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CCXI

2023
COUNTRY RISK REPORT ALONG THE BELT AND ROAD

A New Chapter in the 10th anniversary of the Belt and Road Initiative

China Chengxin International Credit Rating Co., Ltd.
China International Contractors Association

COUNTRY RISK REPORT ALONG THE BELT AND ROAD (2023)

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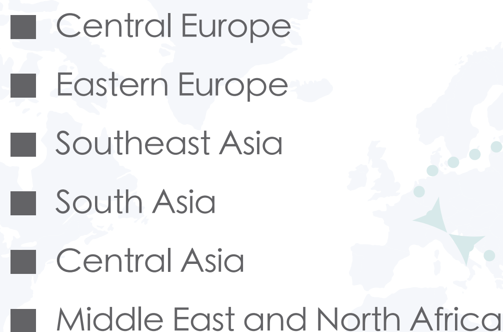

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A New Chapter in the 10th anniversary of the Belt and Road Initiative

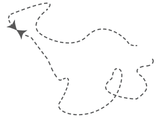
The year 2023 marks the 10th anniversary of the launch of the Belt and Road Initiative (BRI). Over the past decade, the BRI has played a vital role in strengthening policy coordination among countries, enhancing global connectivity, reshaping international trade patterns, and driving global economic growth. By September 2023, China had signed over 200 cooperation agreements with 152 countries and 32 international organizations, attracting an investment of nearly a trillion dollars. These agreements covered a wide range of fields, including connectivity, trade, investment, finance, social welfare, maritime affairs, e-commerce, S&T, people's well-being, and culture, etc. Thanks to the collaborative efforts of all participants, the Belt and Road Initiative has laid a solid foundation for interconnectedness over the past decade. It has brought about numerous mutually beneficial projects across the framework of "six corridors and six channels serving multiple countries and ports". It follows that the level of trade liberalization and facilitation has continued to improve among countries and regions along the Belt and Road. By the end of 2022, China had signed 19 free trade agreements with 26 countries and regions spanning Asia, Oceania, Latin America, Europe, and Africa. Likewise, it has fostered closer cooperation in industrial and supply chains among participating nations and regions. From 2013 to 2022, the proportion of China's export of intermediate goods to Belt and Road countries increased from 49.8% to 56.3%. According to the World Bank, the Belt and Road Initiative has yielded remarkable results, bringing to a 4.1% increase in trade and a 5% boost in foreign investment for participating countries, as well as a substantial 3.4% rise in GDP for low-income countries. By 2030, the initiative is expected to boost the trade of participating nations by 2.8% to 9.7%, global trade by 1.7% to 6.2%, and global income by 0.7% to 2.9%.

The competition and rivalry among major powers are becoming increasingly intense, and multiple shocks are putting new pressure on global economic growth. Under such backdrop, the growth of global economy is expected to slow down further and render a more differentiated picture among states, which could create new challenges for the Belt and Road Initiative. Looking into the future, the opportunities for promoting joint construction of the Belt and Road outweigh the challenges. Many countries along the Belt and Road still have significant needs for connectivity, particularly landlocked countries in Eurasia that seek to achieve land-sea connectivity. In addition, international industrial capacity cooperation holds vast untapped potential. The new technological and industrial revolutions are changing industrial space, layout and structure, which offers participating countries

the opportunities to explore new fields of cooperation in the joint construction of the Belt and Road. This includes strengthening cooperation in innovation, green development, health, digital economy and international poverty reduction to bring about incremental development. At the opening ceremony of the Third Belt and Road Forum for International Cooperation on October 18, 2023, China proposed eight key actions to promote the high-quality development of the BRI through joint efforts, providing practical solutions for future development.

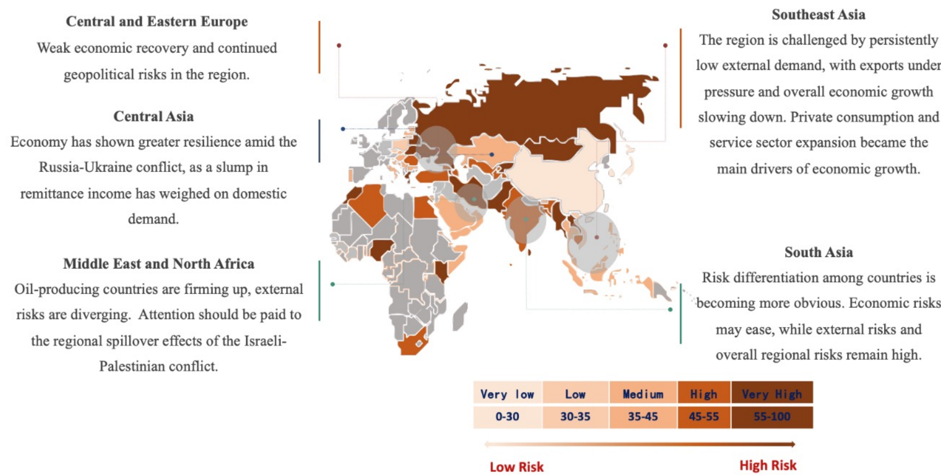
Starting from 2017, China Chengxin International Credit Co., Ltd. (CCXI) has published the *Country Risk Report Along the Belt and Road* (the Report) for seven consecutive years. The latest report continues to provide a professional interpretation of the risks associated with countries along the Belt and Road, covering a total of 60 countries. With the latest data in 2023 as the basis of analysis and a comparison with 2022 data, the Report also incorporates the most updated economic forecasts for 2024-2025, so that to offer more accurate predictions on the risk trends in relevant countries. Meanwhile, CCXI has collaborated with the China International Contractors Association to release the *2023 Risks Overview of the Chinese International Contracting Industry*, which systematically summarizes the regional differentiation in risk characteristics within the contracting industry for 2023, and set out to presents risk management and response measures, in an aim to provide valuable insights for businesses venturing abroad by effectively identifying, controlling, and addressing risks.

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. These all underpins its sound reputation in the capital market. The business scope of CCXI covers credit rating and investor service 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 experiences in risk assessment of countries along the Belt and Road, and of international contractors and enterprises as well.



Part I. 2023 Risk Performance and Outlook of Countries along the Belt and Road

2023 RISK MAP OF COUNTRIES ALONG THE BELT AND ROAD



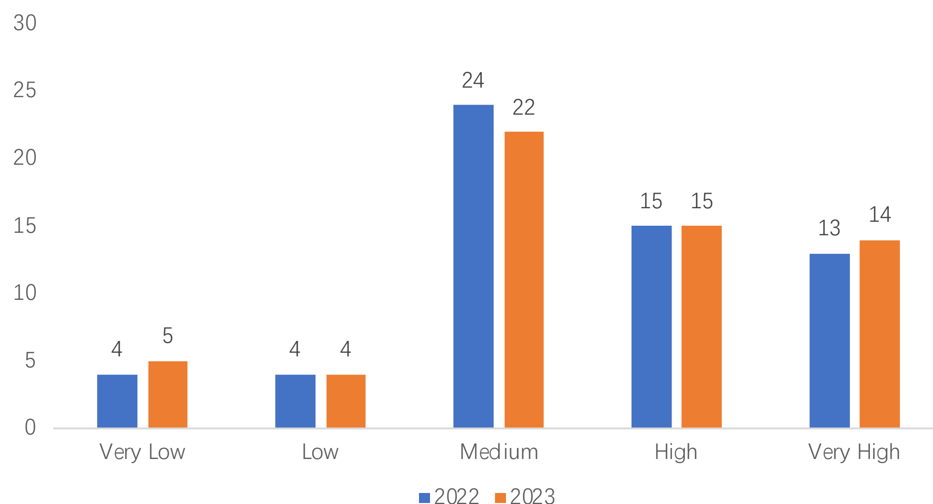
I. 2023 Overall Risk Performance of Countries along the Belt and Road

In 2023, the overall risk in countries along the Belt and Road has seen a slight uptick compared to 2022, with a noticeable increase in risk for tail-end countries, intensifying the trend of divergence.

In 2023, influenced by factors such as accelerated tightening of global monetary policies and geopolitical risks like the Russia-Ukraine conflict, Ukraine has found itself embroiled in a war quagmire with worrisome economic prospects. Countries like Sri Lanka, Pakistan and Laos continue to face prominent risks in their external accounts, which have further escalated as compared to 2022. The heightened risk in tail-end countries has contributed to an overall increase in the average risk level for countries along the Belt and Road, with the 2023 country risk score slightly rising to 46.53 from 45.15 in 2022, underscoring a growing trend of differentiation.

In terms of risk distribution, the number of countries with a medium risk level decreases from 24 in 2022 to 22 in 2023, accounting for 37% of the total, while the number of countries with a very high risk level increases from 13 to 14, or 23% of the total. Additionally, there are 9 countries with low and very low risk levels, accounting for 15% of the total. The piling-up for risk scores of countries along the Belt and Road shows that in 2023, developed nations such as Singapore, South Korea, and Japan continue to maintain very low risk levels, whereas countries like Ukraine, Myanmar, Sri Lanka, and Laos are grappling with significant overall risk.

Fig. 1: Distribution of Risk Levels for Countries along the Belt and Road (2022 vs. 2023)



From a dynamic perspective, countries with relatively low risk levels have shown relatively stable performance, while some countries with high or very high risk levels have experienced a significant increase in risk. In particular, risks have become more pronounced in tail-end countries.

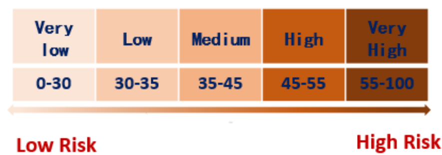
In 2023, a total of 8 countries experiences changes in their risk levels as compared to 2022. Among them, 4 countries see a decrease in their risk levels, while the other 4 see an increase. Risk rankings of some countries have undergone noticeable changes. Risk profile has improved for countries such as the Philippines, Maldives, and Kazakhstan. Meanwhile, countries like Estonia, Romania, Mongolia, and Algeria have experienced a significant increase in risk.

Philippines has seen an accelerated economic recovery due to strong domestic demand and sustained growth in the service industry, leading to a reduction in country risk. Thanks to a strong rebound in tourism, Maldives is expected to achieve a 6.5% economic growth in 2023, making it the fastest-growing economy in South Asia with significant mitigation in country risk. Kazakhstan's national ranking in 2023 has significantly risen due to the recovery in its key oil field production, as well as increased investment demand and growth in service exports.

Romania, Estonia, and Bulgaria have been hit by the Russia-Ukraine conflict, with rising commodity import costs and deteriorating confidence dampening domestic demand, leading to heightened economic and fiscal pressures and a significant increase in country risk. Mongolia faces prominent fiscal and external risks. Despite the rebound in mineral revenues boosting fiscal income, a large amount of social expenditure has resulted in a still-high fiscal deficit. Additionally, Mongolia's high proportion of FX-denominated debt, combined with domestic currency depreciation and tightened financing conditions, has pushed up its fiscal risk and led to a substantial increase in country risk.

Table 1: Risk Level Changes in Countries along the Belt and Road (2022 vs. 2023)

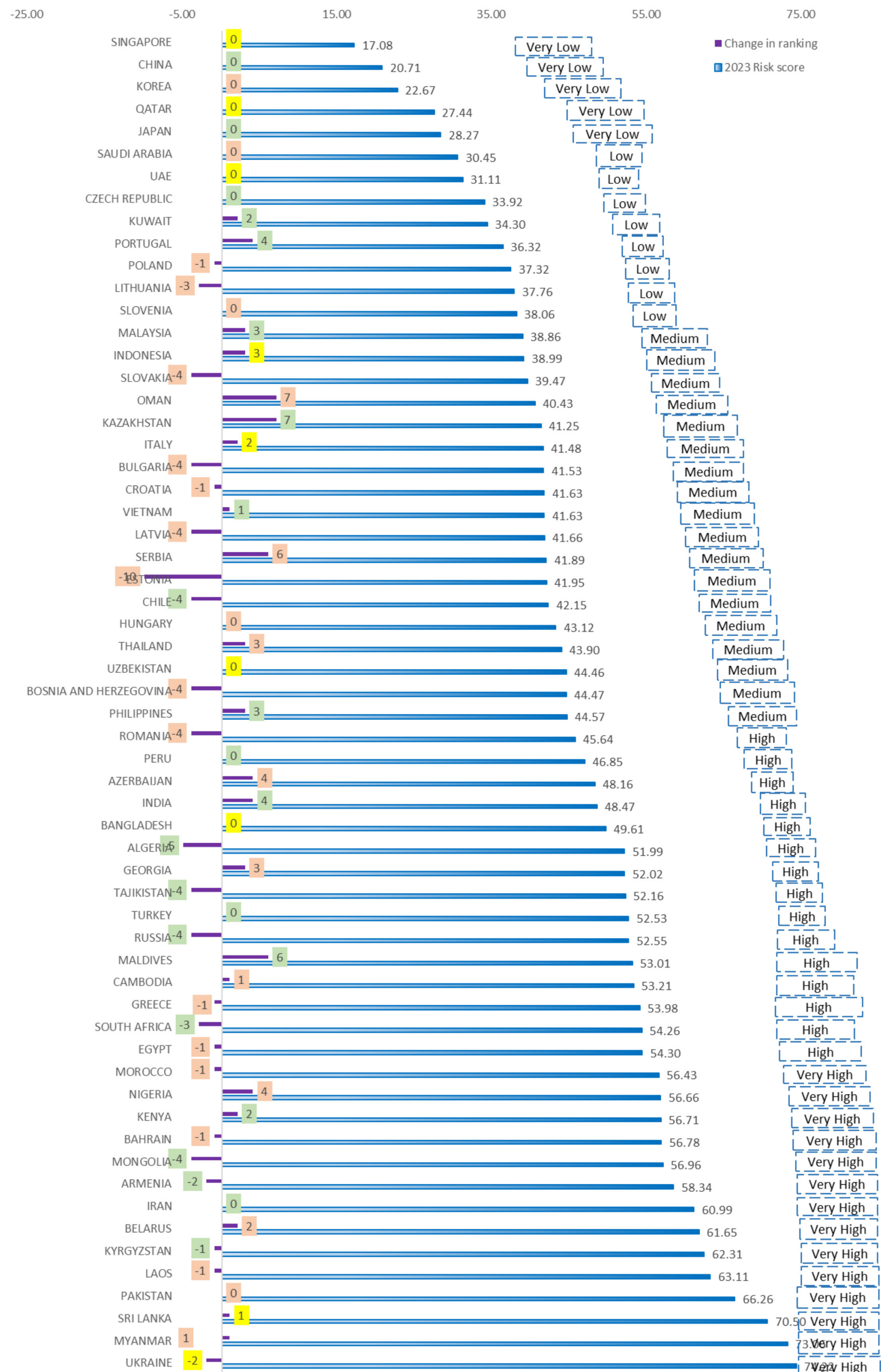
	Risk level in 2022	Risk level in 2023
Japan	Low	Very low
Kuwait	Medium	Low
Philippines	High	Medium
Maldives	Very High	High
Algeria	Medium	High
Romania	Medium	High
Morocco	High	Very high
Mongolia	High	Very high



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

Low Risk → High Risk

Fig. 2: 2023 Risk Scores, Rankings, and Risk Level Changes of Countries along the Belt and Road



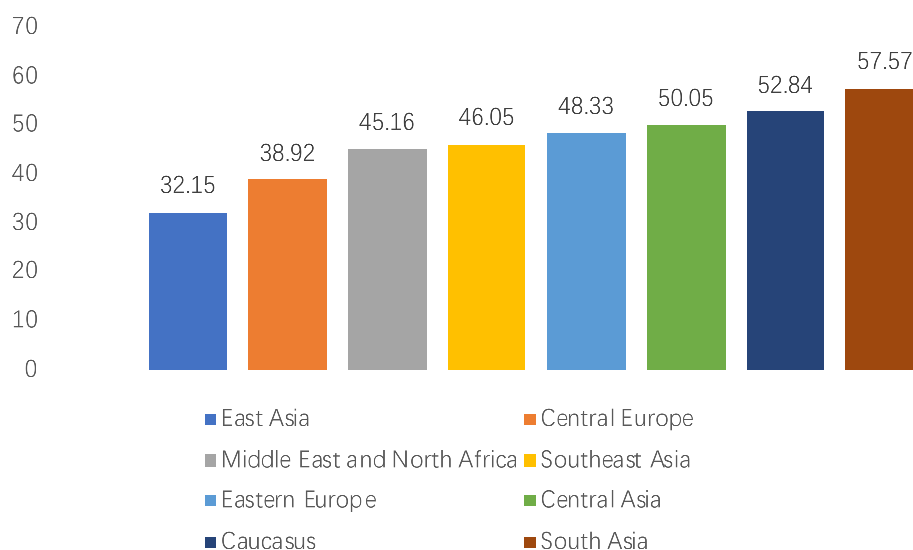
II. Overall Regional Risks

From a regional perspective, Eastern Europe has seen a decline in its risk ranking due to the ongoing Russia-Ukraine conflict and the tightening of global monetary policies. South Asia remains the region with the most prominent risks.

