China to B&R countries increased by about 100% after 2013 compared to non-B&R countries, greenfield FDI increased by 146%, and the value of construction projects increased by 17%.

In recent years, South Asia and Southeast Asia have received the lion’s share of Chinese outbound FDI to B&R countries. Much of the increase in outbound greenfield FDI to B&R countries is concentrated in South Asia, Africa, and Central Asia, while the increase in construction projects is concentrated in South Asia, the Middle East, and Southeast Asia. Consistent with China’s quest for energy resources, the sector receiving the most greenfield FDI in B&R countries both before and after the BRI, and also showing the largest increase after the BRI, is the energy sector. In contrast, greenfield FDI in the energy sector changed little in non-B&R countries. After BRI began, resource sectors (energy and metals and minerals) account for 47% of greenfield investments in B&R countries.

In order to shed light on the motivations driving China’s OFDI, we employ regression analysis to analyze how three different types of country factors—economic fundamentals, cultural proximity, and governance quality— influence the value of greenfield FDI and construction projects in different countries. We conduct the analysis separately for the years prior to BRI and the years after BRI to test whether the importance of different factors changed after the BRI was implemented.

The 7 economic fundamentals we consider are the growth rate of GDP per capita, level of GDP per capita, population, natural resource rents (as a share of GDP), real exchange rate, distance to China, and export product sophistication. Cultural proximity is captured by the share of Chinese in the population. Finally, for governance quality, we use the World Bank’s Worldwide Governance Indicators (WGI), which for each country in each year include indicators for 6 dimensions of governance: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. We define an overall governance quality indicator to be the mean of the 6 different dimensions of governance.

The magnitude and statistical significance of the coefficients on some of the key indicators (growth rate of GDP per capita, natural resource rents, share of Chinese in the population, and overall governance quality) are presented in Figure 2. Our main findings are that for greenfield FDI, economic fundamentals (like the growth rate of GDP per capita) and cultural proximity significantly influence the amount of investments before BRI but not after BRI, while the impact of governance quality matters in both years but significantly increases in importance after BRI. For construction projects, the importance of economic fundamentals also declines significantly after BRI, with the exception of natural resource rents, which unlike

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**Figure 2: Impacts of Country Characteristics on Greenfield OFDI and Construction Projects Before and After BRI**

<table>
<thead>
<tr>
<th>Year</th>
<th>Greenfield FDI</th>
<th>Construction Projects</th>
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<tbody>
<tr>
<td>2010-2013</td>
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<td>2014-2017</td>
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Note: * p < 0.1; ** p < 0.05; *** p < 0.01

Notes: Coefficient estimates from regressions of annual Chinese investments in different countries on a set of country characteristics (7 economic fundamentals, share of Chinese in population, and governance quality). Data constructed from merged project-level data from FM and CGIT.
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