Among the eight regions along the Belt and Road, in terms of relative rankings, Eastern Europe has experienced a drop in its regional ranking given an increase in economic and fiscal risks in the background of the Russia-Ukraine conflict. With the ongoing war between Russia and Ukraine, countries like Ukraine and Belarus are facing a high level of economic uncertainty. The stagnant economy and substantial military expenditures have significantly weakened Ukraine's fiscal strength. Furthermore, some neighboring countries have been adversely affected by the influx of refugees, rising commodity prices and deteriorating confidence due to the conflict, which pose risks to their economic growth. These countries include Bulgaria, Romania, Serbia, and Bosnia and Herzegovina. Moreover, Eastern European economies heavily reliant on energy imports are vulnerable to the rising prices and price fluctuations of natural gas and oil, resulting in sustained high inflation risks and minimum probability in any mitigation in their external risks in a short term.

In 2023, South Asia remains the region with the highest risk. Countries like Sri Lanka and Pakistan have experienced further increases in risk. The South Asian nations generally have weaker fundamentals and are highly exposed to external risks, with high fiscal risks contributing to the region's overall high-risk level. Rising inflation, currency depreciation and declining foreign reserves continue to be common issues in the region. In addition, political and external risks in South Asia have escalated in 2023. Pakistan's economic activities continue to be constrained by the aftermath of the balance-of-payments crisis and the floods in 2022. The high inflation rate has had a significant

Fig. 3: Risk Scores of the Regions along the Belt and Road in 2023



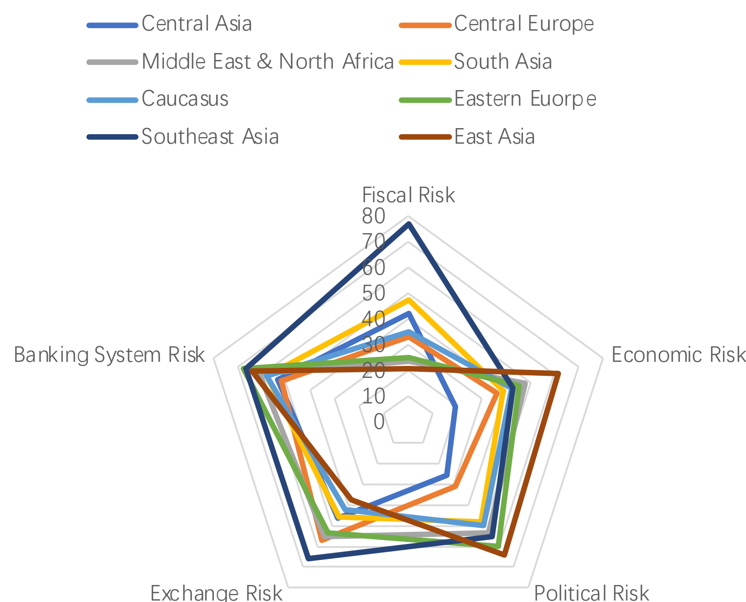
negative impact on the lives of its citizens. Pakistan relies on external capital inflows to bridge its fiscal and current account deficits. The value of Pakistani rupee has reached an all-time low due to increased demand for the US dollar, making it highly sensitive to external risks. Moreover, the domestic political situation in Pakistan could be clouded by uncertainty before the general election in January 2024. Sri Lanka has benefited from the support provided by the IMF and other international lenders, bringing gradual economic stabilization in 2023. However, fiscal constraints and limited foreign exchange reserves persist, while external and political risks remain elevated.

III. Sub-factor Risks

In terms of sub-factor risks, the economic and fiscal risks for the regions along the Belt and Road have generally eased, while external,banking system and political risks remain elevated.

In terms of sub-factor risks, economic and fiscal risks have generally eased, while external risks, banking system risks and political risks remain high. From a regional perspective, Central Europe and East Asia render more balanced risk performance with relatively lower sub-factor risks. In South Asia, weak fiscal revenues and persistent fiscal debt risks remain at their highest levels. These countries are also facing pressures of capital outflows and currency depreciation given peaking interest rates in the global sphere, resulting in high external risks. In South Caucasus, geopolitical issues are more prominent, leading to heightened political risks. As for banking system risks, the banking systems in Central Asian countries are continually exposed to domestic currency depreciation pressure due to their high degree of dollarization, thereby maintaining high risks in the banking sector.

Fig. 4: Sub-Factor Risks in Countries along the Belt and Road in 2023



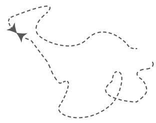
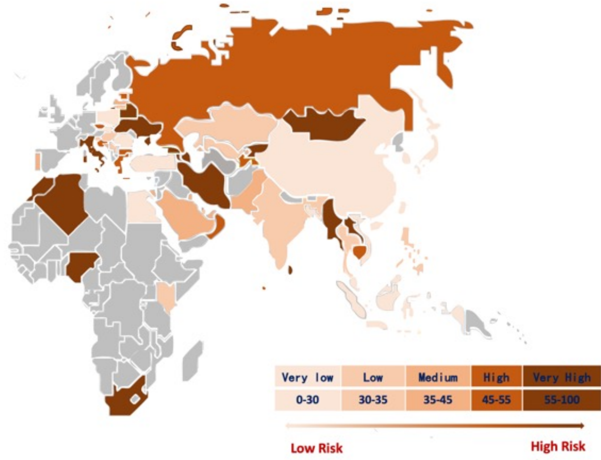
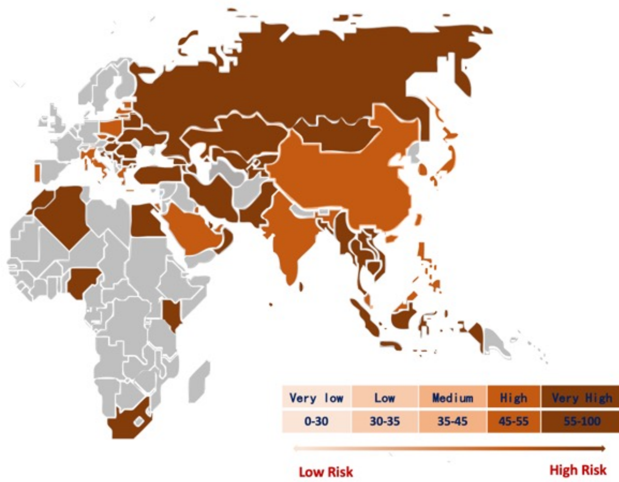


Fig. 5: Distribution of Sub-Factor Risks in Countries along the Belt and Road

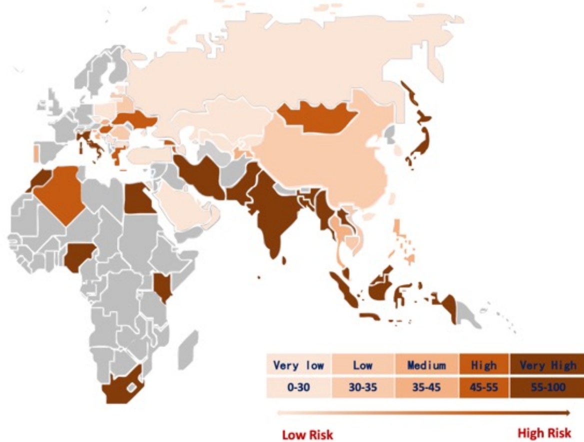
Economic Risk



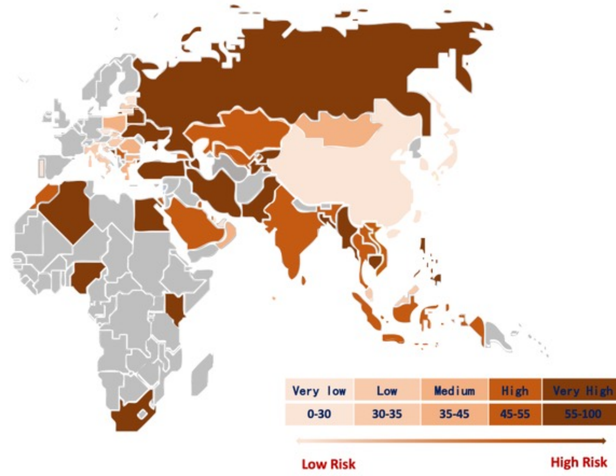
Banking System Risk



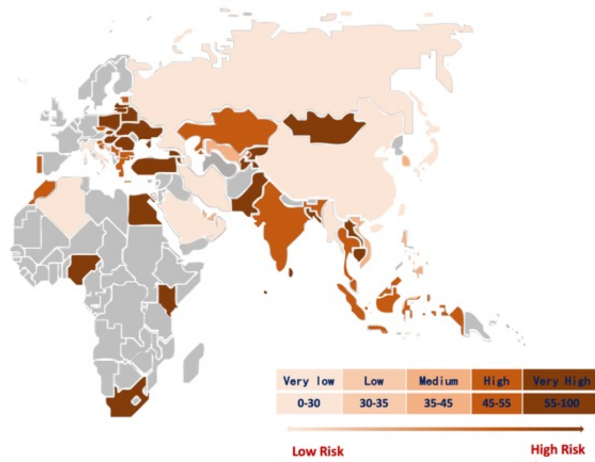
Fiscal Debt Risk



Political Risk



External risk



IV. Country Risk Outlook along the Belt and Road

In 2024, global economic growth is expected to continue slowing down, with factors such as high interest rates, financial environment and geopolitical instability restraining economic prospects.

In 2023, global economic growth has experienced a rebound while inflation rates have declined from the peak in 2022. However, global growth still faces downward pressure, with the potential for increased short-term inflation expectations and tight labor market leading to sustained inflationary pressures. Monetary policy still needs to strike a balance between stabilizing inflation and addressing potential financial pressures, while fiscal policy also faces the challenge of appropriate adjustment under high debt burdens with an aim to achieve a smooth economic landing. Looking ahead to 2024, global interest rates may remain elevated for an extended period, and fiscal policies may be gradually tightened amid high debt levels. Risks of financial instability and economic recession in the United States and Europe would sustain, which could have adverse effects on the stability of the global financial system and the recovery of the global economy. Emerging markets and developing economies, operating under the backdrop of major central banks maintaining high interest rates, would have limited space for interest rate cuts. Meanwhile, many economies would face pressures of currency depreciation and capital outflows, with weak domestic and external demands restraining growth prospects. The process of economic recovery is generally slow and characterized by imbalances, with increasing internal differentiation. At the same time, the influence of great power competition and geopolitical tensions such as the Russia-Ukraine conflict will affect the economic landscape for a long time, while the outbreak of regional disputes like the Israel-Palestine conflict further adds to the uncertainty of the geopolitical landscape across the globe. Global economic growth is expected to decline from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, lower than the historical average of 3.8% during the period of 2000-2019.

The global economic slowdown and escalating geopolitical conflicts are having a widespread negative impact on the regions along the Belt and Road, weakening economic prospects and exacerbating risk profile divergence among the regions.

Looking ahead to 2024, the economic growth rate in emerging markets and developing countries is expected to generally slow down, dropping from 5.2% in 2023 to below 5%, which could make differentiation among regions more pronounced. When viewed by region, **South Asia** is expected to maintain high growth in 2024, with regional economic growth at around 5.6%, higher than the overall growth rate in Asia. Fiscal risks in this region may be somewhat alleviated, and the political stability of some countries is expected to improve. However, due to persistently high interest rates in the global sphere, external risks for these countries would remain high. The impact of the Russia-Ukraine conflict on economic growth in the **Central and Eastern European region** remains severe. Countries such as Russia, Ukraine and Belarus continue to face geopolitical challenges, and there is high uncertainty in economic growth and a slow recovery process. It is expected that the economic growth rate in **the Central and Eastern European region** will be lower than that previously anticipated in 2024, and

the inflation rate have limited chance to return to policy targets in the short term. **Southeast Asia** will continue its recovery, with the overall regional economic growth rate expected to be 4.6% in 2024, but it still faces multiple challenges such as high interest rates, weak global trade, and climate change. The economy of oil-producing countries in the **Middle East, North Africa** and **Central Asia** still enjoy some underpinning forces to boost development under the expectation of continuously high volatility in the global energy market. However, ripple effect from the Israel-Palestine conflict may lead to potential economic downturns and fiscal difficulties for some non-oil-producers that render vulnerable economic and debt states. Under such scenario, fiscal conditions and people's livelihood in Egypt, Jordan and Lebanon will further deteriorate, posing a threat to social and political stability in these countries. Conflict spillover is more likely to affect the economic, financial and geo-security prospects across the MENA region and beyond. Likewise, the unresolved Russia-Ukraine conflict will continue to constrain growth prospects in Central Asia, while this region's continued reliance on remittances from external labor tend to perpetuate its vulnerability. Thanks to declining inflation, expanded oil production and growth in public investments such as construction and energy, however, Central Asian economies are still expected to achieve stable growth in 2024.

Global debt levels have generally risen, with varying repayment pressures in emerging markets and developing countries. Fiscal debt risks in certain regions and countries still deserve attention.

Prior to the global pandemic outbreak, global debt had been on an upward trend for decades and had already reached high levels. In 2022, the total amounted to 238% of global GDP, an increase of 9 percentage points compared to 2019. In dollar terms, the debt reached $235 trillion, an increase of $200 billion from 2021. Sovereign debt globally reached $10.4 trillion, nearly a third higher than pre-pandemic levels. Since 2020, countries along the Belt and Road have faced a series of external shocks, including the pandemic, the Russia-Ukraine conflict, and monetary policy tightening initiated by the US Federal Reserve. Some emerging markets and developing countries have experienced monetary policy climbing on the internal side and prolonged current account imbalances on the external side. This has been exacerbated by global liquidity squeezing, leading to capital outflow and exacerbating global account imbalances. Currently, major central banks are approaching the end of their interest rate hikes, but policy prospect of the US Federal Reserve remains uncertain. Due to the expectation of high-interest rates for a longer period, emerging market countries have limited room for interest rate cuts and may continue to face the pressures of currency depreciation and capital outflows. Looking ahead to 2024, debt pressures in emerging markets and developing countries are expected to show some differentiation. In Southeast Asia, significant trade disruptions and declining foreign direct investment have led to increased fiscal deficits and government debt burdens. However, smooth financing channels and reasonable debt structures help keep debt repayment risks under control, with a need to focus on debt repayment risks in Laos. Debt risks in South Asia have seen some relief delivered by interventions from international organizations such as the IMF, easing short-term debt repayment pressures. However, countries with weaker fundamentals like Sri Lanka and Pakistan still face high external vulnerabilities and have weak chance to achieve sustainable debt prospect in the near future. Central and Eastern European countries are generally in a phase of debt risk accumulation. With the increase of military expenditure, debt repayment pressure has been significantly piling-up, to which is mostly contributed by the tightening on external financing, commodity price climbing and geographical factors. Among them, Ukraine, Belarus and Romania face more prominent debt risks.

The global influence of geopolitical factors is on the rise, with the outbreak of regional disputes leading to further geographical and economic divisions.

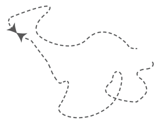
Amidst an increasingly complex global political landscape and the normalization of the US-China confrontation, the relationship among major powers in competition and cooperation is becoming more intricate. The need for economic and trade interdependence is giving way to agendas on politics and national security. The effects on economic landscape from issues such as great power competition and the Russia-Ukraine conflict will persist. Additionally, the eruption of regional disputes such as the Israeli-Palestinian conflict adds to the uncertainty in the international geopolitical landscape, and the challenges and difficulties in globalization and global governance are increasing. The ongoing Russia-Ukraine conflict has accelerated the reshaping of the geopolitical landscape in the global sphere, a direct emanation for the geopolitical risks faced by countries in Central and Eastern Europe and exacerbates political divisions within Europe. Moreover, the recent military conflict between Israel and Hamas further complicates international relations and escalates geopolitical complexes in the Middle East. The fragmentation of geo-economy may result in more trade dislocations and technological restrictions, introduce more difficulty for international capital and labor flow. According to the latest IMF forecast, fragmentation into trade blocks amid geo-economics divisions could lead to an annual reduction of global GDP by as much as 7%. Furthermore, the increased division in geo-economy will hinder the multilateral cooperation in global public goods – efforts including addressing climate change and pandemic, ensuring energy and food security, etc. While social unrest events like protests, riots, and large-scale demonstrations have decreased on the international scale at present, the specter of fluctuations in food and fuel prices could reignite social unrest. Political instability compounded by rising food and energy prices may lead to more domestic governance instability or even geopolitical conflicts. In addition, the year 2024 will witness a series of election events in multiple economies, including the US presidential election, major elections in the UK, India, Indonesia, Mexico and South Africa, as well as local elections in Turkey. It is necessary to keep an eye on the political landscape and policy-making dynamics in relevant countries in such time window.

ESG and the impact of technological innovation on the global economy is increasingly evident in the longer term. Developing a green BRI and driving technological advancements will provide a boost to the economies along the Belt and Road.

Currently, the world faces escalating ecological challenges on multiple fronts, with low-income countries being particularly affected, while the occurrence of frequent natural disasters directly impacts economic performance and fiscal conditions. Many countries along the Belt and Road render complex geographical conditions and fragile ecosystems, posing challenges to traditional growth models. Developing nations primarily rely on extensive growth models to drive industrialization, characterized by high resource consumption, significant pollution emissions, and a low-quality industrial structure. Moreover, there’s often a lack comprehensive plans for sustainable development, joined by a lag in green technologies, management practices, and green investment and financial systems. Against the backdrop of fluctuating commodity prices and geo-economics fragmentation, the progress of transitioning to green economies has increased in complexity, and the influence of environmental, social and governance (ESG) factors on a country's economy and finance is on the rise. By leveraging international exchange and cooperation platforms such as the Green Alliance, collaborative efforts can be strengthened to lead the way, explore green innovations, and promote

mutual benefits and resource sharing. Developing green infrastructure not only facilitates carbon emission reductions – an essential and imperative mission, but also aids in the transformation and upgrading of traditional economies.

Among China's eight actions to support high-quality BRI cooperation, the action of Promoting Green Development points to the continuous deepening of collaboration in areas such as green infrastructure, renewable energy, and sustainable transportation. It also emphasizes increased support for the BRI International Alliance for Green Development. Additionally, China will continue to host the BRI Green Innovation Conference, establish mechanisms for dialogue and exchange in the photovoltaic industry, and foster networks of experts specializing in green technology and low-carbon practices. With the promotion of the long-term development mechanism of green finance, green investment structure optimization will become a boost to the sustainable development of the BRI. Given that scientific and technological innovation would serve as a new consensus for the economic development of all countries, Chinese authorities would carry on the implementation of the Belt and Road Science, Technology and Innovation Cooperation Action Plan, and host the inaugural Belt and Road Conference on Science and Technology, so that to offer a path forward. Over the next five years, China aims to increase the number of joint laboratories with partner countries to 100 and provide support for young scientists from all nations to work in China for a short time. As part of its commitment to the global AI Governance Initiative, China is ready to engage in communication and dialogue with other nations to promote the healthy, secure and orderly development of artificial intelligence in the global community. Given the backdrop that the ongoing technological and industrial revolutions are reshaping industrial space, layout and structure, collaborating nations should seize the opportunity window and step up to expand cooperation in innovative, green and digital economic sectors, as an important pathway for incremental development fostering.



Part II. Risk Distribution along the Belt and Road

I. Central Europe: Escalating Russia-Ukraine Conflict Raises Country risks in the Central European Region

Fig. 6: 2023 Country Risk Map of the Central European Countries along the Belt and Road

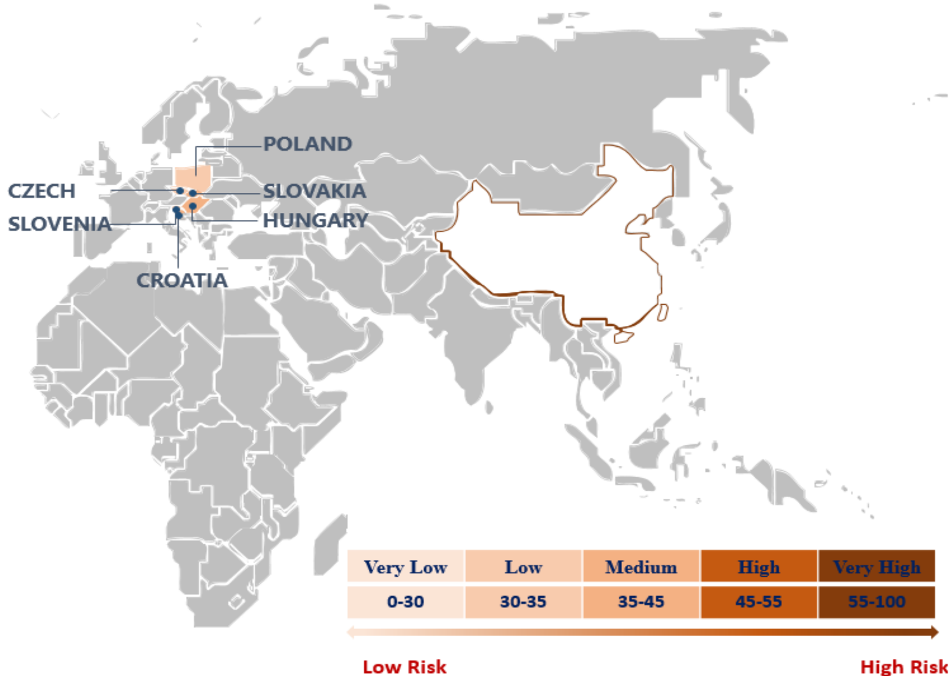


Table 2: 2023 Distribution of Country Risk Levels of Countries in Central Europe

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Czech Republic	33.92	25.00	37.71	20.00	53.33	48.54
Poland	37.32	33.33	23.03	39.00	56.67	52.13
Slovenia	38.06	38.33	37.02	27.83	53.33	48.54
Slovakia	39.47	36.67	33.03	31.17	63.33	52.13
Hungary	41.63	20.00	50.33	33.50	50.00	59.81
Croatia	43.12	45.00	36.02	34.50	66.67	52.13
Central Europe	**38.92**	**33.06**	**36.19**	**31.00**	**57.22**	**52.22**

The six countries in Central Europe serve as a crucial link among Western Europe, Eastern Europe, and the Middle East. They are located at the end of the Belt and Road and are essential for the Eurasian land corridor. The Central European region is known for its strong economic power and relative stability in general, making it an attractive investment area along the Belt and Road. These countries have a long industrial tradition and a higher industrial level compared to countries with similar income levels. In recent years, Central Europe has undertaken the industrial transfer from developed countries in Western Europe, benefiting from the European Union's integration process. The overall economic situation in the European Union significantly impacts the Central European region. Looking at the overall risk performance of the region, since the Russia-Ukraine conflict, the risk levels in Central Europe have risen noticeably, but Central Europe is still a region with lower risks, compared with other countries along the Belt and Road. Among the Central European countries, the Czech Republic has the lowest risk and is considered a low-risk country along the Belt and Road. Poland, Slovakia and Slovenia have a higher risk level than the Czech Republic and are considered medium-risk countries along the Belt and Road. Hungary and Croatia have a higher risk level compared to the aforementioned three countries, but they still fall under the category of medium-risk countries along the Belt and Road.

Since 2022, the Russia-Ukraine conflict has significantly impacted all Central European countries, leading to increased economic risks, external risks, and geopolitical risks. Despite achieving growth in 2022 due to a low base effect, the economy of Central European countries has been affected by the ongoing Russia-Ukraine conflict, impeding their recovery process. Supply chain disruptions and rising energy prices caused inflation rates to remain high in Central European countries, with all countries experiencing inflation rates above 8% in 2022. The Czech Republic had an inflation rate as high as 15%. As of August 2023, inflation rates in Central European countries remained above 6%. To curb inflation, the European Central Bank, the Central Bank of Poland, and the Central Bank of Hungary have raised interest rates. However, high-interest rates and inflation have negatively affected consumer and investor confidence, resulting in a significant constraint on domestic demand. Additionally, the impact of the Russia-Ukraine conflict on major trading partners such as Germany and Italy has negatively affected the external demand in Central Europe. In this context, it is expected that the economic growth rates of Central European countries in 2023 will be significantly lower than previous levels. The Czech Republic may experience a slight recession, while Poland and Hungary are expected to have growth rates below 1%. Slovenia, Slovakia, and Croatia's economic growth rates are also projected to be below 2%. Furthermore, the upward trend in energy prices has negatively impacted the current account balances of Central European countries, elevating their external risks. In 2022, all Central European countries experienced current account deficits, with the Czech Republic, Slovakia and Hungary having deficits above 6%. Although the scale of current account deficits is expected to decrease in 2023, deficits are still prevalent across Central European countries. Moreover, the Russia-Ukraine conflict has generally increased the geopolitical risks faced by countries in the Central European region.

Looking ahead to 2024, the ongoing conflict between Russia and Ukraine will continue to have an impact on the economic development and financial strength of Central European countries. The country risks of the region will remain highly uncertain. However, considering the relatively strong economic and financial foundations of Central European countries, the overall risk level is expected to remain relatively low. While there is hope of higher economic growth rates in 2024 compared to 2023 due to favorable base effects, the lingering effects of the Russia-Ukraine conflict

will continue to dampen consumer and investor confidence. As a result, the projected economic growth rates are likely to be lower than that previously anticipated, and inflation rates may be difficult to return to policy targets in the short term. Furthermore, to address inflationary pressures, Central European countries may continue implementing measures such as tax cuts and subsidies, which could have an impact on fiscal balances. Additionally, the high-interest rates will lead to increased government's interest payments, affecting the fiscal strength of these countries to some extent. Therefore, there is a significant level of uncertainty regarding the country risk situations. However, Central European countries generally have strong economic foundations with resilience. Furthermore, countries like the Czech Republic and Poland still possess considerable fiscal flexibility, allowing them to maintain relatively stable fiscal positions.

Fig. 7: Economic Growth Rate in Central Europe (%) (2017-2023)

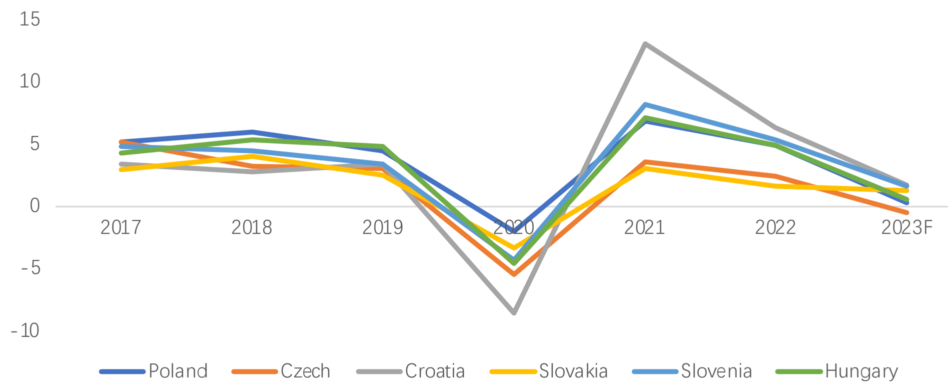


Fig. 8: CPI Growth Rate in Central Europe (%) (2017-2022)

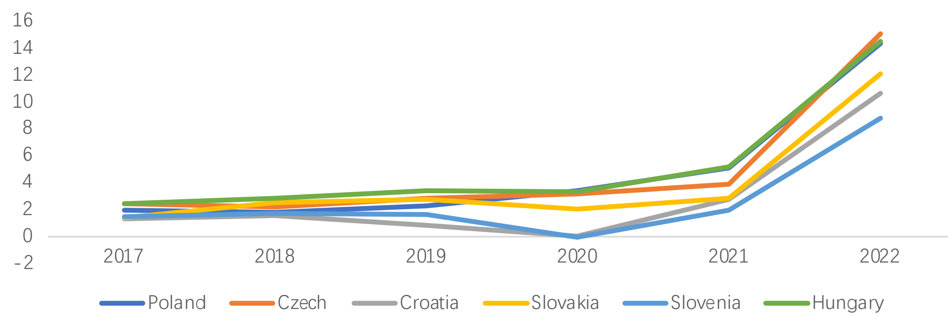


Fig. 9: Fiscal Deficit Rate in Central Europe (%) (2017-2023)

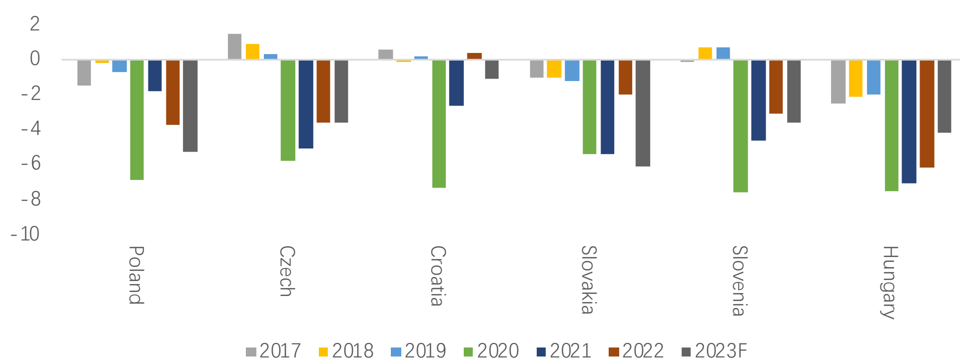


Fig. 10: General Government Debt/GDP in Central Europe (%) (2017-2023)

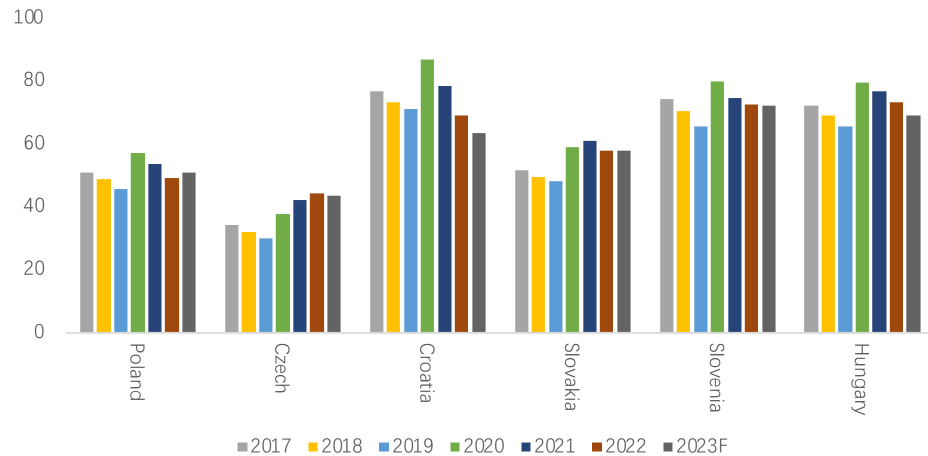


Fig. 11: Current Account Balance/GDP in Central Europe (%) (2017-2023)

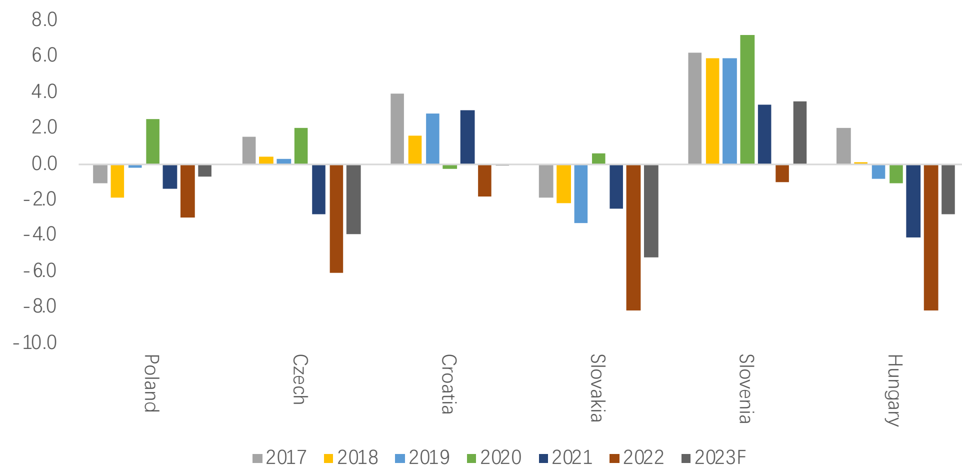
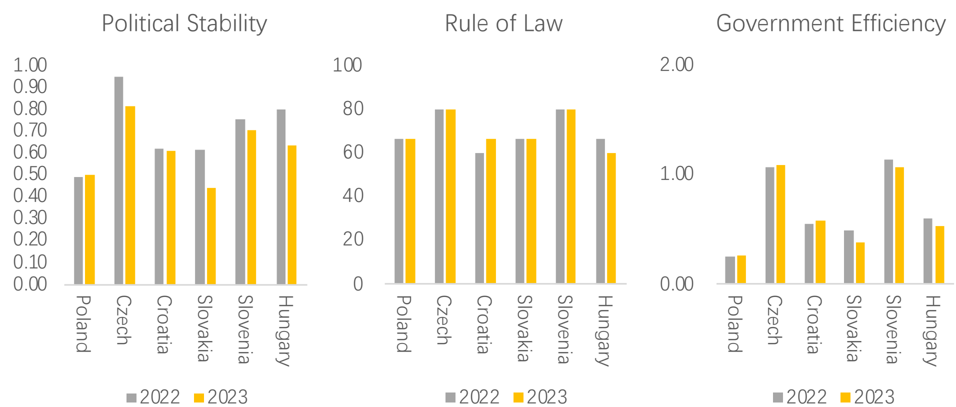


Fig. 12: Political Performance in Central Europe (%) (2022-2023)



II. Eastern Europe: Weak Economic Recovery and Continued Geopolitical Risk Challenges

Fig. 13: 2023 Country Risk Map of Eastern European Countries along the Belt and Road

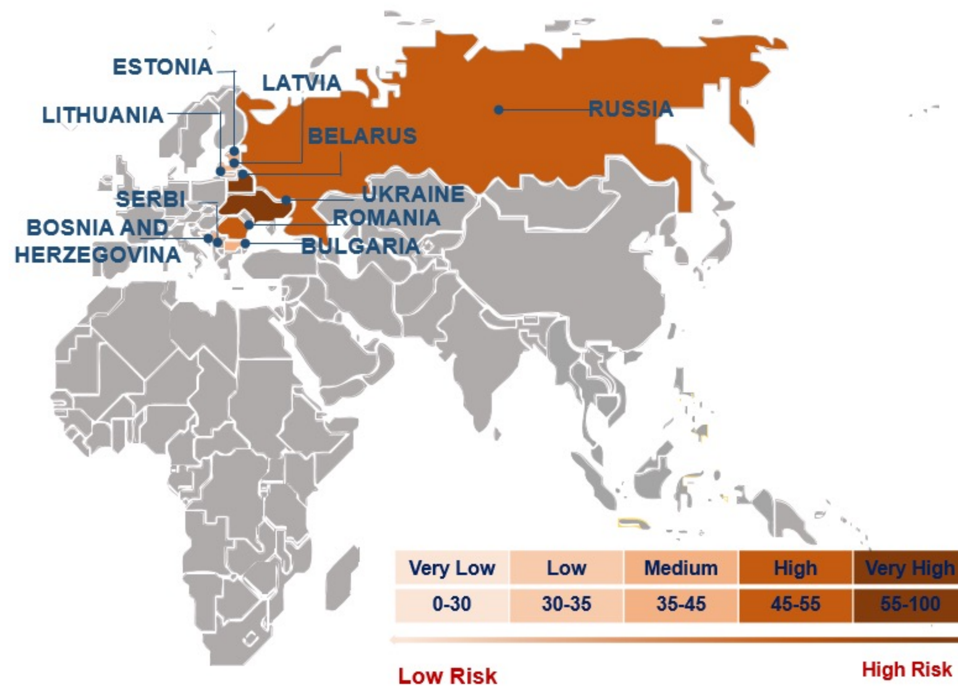


Table 3: 2023 Distribution of Country Risk Levels of Countries in Eastern Europe

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Lithuania	37.76	18.33	38.00	29.67	63.33	52.13
Bulgaria	41.53	18.33	47.00	42.33	40.00	59.81
Latvia	41.66	25.00	44.00	33.33	63.33	52.13
Serbia	41.89	28.33	31.02	51.17	46.67	59.81
Estonia	41.95	20.00	53.67	30.00	60.00	48.54
Bosnia and Herzegovina	44.47	1.67	44.02	62.17	36.67	68.69
Romania	45.64	31.67	33.02	40.00	86.67	59.81
Russia	52.55	25.00	46.67	81.33	26.67	64.01
Belarus	61.65	16.67	62.68	76.17	66.67	75.00
Ukraine	74.22	53.33	80.33	85.83	63.33	68.69

Eastern Europe is an important gateway to the European Union market, as it connects developed Central and Western Europe, as well as Russia and other regions. The region enjoys geographic advantage of being interconnected between east and west. There are differences within Eastern Europe. The three Baltic States (Estonia, Lithuania and Latvia), Bulgaria and Romania are members of the European Union, while Russia, Ukraine and Belarus were formerly part of the Commonwealth of Independent States (CIS), and Serbia and Bosnia and Herzegovina were part of Yugoslavia. Eastern European countries are known for their abundant natural resources, developed agriculture, and rich history and traditions. Additionally, their industrial levels are higher than that of countries with similar income levels. The industry and location advantages of Eastern Europe make it an important regional pivot in the Belt and Road Initiative, as well as a vital channel along the Belt and Road. In terms of country risks, Lithuania, Bulgaria, Latvia, Serbia, Estonia, and Bosnia and Herzegovina are at a moderate level, while Romania is considered a high-risk country along the Belt and Road. Furthermore, the conflict between Russia and Ukraine has also increased the country risks of Russia, Belarus and Ukraine.

In 2023, the overall risk in the Eastern European region has increased compared to 2022, with the region’s economic development continuing to face challenges from geopolitical conflicts, persistent inflationary pressures and weak external demand, leading to a decline in its regional rankings. Countries directly affected by conflicts in the Eastern European region are expected to experience slow economic recovery. However, due to differences in natural endowment and economic structure, the impact varies among these countries. Specifically, it is projected that the economic growth rate of economies directly affected by the Russia-Ukraine conflict, including Ukraine and Belarus, will range from 1% to 2% in 2023. Despite Ukraine’s GDP growing by 19.5% year-on-year in the second quarter of 2023 and achieving rapid economic growth, considering the low base effect from the previous year and the ongoing uncertainty of the Russia-Ukraine conflict, Ukraine’s GDP is expected to maintain a low growth of 2% in 2023. The continued conflict has kept political risks high, accompanied by a sharp increase in military expenditures, leading to a significant rise in government fiscal spending and pushing the fiscal deficit to nearly 20%. The general government’s debt-to-GDP ratio has exceeded 80%, significantly higher than that of the previous year, placing the fiscal situation at a high-risk level. Meanwhile, the large external debt and the continued fluctuation of the Ukrainian currency (hryvnia) will continue to pose very high external risks. The ongoing conflict has disrupted the operating environment for the Ukrainian banking sector, leading to deteriorating asset quality and pressure of asset restructuring and thus placing banking system risks at a very high level. Since the outbreak of the Russia-Ukraine conflict, Belarus has faced substantial pressure from sanctions. In the first half of 2023, amid gradual adaptation to international sanctions, the economy grew by 2.0%, showing some improvement in the macroeconomic situation. However, there are many uncertainties can be seen in the economic growth prospects, with key economic sectors showing weak growth. The IT and transportation industries, as pillars of the national economy, have both experienced a declining trend, keeping the economic risks at a very high level. Additionally, ongoing international sanctions and the obstruction of some international financing channels, coupled with reduced export income and other external sources of funds, have led to outflows of foreign currency deposits in the banking industry and a deterioration in asset quality, exposing Belarus to very high external and banking system risks. As the Russia-Ukraine conflict continues, Belarus will continue to face very high geopolitical risks. Affected by high inflation, tightened financial conditions and a slowdown in external demand, Romania’s economic growth rate has slowed in 2023 to some extent. To address the surge in national funding needs during the pandemic, the Romanian government has repeatedly sought

foreign currency financing in the international financial markets. However, influenced by the volatility of currency exchange rates in emerging markets, in 2023, the Romanian Leu has weakened against the Euro and the US dollar, leading to increased external and banking system risks and causing Romania to become a high-risk country.

In 2023, several Eastern European countries are facing medium levels of risk, including Serbia, Bulgaria, Bosnia and Herzegovina, and the three Baltic States (Lithuania Latvia, and Estonia). Despite showing strong economic resilience during the pandemic with GDP growth rates at around 3% in 2022, these countries are expected to experience a slowdown in economic growth in 2023 due to various factors. Serbia, Bulgaria, and Bosnia and Herzegovina are influenced by a large influx of refugees due to the Russia-Ukraine conflict, rising commodity prices resulted from imported inflation, and consumer and investment demands impacted by deterioration of confidence, resulting in a projected average economic growth rate of around 1.5%-2.0% for 2023. Constrained by the limited scale of domestic currency capital market and the highly euro-based banking system, the turbulence of the international financial environment in 2023 further aggravated the systemic risk of the banking industry in Serbia, Bulgaria and Bosnia and Herzegovina, keeping the banking system risk at a very high level. In particular, Serbia is experiencing heightened political and external risks. With tensions in Kosovo rising again in 2023, rise again, Serbia continues to face political instability and a series of security challenges. Heightened geopolitical risks leads to continued volatility in the Serbian dinar exchange rate during the year, increasing its political and external risks. Meanwhile, the three Baltic states (including Lithuania, Latvia and Estonia) similarly with medium risks heavily rely on energy imports from Russia (such as gas and oil), making them susceptible to the rising and fluctuations in European natural gas and oil prices. Although their inflation levels have decreased compared to the previous year, remaining high at over 8.5% and constraining domestic consumption and investment. Additionally, geopolitical tensions among their major trading partners are expected to slow down export growth rates, further elevating external risks. Estonia, with the most fragile economic foundation, may face an economic recession in 2023, while Lithuania and Latvia are also anticipated to experience varying degrees of economic slowdown.

In 2023, the Russian economy has shown remarkable resilience in the face of sanctions and is recovering from last year's downturn. Various secondary factors remain stable. Looking ahead to 2024, as Western support for Ukraine’s military decreases, the Russia-Ukraine conflict may start to shift into a direction that favors Russia, probably leading to a reduction in geopolitical and external uncertainties. Specifically, in 2023, Russia’s public finances have remained stable, thanks to increased tax revenue from oil and gas sectors. As a result, the budget deficit has narrowed to less than 1.7%, down from 2.3% the previous year. In 2024, there are plans to significantly increase national defense spending. The country also aims to raise taxes on state-owned and Western companies, while non-budget revenues are expected to grow by over 200%. Additionally, with rising international oil prices and adjustments in the pricing of Russian crude oil exports, energy export revenues are predicted to increase by nearly 25%. There is also a possibility of drawing more funds from the national sovereign wealth fund. These factors contribute to the expectation of further narrowing the budget deficit to 0.9%, indicating a low level of financial risk. In terms of inflation, the depreciation of the ruble in 2023 has led to increased pressure. The inflation rate has reached 7.5% during the year. However, Russia has managed to evade Western sanctions through various means, which has had a positive impact on economic growth. It is projected that the economy will grow by over 2.7% for the year. Moving into 2024, the Central Bank of Russia is implementing monetary tightening policies, which are expected

to reduce the inflation rate to around 4.0%. Economic growth is predicted to mildly contract to 1.1%. Russia maintains a low level of external debt, with external debt accounting for approximately 15% of GDP in 2023, or around $343.4 billion. Moreover, the country has substantial foreign exchange reserves of $573.2 billion and a national sovereign wealth fund with a size of $140.1 billion. These factors contribute to Russia's strong ability to withstand financial shocks.

Looking ahead to 2024, under the backdrop of improved economic prospects in the Eurozone along with the continuous push of EU funds, there will be probably a moderate recovery in the economy of Eastern European countries. However, it is necessary to continuously focus on the potential impact of changing geopolitical dynamics on inflation levels. It is anticipated that the overall pace of economic recovery in the Eastern European region will accelerate in 2024. In terms of economic risk, with the easing of spillover effects from the Russian-Ukrainian conflict, there are two positive factors to consider. On the one hand, this development is expected to benefit the Eurozone by expanding its external demand, thereby boosting export volumes from the Eastern European region to the Eurozone and other areas. On the other hand, supported by the frame of "Next-generation EU fund", the economic revival in Eastern European countries and development funds will contribute to the overall regional economic recovery. Furthermore, the inflation-suppressing effects of the ECB's continued interest rate hikes in 2023 have become evident. As a result, consumer and investor confidence across the region continues to return, and regional growth driven by domestic demand remains on a mild upward trajectory. It is projected that the Eastern European region will experience an economic growth rate ranging between 2% and 4% in 2024, while keeping the overall inflation level within the range of 3% to 5%. This indicates a sustained downward trend in regional inflation levels. Specifically, Ukraine and Belarus are expected to benefit from domestic consumption rebounding and improved external export conditions, resulting in an estimated economic growth rate of approximately 3% in 2024. However, these countries may still experience a gradual decline in inflation, and it will remain relatively high at around 8% to 10%. Regarding political risks, although the partial alleviation of tensions from the Russian-Ukrainian conflict in 2023 is expected to reduce the overall impact on the region's economy and overall regional political risk in 2024, Ukraine, Russia and Belarus will continue to face significant geopolitical challenges. Consequently, political risks are expected to remain at a high level. In terms of fiscal risks, Eastern European countries, in general, carry a relatively low debt burden. However, certain nations, including Romania, have increased their government debt due to ongoing fiscal support measures and energy subsidies for households and businesses. This has affected their fiscal strength to some extent. Additionally, Ukraine's fiscal situation will be strained due to continued increase of military expenditure. External risks primarily center on export-oriented economies, such as the three Baltic States, Ukraine and Belarus, which are directly impacted by conflicts. These countries are anticipated to face very high external risks throughout 2024. In terms of banking system risk, the asset quality and profitability of the banking industry in Eastern Europe will be greatly affected due to fluctuations in the geopolitical landscape and shocks within the global financial environment. Furthermore, limited domestic capital market size will continue to pose challenges to banking industry liquidity, so countries in the Eastern European region will also generally face high banking system risks in 2024.

Fig. 14: Economic Growth Rate in Eastern European Region (2017-2023F) (%)

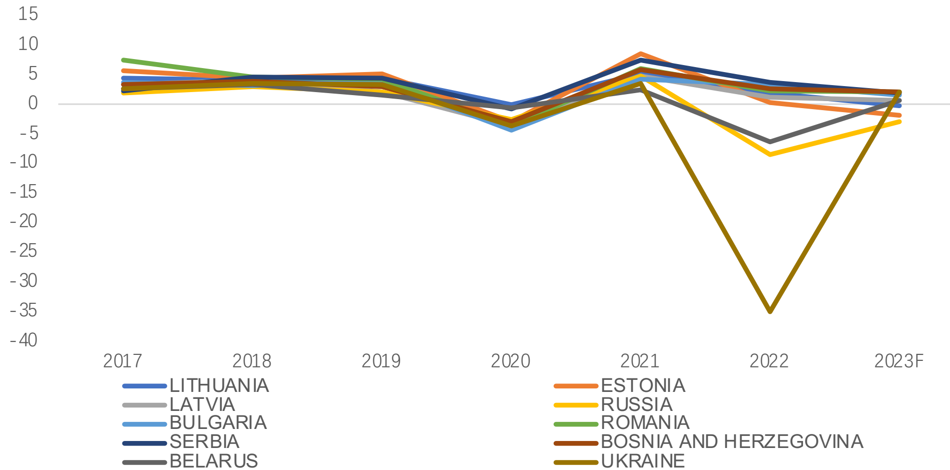


Fig. 15: CPI Growth Rate in Eastern European Region (2017-2023F) (%)

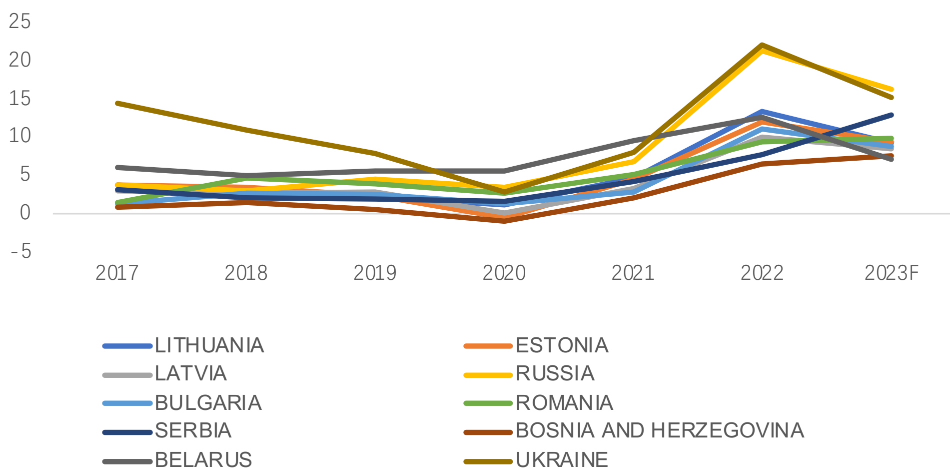


Fig. 16: Fiscal Deficit Rate in Eastern European Region (2017-2023F) (%)

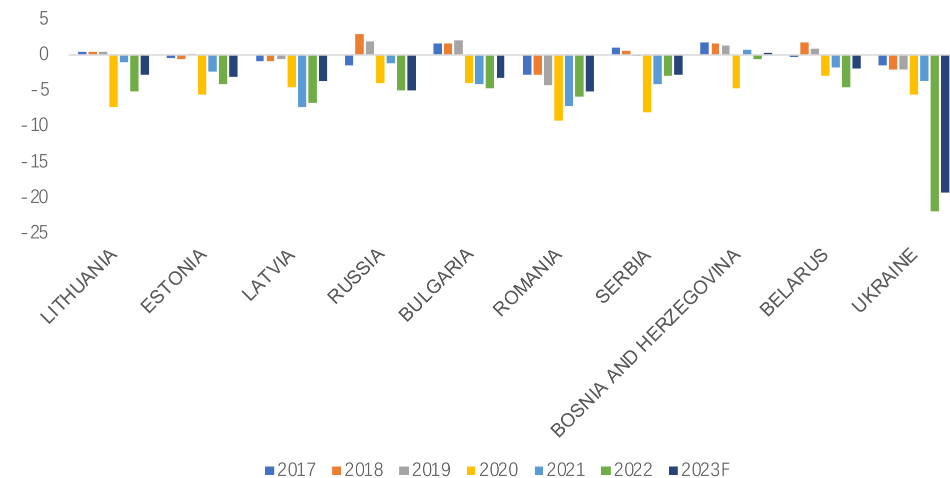


Fig. 17: General Government Debt/GDP in Eastern European Region (2017-2023F) (%)

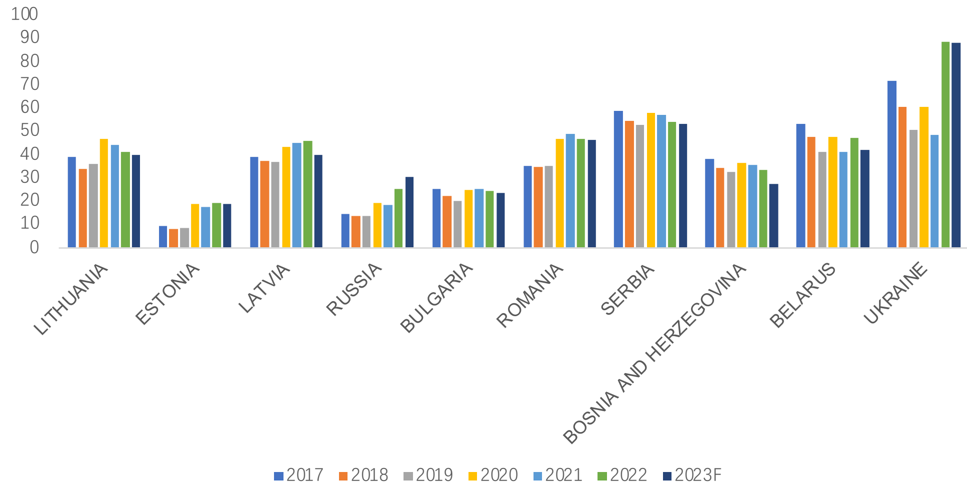


Fig. 18: Current Account Balance/GDP in Eastern European Region (2017-2023F) (%)

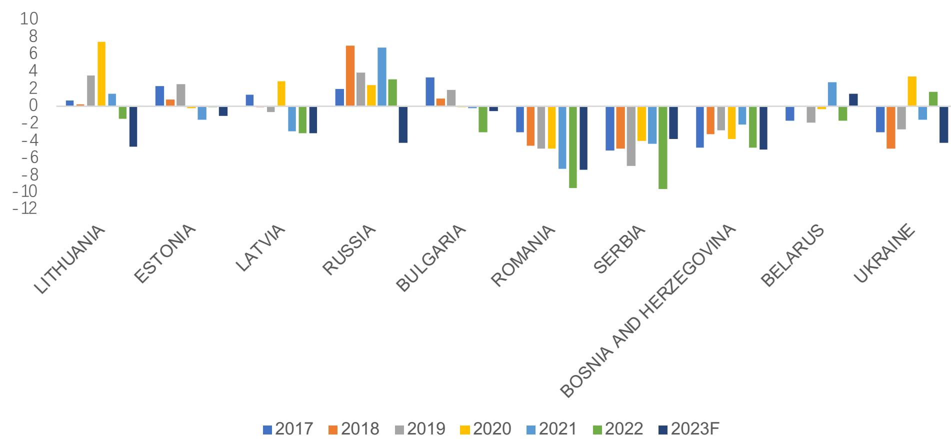
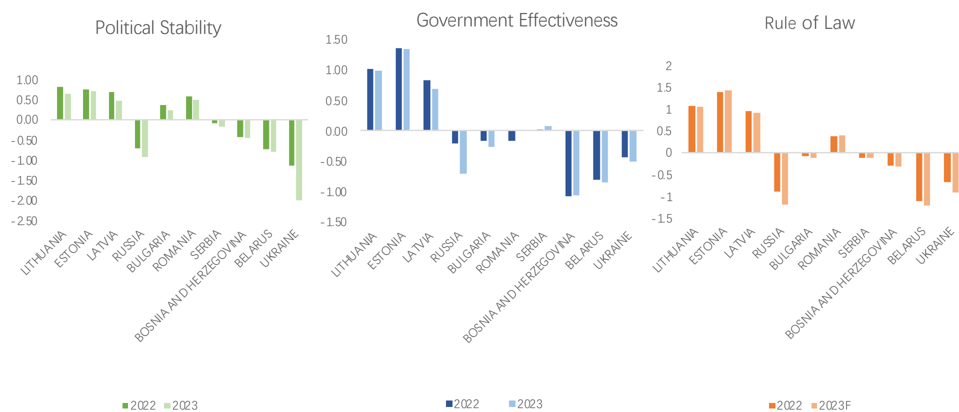


Fig. 19: Political Performance in Eastern European Region (2022-2023F)



III. Southeast Asia: Economic Recovery Slows Down, Facing Challenges from Continued Weak External Demand

Fig. 20: 2023 Country Risk Map of Southeast Asia

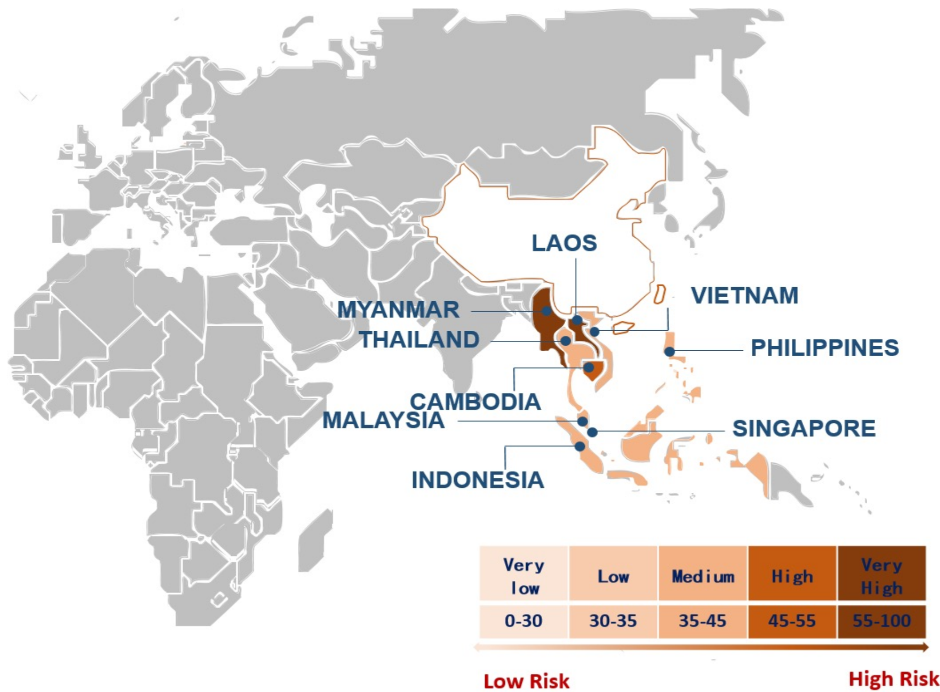


Table 4: 2023 Distribution of Country Risk Levels in Southeast Asia

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Singapore	17.08	16.67	18.71	6.00	20.00	41.70
Malaysia	38.86	70.00	18.70	33.00	53.33	48.54
Indonesia	38.99	45.00	20.33	45.17	46.67	55.87
Vietnam	41.63	36.67	27.65	50.17	42.58	64.01
Thailand	43.90	40.00	31.36	52.00	48.67	55.87
Philippines	44.57	40.00	33.68	55.83	43.33	52.13
Cambodia	53.21	30.00	49.97	57.83	63.33	68.69
Laos	63.11	76.67	63.97	51.83	66.67	68.69
Myanmar	73.06	73.33	87.64	81.33	30.00	68.69
Southeast Asia	**46.05**	**47.59**	**39.11**	**48.13**	**46.06**	**58.25**

Southeast Asia is located at the crossroads of Asia and Oceania, the Indian Ocean and the Pacific Ocean. It has a long history of close trade relations with China and shares strong cultural commonalities. It is an important hub of the 21st Century Maritime Silk Road and a key investment area for the Belt and Road Initiative. With the world's largest tin belt, Southeast Asia is the largest producing area of tropical economic crops such as rubber, oil palm and coconut. With the exception of Singapore, all Southeast Asian countries are developing nations. The region is rich in natural and human resources and has a rapid natural population growth rate, providing favorable conditions for economic development. In terms of country risk levels, Singapore has consistently very low risk, while Malaysia, Indonesia, Vietnam, Thailand and the Philippines fall into the medium-risk category. Cambodia is classified as a high-risk country, while Laos and Myanmar have high risks in each sub-category and belong to the highest-risk countries along the Belt and Road.

In 2023, Southeast Asia is facing the challenge of sustained sluggish external demand, export pressure, and overall economic growth slowing down. Private consumption and service industry expansion are the main driving forces for economic growth. In terms of economic risk, recovery of international tourism, rising consumer confidence, a growing middle class and robust private consumption are driving the economic growth in Southeast Asia. However, the global economic slowdown and sluggish international trade have caused the manufacturing sector to decline, ending the high-growth momentum that Southeast Asia enjoyed in recent years. The economic growth rates of the six ASEAN countries in 2023 are expected to be slower than that in 2022, with Singapore, Vietnam and Malaysia, which have higher external dependencies, experiencing more noticeable slowdowns. In terms of inflation levels, most countries have seen a decrease since the second quarter of 2023. Laos and Myanmar still experience historically high levels of over 10%, while other countries are close to or even lower than that in early 2022. Thailand's inflation rate has already fallen below 1% in July and August. In terms of external risks, exports in Southeast Asia are under pressure. Vietnam's main exports, such as electronics, machinery and textiles have seen significant declines. Singapore's non-oil domestic exports have contracted for 12 months. The fall in commodity prices from high levels has added to the pressure on Indonesia's current account. With US Federal Reserve raising interest rates and difficulties in export, Southeast Asian countries are still facing currency devaluation and capital outflows, and the Lao kip, Singapore dollar, Thai baht and Malaysian ringgit have depreciated significantly. On the fiscal front, some countries like Singapore, Indonesia and Thailand are seeing increased tax revenues as economic activities recover. The fiscal policy shifted from large-scale stimulus to helping low - and middle-income families offset inflationary pressures on living expenses and other aspects of people's livelihoods, and fiscal risks have been mitigated to some extent. However, high inflation levels have led to a decline in residents' purchasing power and have significantly impacted consumption-related tax revenues. Laos faces further fiscal risks due to its heavy debt burden. Political instability and internal conflicts in Myanmar have also limited its economic growth. Frequent policy changes and multiple international sanctions have resulted in a significant decline in net FDI, weakening Myanmar's external repayment capacity. The multiple extensions of the nationwide state of emergency have further reduced political stability and government effectiveness, keeping political risks high.

Looking ahead to 2024, despite facing challenges such as a tightened financial environment, sluggish global trade and climate change, the economy in Southeast Asia will continue its recovery trend. However, risks of weaker-than-expected external demand recovery and further inflationary pressure should be noted. In 2024, after reaching their peak, most economies in

the region will see a decline in inflation. Strong domestic demand and continued recovery in the service sector in the Philippines, Indonesia and Malaysia will help improve employment and income prospects, with economic growth rates expected to be between 4% and 6%. The overall global industrial chain adjustment is also expected to contribute to investment and export growth in the Southeast Asian region. Vietnam's economic growth in 2024 is expected to be better than in 2023. However, Myanmar's recovery prospects remain uncertain due to the spread of internal conflict, with political risks on the rise. The driving factors for regional economic growth may shift from externally oriented exports to more regionally endogenous consumption, bringing growth closer to long-term average levels, with the overall regional economic growth rate expected to be 4.6%. In terms of external risks, the currencies in all countries face depreciation pressure, but flexible currency and exchange rate policies and macro prudential management make currency crises less likely to take place, with risks concentrated in small and medium-sized economies such as Laos and Cambodia. Most of the countries in the region are export-oriented economies. Although there are signs of improvement in Southeast Asian exports since the third quarter of 2023, they still face the risk of weaker-than-expected external demand recovery. On the fiscal risk front, countries such as Singapore, Thailand, Vietnam and the Philippines have committed to increasing government spending and providing fiscal policy support to stimulate economic growth, which could affect their fiscal strength to some extent, while Laos continues to face serious refinancing risk. The banking industry faces unstable factors such as tighter regulatory policies and exchange rate fluctuations, but the Southeast Asian banking industry has generally good asset quality and strong liquidity, with controllable risks. Overall, Singapore's country risk is very low and is expected to remain stable; the country risk of Vietnam, Malaysia, Indonesia, Thailand, and the Philippines is likely to be at a moderate level, while Cambodia, Myanmar and Laos still have relatively high risks.

Fig. 21: Economic Growth Rate in Southeast Asia (2017-2023F) (%)

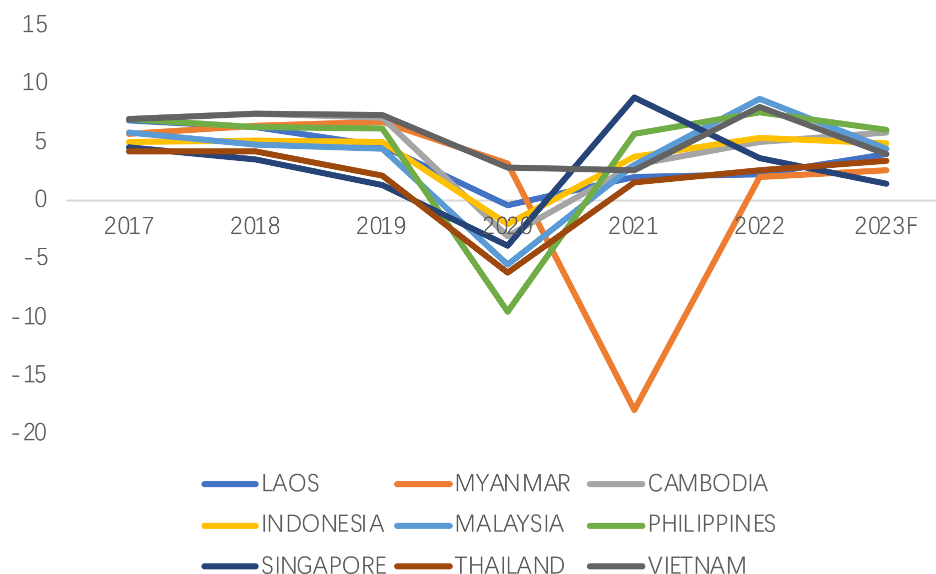


Fig. 22: CPI Growth Rates in Southeast Asia (2017-2023F) (%)

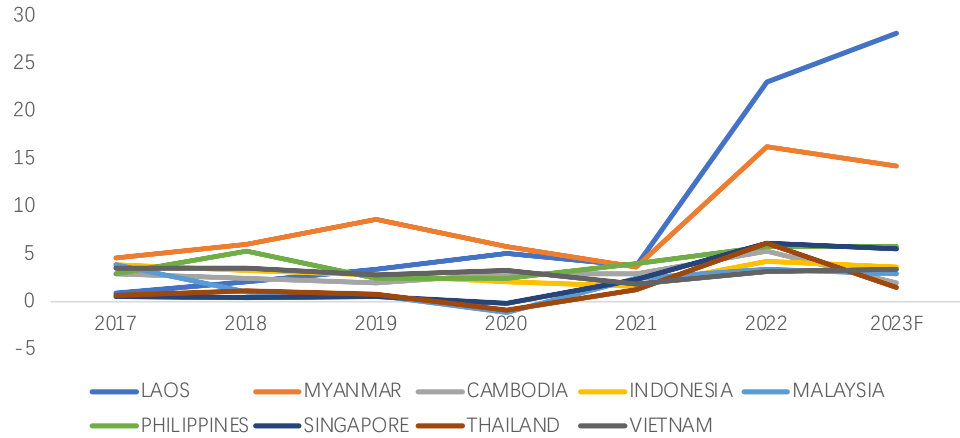


Figure 23: Fiscal Deficit Rates in Southeast Asia (2017-2023F) (%)

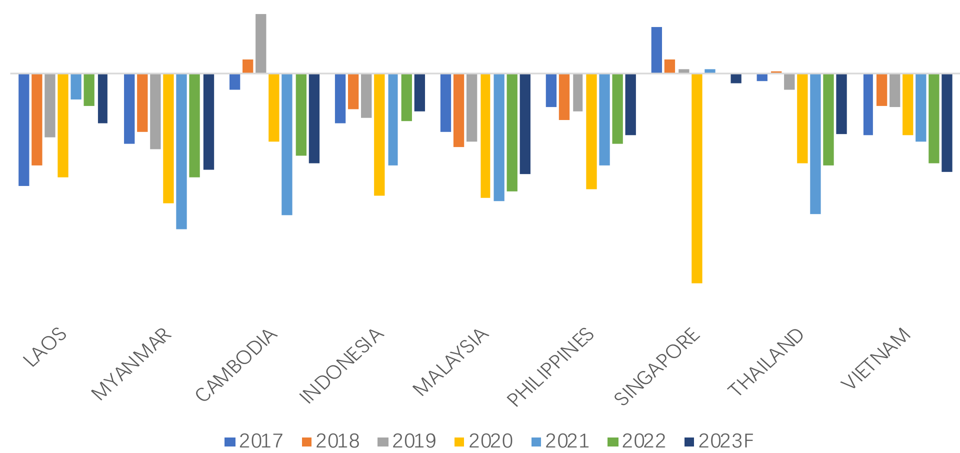


Fig. 24: General Government Debt/GDP in Southeast Asia (2017-2023F) (%)

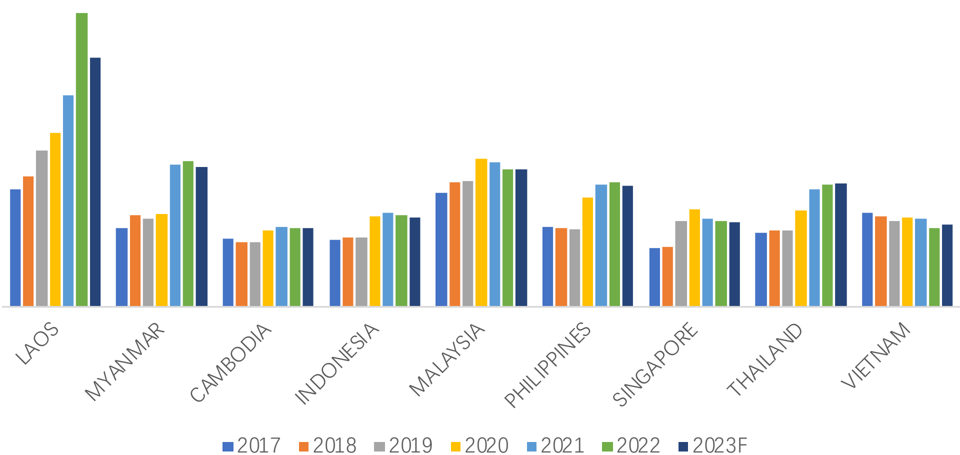


Fig. 25: Current Account Balance/GDP in Southeast Asia (2017-2023F) (%)

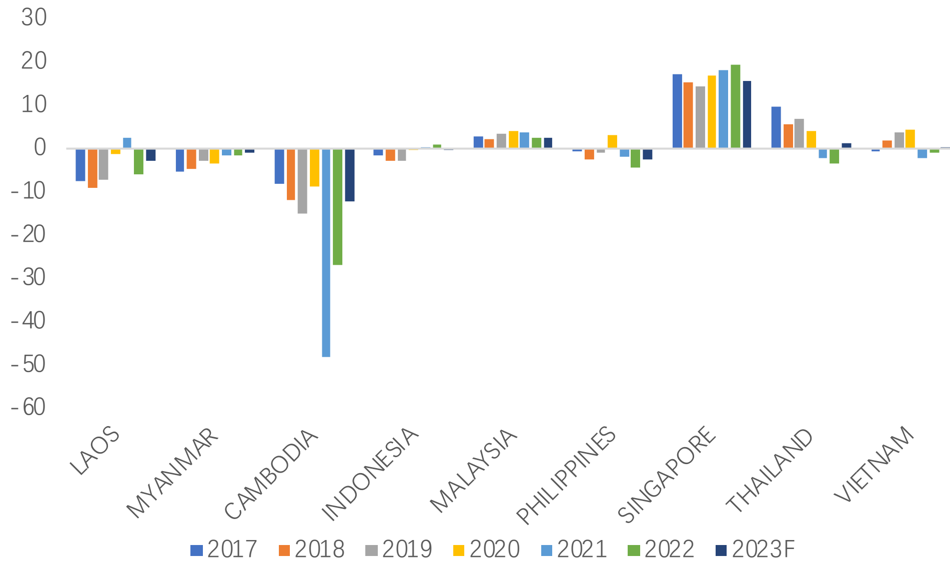
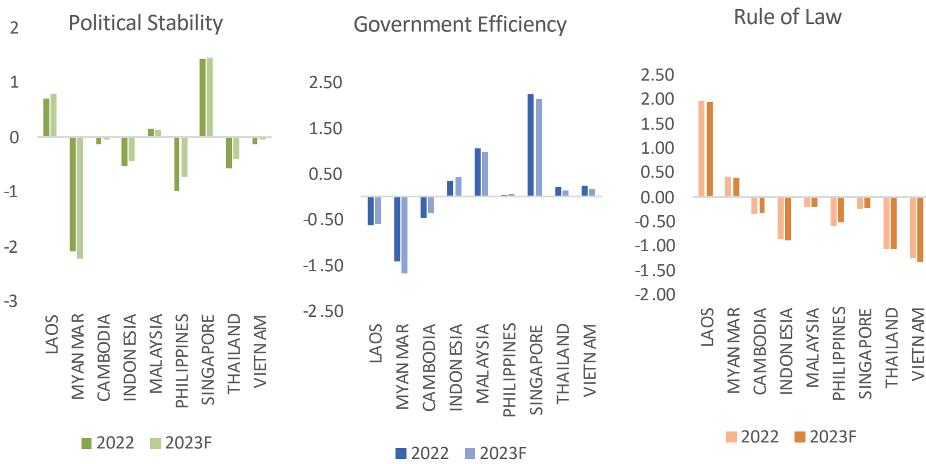


Fig. 26: Political Performance in Southeast Asia (2017-2023F) (%)



IV. South Asia: High Growth Continues and External Risks Remain High

Fig. 27: 2023 Country Risk Map in South Asia

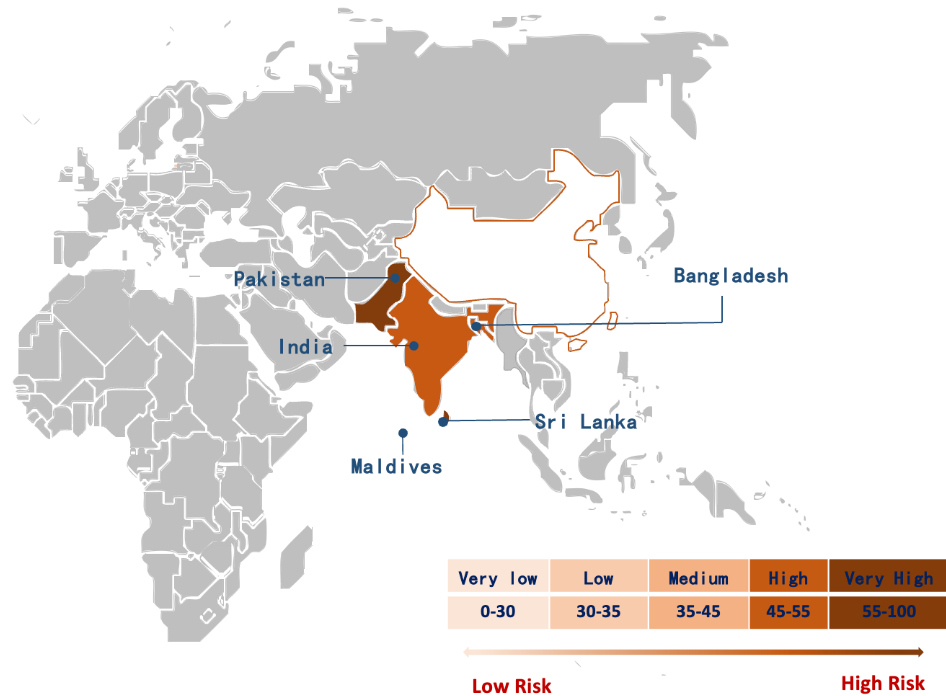


Table 5: 2023 Distribution of Country Risk Levels of Countries in South Asia

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
India	48.47	80.00	30.68	50.17	46.67	52.13
Bangladesh	49.61	65.00	16.65	60.00	66.67	68.69
Maldives	53.01	68.33	48.64	41.00	60.00	68.69
Pakistan	66.26	83.33	41.65	74.67	80.00	68.69
Sri Lanka	70.50	88.33	75.98	51.50	76.67	75.00
South Asia	**57.57**	**77.00**	**42.72**	**55.47**	**66.00**	**66.64**

Some countries in South Asia are adjacent to China's Southwest and Northwest regions and have historically maintained close economic, trade, and cultural exchanges with China. They were an integral part of the ancient Silk Road. Since the 21st century, South Asia has emerged as a crucial hub and junction for the connectivity envisioned in the Belt and Road Initiative. It is home to significant locations like the Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor,

with importance in the Belt and Road Initiative. The countries in South Asia, as developing economies, are experiencing rapid economic growth in recent years, driven by their abundant population and strong reform efforts. They possess immense development potential, making them promising emerging economies. However, it's important to acknowledge that the region also faces notable risks along the Belt and Road for a long time. When assessing country-specific risks, it becomes evident that all nations in South Asia carry heightened risk levels. Among them, India, Bangladesh and Maldives face relatively high risks, while Pakistan and Sri Lanka confront even greater risks. In terms of secondary factors, fiscal risks are particularly prominent in the region, with all countries grappling with substantial fiscal challenges. Additionally, due to their reliance on imports and exposure to external risks, South Asian nations face persistent external risks. Despite these challenges, South Asia showcases impressive economic indicators and holds a moderate level of economic performance, owing to its substantial economic size and considerable development potential. In terms of political risks, it's crucial to note that geopolitical risks such as the India-Pakistan conflict and religious tensions have long persisted in the region, with the stability of domestic politics in each country susceptible to economic and external factors. Finally, the banking system in South Asia continues to face relatively high levels of risk.

In 2023, there will be notable differences in the level of risk among South Asian countries. Bangladesh, Pakistan and Sri Lanka are facing multiple pressures, such as high inflation, currency devaluation, declining foreign reserves and political instability, leading to high fiscal and external risks. However, with IMF intervention, they are gradually entering a phase of risk mitigation. India and Maldives are experiencing steady development trends, with high fiscal risks under relatively controllable levels. Since 2023, Bangladesh, Pakistan and Sri Lanka have received IMF loan support and actively implemented the reform measures formulated by the IMF, resulting in some alleviation of fiscal risks. Specifically, under the impact of the Russo-Ukrainian conflict causing a surge in commodity prices, **Bangladesh's** foreign exchange reserves have continued to be under pressure, and external risks have greatly increased, but this has been controlled through IMF intervention. Meanwhile, currency devaluation and import restrictions have exacerbated high inflation in Bangladesh. The country's economic growth is expected to be restrained by monetary policy tightening and investment shortages, with the annual growth rate slowing down slightly to 5.6%. **Pakistan's** economic activity remains affected by the aftermath of the balance-of-payments crisis and the floods in 2022, with the high inflation rate of over 30% posing a significant negative impact on people's livelihoods, relying on external capital inflows to offset fiscal and current account deficits. With the relaxation of import restrictions in the second half of 2023, the Pakistani rupee fell to a historic low under the impetus of strong demand for the US dollar but stabilized and rebounded after the government cracked down on illegal US dollar transactions. In the short term, Pakistan's economy will still be impacted by high inflation and IMF loan program-based austerity policies, sensitive to external risks, with growth expected to be around 1.7% in 2023. Affected by economic fluctuations, the domestic political situation in Pakistan remains highly uncertain before the general election in January 2024. **Sri Lanka** has benefited from the support of the IMF and other external lenders, actively promoting structural economic reforms, significantly slowing down inflation, achieving tourism industry recovery, and stabilizing its economy in 2023, with a projected contraction narrowing significantly to -3.8%. However, fiscal and foreign exchange reserves have limited buffers, with high external risks. Due to Sri Lankan citizens' lack of trust in the current political party and government policies, as well as the uncertainty of the country's economic prospects, its domestic political risk remains relatively high. **India,** as the economic mainstay in South Asia and the world's most populous country, has tremendous growth potential. To cope with food price increases caused by monsoons, the Indian central bank has implemented a series of tightening monetary policies to control inflation within reasonable limits. In

2023, due to sluggish external demand, the growth in commodity exports slows down. However, strong performance in service exports such as information technology and consulting as well as expansion in public investment have supported the country's economy to grow beyond expectations. India's growth is projected to remain high at 6.3% in 2023, a key driver of growth in the South Asia region. Furthermore, the Indian government has long adopted policies of reducing taxes and expanding fiscal spending, with a high fiscal deficit. However, since the government mainly relies on domestic capital market borrowing, the risk of government debt default is low. **Maldives,** with tourism as its pillar industry, has the highest per capita GDP in South Asia. In 2023, benefiting from a strong rebound in tourism, the country's economic growth is expected to reach 6.5%, becoming the fastest-growing economy in South Asia. It is worth noting that Maldives' investment in tourism focuses on infrastructure construction, and the related increase in external debt poses some fiscal and external risks for the country. Overall, the South Asian region's economic growth rate in 2023 is expected to reach 5.8%, becoming the fastest-growing region globally. With gradually stabilizing currencies and a relaxation of import restrictions, the region's overall inflation rate is expected to continue to fall.

Looking ahead to 2024, it is anticipated that fiscal risks in Bangladesh, Pakistan and Sri Lanka may be further alleviated, while external risks will remain high. Political stability is expected to improve after the general election. India and Maldives will continue their high-growth trends and drive the overall growth in the South Asian region. As a result of fiscal management and the slowdown in global demand, the economy of the South Asian region is expected to continue its slow recovery. To address inflationary pressures, it is expected that each country will continue to implement tightening monetary policies, which are likely to show a restraining effect on domestic demand throughout 2024. The economic and fiscal management measures implemented by **Bangladesh, Pakistan and Sri Lanka** under IMF loan programs are expected to yield initial results, with inflation rates showing a downward trend and economic growth returning to 5.8%, 2.5%, and 1.7%, respectively. However, the sustainable economic recovery of these countries will depend on the precision of reform measures and improvements in political stability following the general election, given their limited buffering of fiscal and foreign exchange reserves. **India'**s relatively manageable external debt levels and robust domestic financial system will continue to support its ongoing recovery amid a global demand slowdown and rising interest rates. It is expected to maintain a high growth rate of around 6.4%, and the sustained improvement in economic prospects will provide some assurance for the reduction of fiscal and external risks. Driven by the strong recovery of the tourism industry, **Maldives'** economic growth rate is expected to slightly slow to 5.2% in 2024 due to the impact of a high base. The Maldivian government's investment in infrastructure projects will enhance the country's tourism capacity, but global financial market volatility will have a significant impact on the country's affordability under debt burden. It is projected that the total debt-to-GDP ratio will remain above 115%, resulting in certain fiscal and external risks for the country. Overall, the South Asian region is expected to maintain a growth rate of 5.6% in 2024, surpassing the overall growth rate of the Asian region and remaining at a high level globally. The inflation level is expected to decrease from 8.9% in 2023 to below 7%. Economic risks may be somewhat alleviated, while external risks will remain high, keeping the overall regional risk at elevated levels.

Fig. 28: Economic Growth Rates in South Asia (2017-2023F) (%)

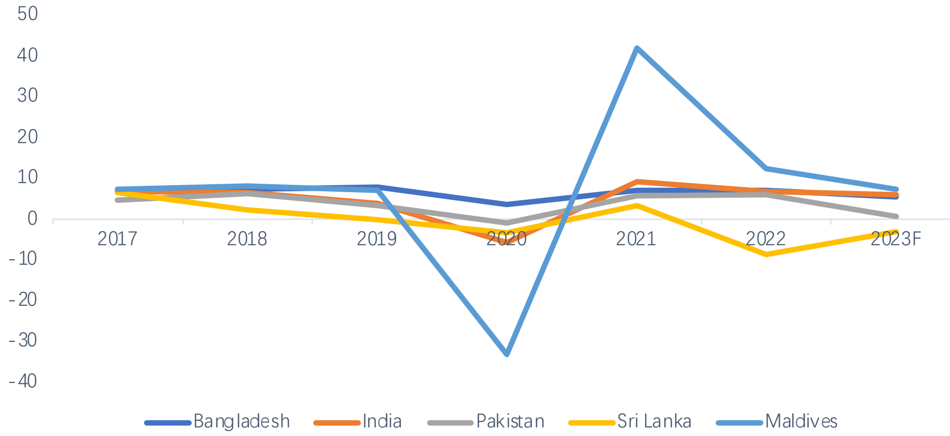


Fig. 29: CPI Growth Rates in South Asia (2017-2023F) (%)

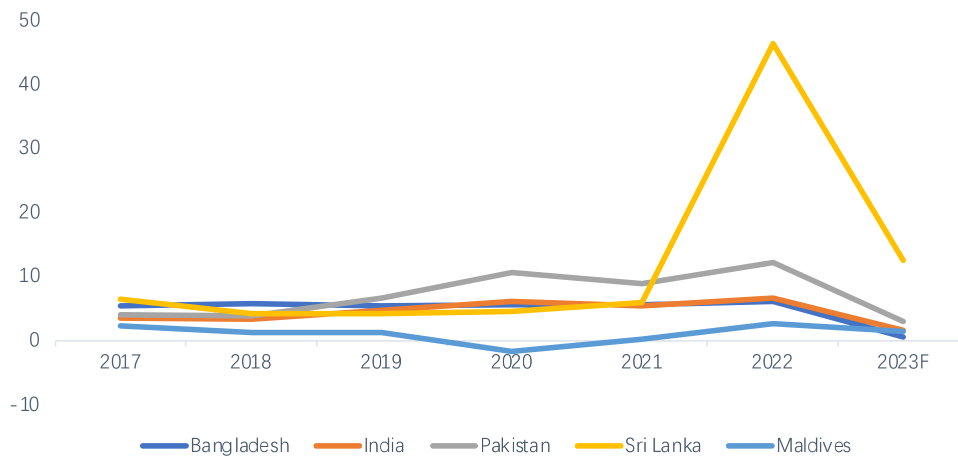


Figure 30: Fiscal Deficit Rates in South Asia (2017-2023F) (%)

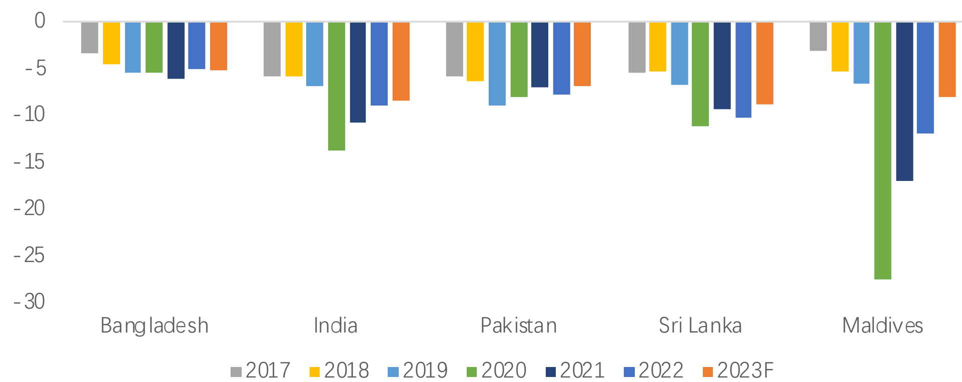


Fig. 31: General Government Debt/GDP in South Asia (2017-2023F) (%)

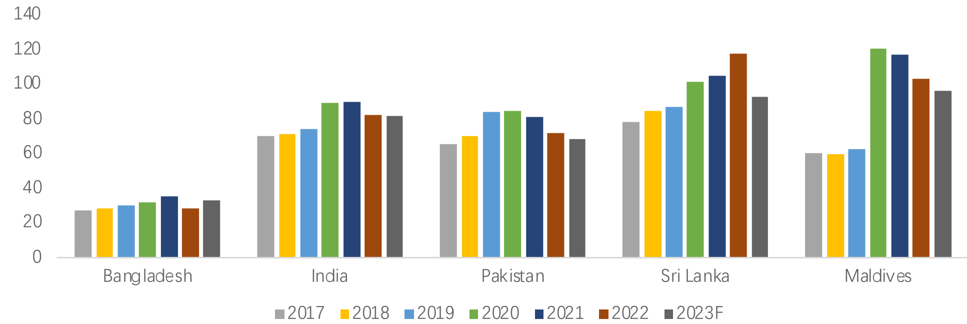


Fig. 32: Current Account Balance/GDP in South Asia (2017-2023F) (%)

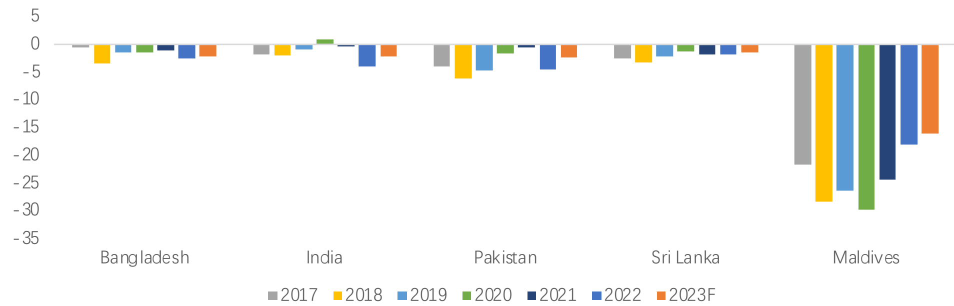


Fig. 33: Exchange Rate Fluctuations in South Asia (2017-2023F) (%)

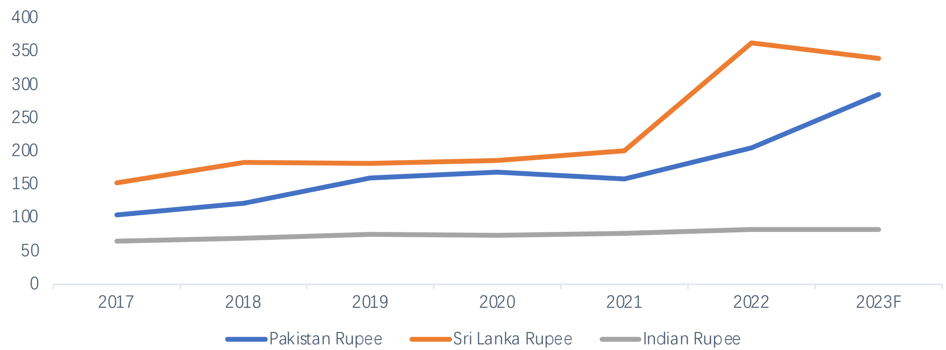
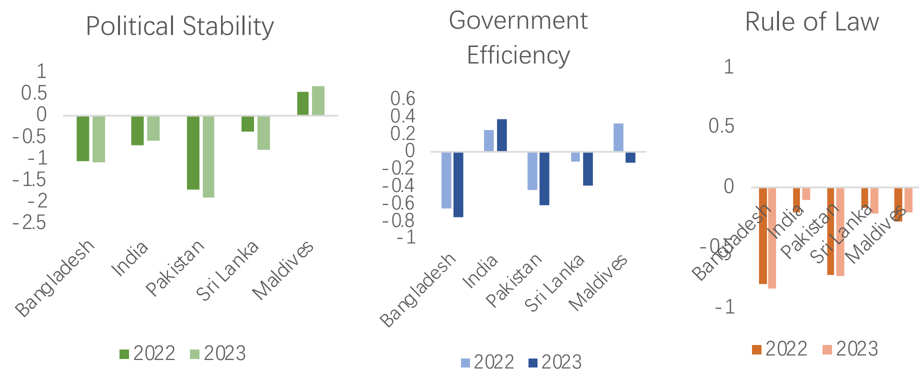


Fig. 34: Political Performance in South Asia (2017-2023F) (%)



Ⅴ. Central Asia: Declining Income from Overseas Remittance Restrains Domestic Demand, and the Economy Remains Resilient

Fig. 35: 2023 Country Risk Map in Central Asia

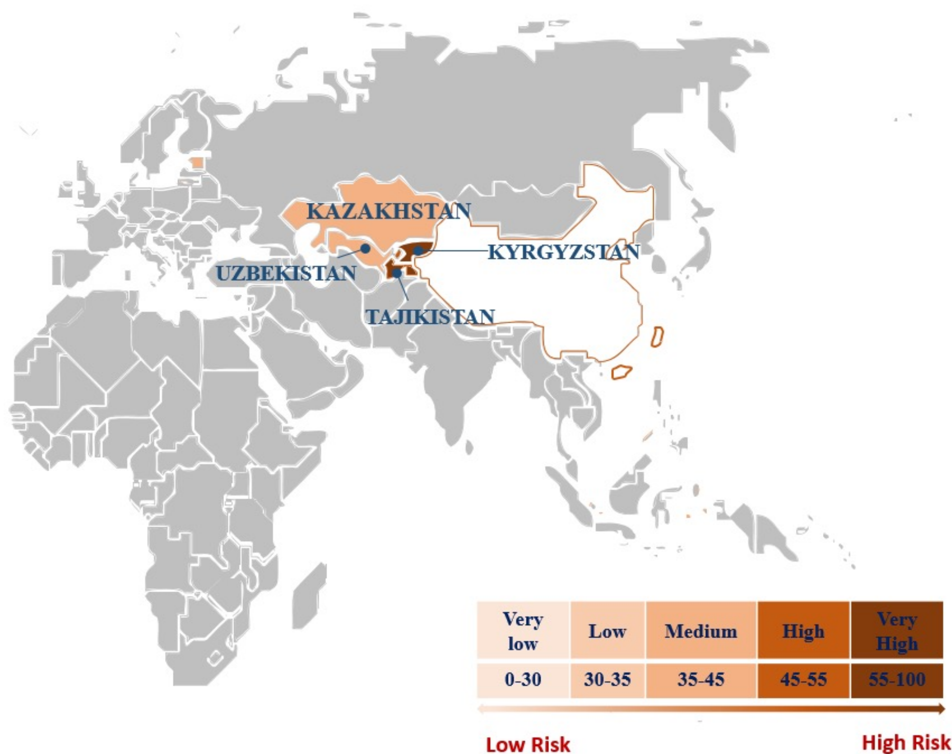


Table 6: 2023 Distribution of Country Risk Levels of Countries in Central Asia

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
Kyrgyzstan	62.31	21.67	75.64	63.33	70.00	68.69
Uzbekistan	44.46	31.67	32.65	56.83	40.00	68.69
Kazakhstan	41.25	11.67	33.98	53.00	46.67	64.01
Tajikistan	52.16	35.00	32.65	66.17	56.67	68.69
Central Asia	**50.05**	**25.00**	**45.31**	**59.83**	**53.33**	**67.52**

Central Asian countries serve as the birthplace of the Belt and Road Initiative and are among the world's richest regions in terms of oil and natural gas reserves. However, due to the lack of a comprehensive industrial system and weak industrial foundation, these nations have close ties with Russia in terms of trade and labor remittances. The export of raw material products and remittances from labor migration play pivotal roles in the region's economy, rendering it susceptible to fluctuations in commodity prices and the Russian economy. Moreover, the region has long faced geopolitical risks due to the complexities of great power competition. To optimize the investment environment and drive economic development, Central Asian countries have been consistently promoting structural reforms in recent years. Before being impacted by the pandemic, these countries experienced rapid growth, propelled by resource exports and foreign direct investment. From the perspective of the Belt and Road, the overall country risk in the Central Asian region remains high. Among them, Kyrgyzstan and Tajikistan are classified as very high-risk countries, Uzbekistan as a high-risk country, and Kazakhstan continues to be the least risky country in Central Asia, with its country risk at a moderate level.

Central Asia is facing a slightly increased risk in 2023 compared to the previous year. This is primarily due to the decline in Russia's demand for foreign labor and the weakening of the ruble, which has led to more economic and external risks in some Central Asian countries. Additionally, there has been a rise in fiscal risks as these nations have increased rigid public spending, and banking and political risks have changed little but remain relatively prominent. In terms of economic risks, Central Asia showed resilience in 2022 despite the Russia-Ukraine conflict. Since 2023, the decline in Russia's demand for foreign labor and the weakening of the ruble have led to a year-on-year decline in overseas remittances in Central Asia, dampening consumer spending and broader economic activities in the region. At the same time, a decline in remittances and an increase in demand for imports of fuel, machinery and equipment have also reduced the contribution of net exports to economic growth. It is worth noting that the imposition of sanctions on Russia and its autumn mobilization indirectly boosted the logistics, trade, transportation and tourism in Kazakhstan and Uzbekistan, leading to increased investment demands and service exports in the two nations. Regarding fiscal risks, Central Asian countries have expanded their social spending and invested in infrastructure to promote the transition to a market-driven economy. However, the state of fiscal balances has worsened in 2023 due to increased public expenditures in education, social security and public infrastructure. Nevertheless, the debt burden remains manageable. Since the foreign currency debts of the governments of Uzbekistan, Tajikistan and Kyrgyzstan all account for more than 80%, the debt repayment costs of the three countries have increased since 2023 in the context of the continuous depreciation of the domestic currencies against the US dollar. However, because Uzbekistan and the other two countries' financing mainly comes from bilateral and multilateral institutions, with long debt maturities and low debt repayment costs, they can still maintain relatively strong debt affordability. External risks have decreased in Kazakhstan and Kyrgyzstan, thanks to the recovery of key oil production and gold exports, as well as improved service trade export. However, the trade balance of Uzbekistan and Tajikistan has worsened due to the year-on-year decline in remittance inflows. And the devaluation of the domestic currency against the US dollar also makes the two countries' foreign exchange reserves fall. Despite this, they still maintain a certain level of import coverage. In terms of banking system risk, Central Asian countries have made progress in reducing non-performing loans with banking reform, but Tajikistan still faces relatively high levels. The region's banking sector is vulnerable to domestic currency depreciation due to its high dollarization and foreign currency-dominated debt. While the depreciation of domestic currencies since 2023 has increased banking system risks, they remain manageable. In terms of political risk, the ongoing conflict between Russia and Ukraine continues to be the primary geopolitical risk for Central Asia in 2023. The region's unique geographic

strategy, its economic and political dependence on Russia, and its high reliance on preferential loans from bilateral and multilateral sources, all contribute to the sustained economic threats faced by Central Asia amidst ever-changing geopolitical situation. Against the backdrop of exacerbated confrontation between Western and non-Western nations, the geopolitical risks in Central Asia remain significant in 2023. Despite being negatively impacted by the spillover effects of the Russia-Ukraine conflict, the countries in the region have managed to maintain stability and progress in their reform processes. However, the efficiency of the governments in Tajikistan and Kyrgyzstan remains relatively low, leading to slower reform progress. The administrative capacity of government institutions in these countries is still relatively weak, posing constraints on their development.

Looking ahead to 2024, it is expected that the regional risks in Central Asia will remain stable in the face of a decline in inflation, expanded oil field production, and increased investment by various countries. The Belt and Road Initiative is also expected to bring significant potential for growth in infrastructure construction in areas such as energy. However, some countries in the region are vulnerable due to their high dependence on overseas remittances. Additionally, the unresolved conflict between Russia and Ukraine will continue to constrain the development prospects of Central Asia. In terms of economic risk, the ongoing uncertainty surrounding the escalation of the Russia-Ukraine conflict will continue to impact economic growth in the region. Despite the anticipated growth in investment activities driven by factors such as capital inflows from Russia, increased demand for transit trade and transportation, and deepening cooperation in infrastructure construction in the oil, gas and new energy power sectors based on bilateral agreements related to the Belt and Road Initiative with China, the domestic demand and economic growth in Central Asia will decline further if Russia's demand for foreign labor continues to decrease. Moreover, the risk of supply interruptions in the Caspian Pipeline Consortium (CPC) oil pipeline[1] will continue to constrain the economic growth prospects of Kazakhstan. A long-term disruption due to geographical relations may cause serious economic and financial damage to Kazakhstan. In terms of fiscal risks, with the growth of nominal GDP, the promotion of energy subsidy reform, and the improvement of oil exports, the fiscal consolidation process in Kazakhstan and Uzbekistan is expected to advance in an orderly manner, and the fiscal revenue and expenditure situation will improve. However, considering that in a relatively high inflation environment, Kyrgyzstan still needs to increase expenditure to support real wage growth, and Tajikistan also faces high investment expenditures, it is expected that the fiscal risks of both countries will remain at a level comparable to the previous year. With regard to external risks, Kazakhstan and Kyrgyzstan are expected to see improvements due to various factors such as the rise in gold prices, the resumption of gold exports, expanded oil field production and inflation slowdown. The changes in external risks for Uzbekistan and Tajikistan will still mainly depend on Russia's demand for foreign labor. However, increased services exports, expected improvements in foreign direct investment and continued support from development partners will help mitigate the risk of external vulnerability. In terms of political risk, the change in international situation is strengthening the integration momentum in the Central Asian region, making countries pay increasing attention to regional trade and investment integration. However, the lingering Russia-Ukraine conflict and the complex geopolitical landscape remain constraints on Central Asia's potential economic growth, and an increased risk of spillover effect from border terrorist activities will also undermine the economic growth prospects of Central Asian countries.

[1] The Caspian Pipeline Consortium (CPC) oil pipeline is the most important transportation route for Kazakhstan's oil exports, accounting for approximately 80% of its total crude oil exports and around 35% of its commodity and service exports.

Fig. 36: Economic Growth Rate in Central Asia (2017-2023F) (%)

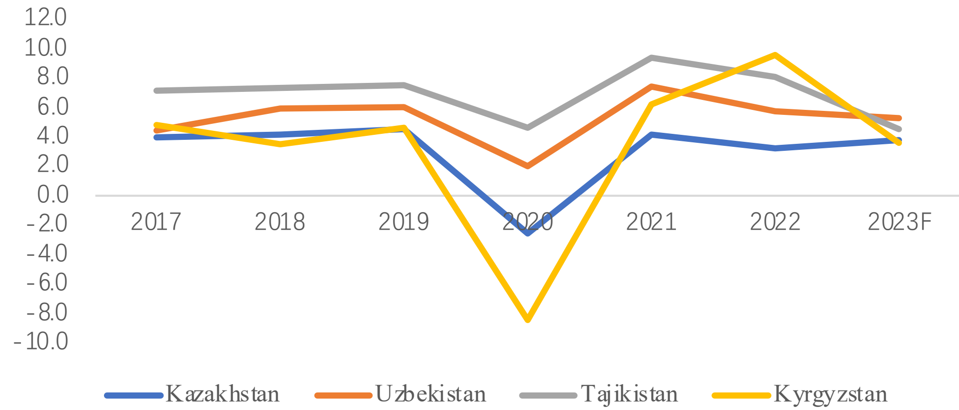


Fig. 37: CPI Growth Rates in Central Asia (2017-2023F) (%)

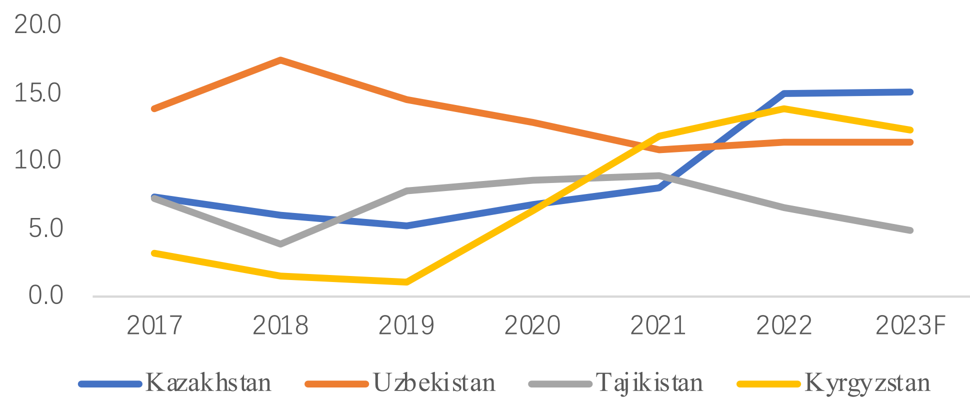


Figure 38: Fiscal Deficit Rates in Central Asia (2017-2023F) (%)

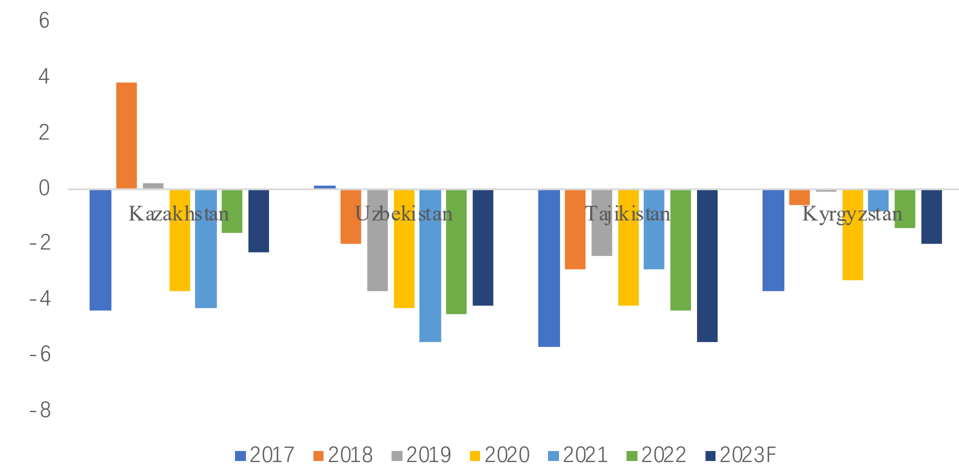


Fig. 39: General Government Debt/GDP in Central Asia (2017-2023F) (%)

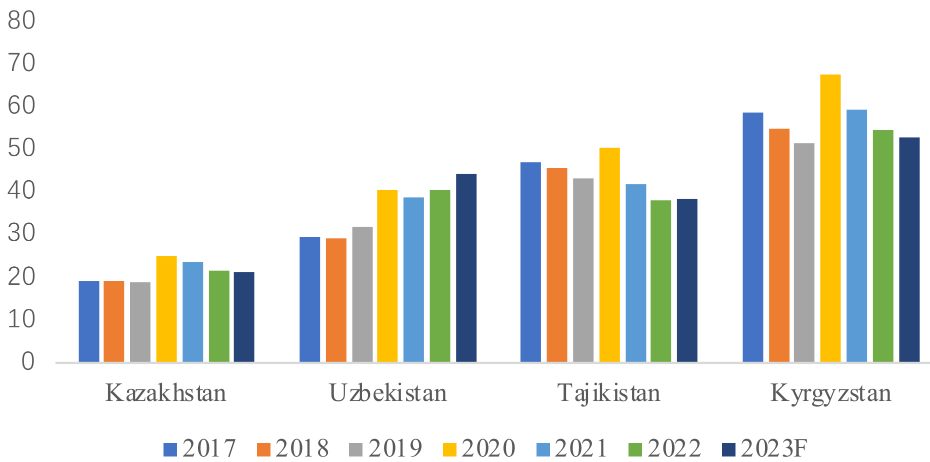


Fig. 40: Current Account Balance/GDP in Central Asia (2017-2023F) (%)

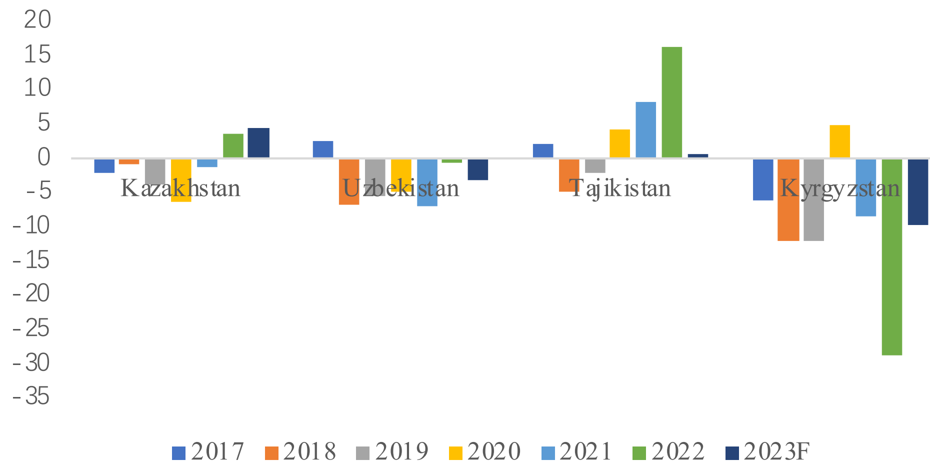
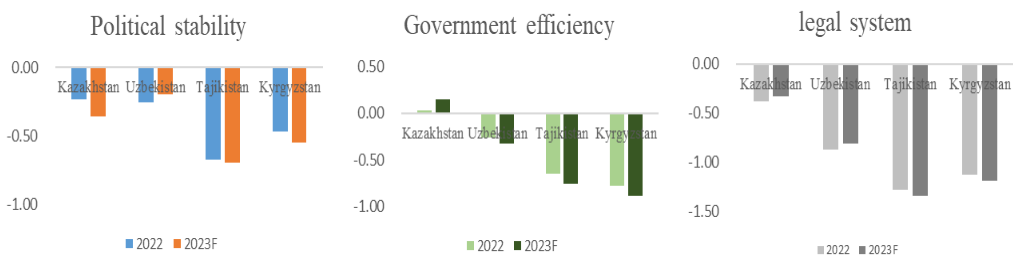


Fig. 41: Political Performance in Central Asia (2017-2023F) (%)



VI. Middle East and North Africa: Oil-producing countries remain resilient, with concerns over regional spillover effects of the Israeli-Palestinian conflict.

Fig. 42: 2023 Country Risk Map of Countries in Middle East and North Africa

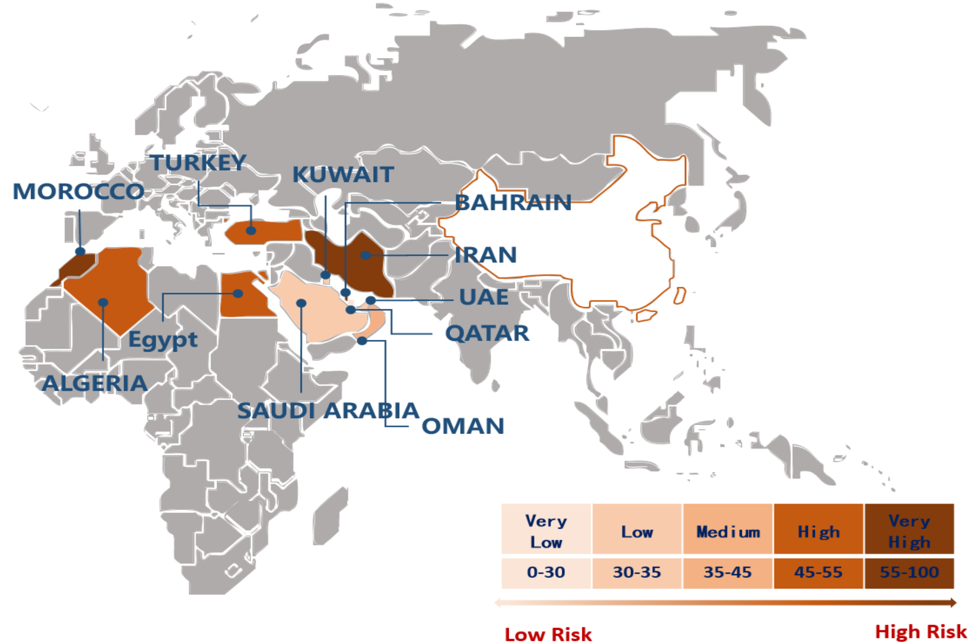


Table 7: 2023 Distribution of Country Risk Levels of Countries in Middle East and North Africa

	Country risk	Fiscal debt risk	Economic risk	Political risk	External risk	Banking system risk
United Arab Emirates	31.11	3.33	37.00	26.00	43.33	52.13
Egypt	54.30	86.67	27.65	60.33	56.67	64.01
Qatar	27.44	5.00	27.02	20.00	46.67	55.87
Saudi Arabia	30.45	1.67	35.98	46.33	6.67	45.07
Turkey	52.53	28.33	25.36	70.50	83.33	70.26
Iran	60.99	57.78	55.68	80.83	30.00	68.69
Bahrain	56.78	83.33	49.97	52.33	53.33	55.87
Oman	40.43	11.67	51.30	39.00	40.00	55.87
Kuwait	34.30	8.33	36.98	43.67	26.67	48.54
Algeria	51.99	48.89	58.97	55.33	23.33	68.69
Morocco	56.43	53.33	61.32	54.83	53.33	55.87
Middle East and North Africa	**45.16**	**35.30**	**42.48**	**49.92**	**42.12**	**58.26**

The Middle East and North Africa region is 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 great strategic significance since ancient times. With its vast energy reserves, vast potential for infrastructure building and strong complementarity for industrial cooperation with China, it holds immense opportunities 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. This has resulted in a close link of its economic, fiscal, international balance of payments and geopolitical performance with the global oil market. In 2023, the conflict between Russia and Ukraine continues, while major economies in Europe and America maintains a strong stance in raising interest rates. This further slows down the global economic recovery. Additionally, ongoing production cuts by the “OPEC+” group have led to a generally tight supply-demand balance in the oil and natural gas market. As a result, energy prices renders some decline as compared to last year’s peak, with the overall level is relatively high and volatile. Despite these challenges, oil-producing countries in the Middle East generally remains robust fiscal, economic and external performance. However, non-oil-producing countries and some financially weaker oil producers are facing significant imported inflationary pressures in the background of limited global food supplies. The high energy prices also put pressure on the external accounts of countries like Turkey and Egypt, leading to increased risks in external debt sustainability. In terms of country risk performance in 2023, the overall country risk of the MENA region remains high. Among them, Qatar is the only country with very low risk. Kuwait’s risk classification sees some deterioration as compared to the previous year, joining the UAE and Saudi Arabia’s low-risk country cluster, while Oman is classified as a medium-risk country. Algeria, with the overall country risk climbing, joined Turkey and Egypt to be categorized as high-risk countries. Likewise, Morocco sees some escalation in country risk, joins Iran and Bahrain to be regarded as very-high-risk countries.

In 2023, the global prices of oil and gas continue to fluctuate at rather high level. This provides some support for the fiscal, economic and external account performance of oil-producers. Non-oil-producers like Egypt and Turkey continue to face disturbances from factors such as imports-induced inflation. Meanwhile, the external risks vary across countries in the MENA region. On one hand, the global economic growth momentum weakens, leading to a slowdown in the oil demand for worldwide. On the other hand, the attempt from US to push OPEC into production increase went unsuccessful, and the significant production cuts initiated by OPEC+ from November 2022 continue. This joined by ongoing geopolitical turbulences come to further support the oil price center for most of the time in 2023. Overall, given the rather tight supply and demand status, global oil prices remain volatile at medium-to-high levels. Although oil-producers face some downward pressure on their economies due to declining output and price in oil industry, the substantial inflow of oil and gas revenues has provided some support to their fiscal performance. This helps reduce their vulnerability to potential declines in oil and gas revenues and risks associated with transition towards a low-carbon economy. Qatar and Saudi Arabia are expected to see a slowdown in their economic growth rates in 2023, dropping from the high levels observed previously to 2% and 1.9%, respectively. However, strong per capita GDP and low inflation rates continue to support overall economic strength of the two. Iran and Bahrain witness a decline in their export performance as compared to that in the previous year, which somewhat affects their economic growth rates. However, considering the low base effect, there is not much change in the overall economic and fiscal risks for these two countries as compared to 2022. Algeria’s contraction in oil and gas exports, along with relaxed import restrictions, is expected to shift its current account from a huge surplus of about 7.6% in the previous year to a slight

deficit. This will result in a slower growth of FX reserves and negative impact on its external account performance. Additionally, a significant increase in fiscal expenditure puts additional pressure on Algeria's fiscal situation. Against this backdrop, its fiscal and exchange risks have risen significantly. Despite these challenges, the active pursuit of energy diplomacy continues to provide some support to the country's economic performance. Continued spillover risks from geopolitical conflicts, such as the ongoing tensions between Russia and Ukraine and the resurgence of the Israel-Palestine conflict also deserves attention. These conflicts bring risks to people's livelihoods and diplomatic relationships in the MENA region. Consequently, some countries come to endure heightened unemployment rates and poverty levels, adding potential pressure to their macroeconomic situations. Specifically, non-oil-producers like Egypt and Turkey continue to face challenges in maintaining their foreign reserve buffering. The resurgence of the Israel-Palestine conflict in the fourth quarter has led to persistent inflationary pressures resulting from imports with raised oil price. However, Turkey's diplomatic position has improved in such complex. With the new appointments made after President Erdoğan's re-election, signals are being sent regarding a shift in economic and fiscal policies. Measures such as consecutive significant interest rate hikes have been implemented to indicate a return to a more rational approach, leading to a somewhat slowdown in credit-driven economic growth and certain alleviation of external risks. As for Egypt, despite increasing inflation risks, its economic performance continues to be underpinned by ongoing reform efforts. However, dependence on external financing remains a significant risk to its future prospects. Egypt is approaching a period with intensive medium-to-long-term maturities on its external debt. While the continuation of substantial deposits from the Gulf Cooperation Council (GCC) and expected IMF loan assistance provide some relief, persisting pressures on people's livelihoods and FX shortages continue to put pressures on the country's fiscal and exchange rate performance.

Looking ahead to 2024, under a neutral scenario, global oil and gas demand will continue to be tight, which will constrain the price upward space intended by the OPEC+ production reduction. However, thanks to fiscal strength enhancement and the continuous carrying forward of economic diversifying projects, the fiscal, economic, and external account performance of oil producers in the region would remain sound. Attention needs to be paid to the probability of sudden escalation and spread of the Palestinian Israeli conflict, as well as its regional spillover effects. **As the conflict evolves, the possibility of abruption in the overall geopolitical risks in the Middle East region remains.The chain reaction of the conflict may further worsen the fiscal conditions and living pressures in Egypt, Jordan and Lebanon, posing a threat to their social and political stability. If the conflict spills over, fallout would be projected on the economic, fiscal and geopolitical prospects on a global scale.** Currently, Egypt, Jordan and Lebanon are all facing varying degrees of economic pressure. Since Egypt and the Gaza Strip are connected by the Rafah border crossing, there is a high probability of an influx of refugees fleeing Gaza and the civil war in Sudan, leading to increased governance pressure and further escalation of fiscal stabilizing expenses. Before the current round of the Israeli-Palestinian conflict, Egypt's financing needs this year were already estimated to be approximately 35% of its GDP. The conflict will hamper the tourism industry (the main source of income), exacerbating external account troubles and continuous downward pressure on the Egyptian pound, which could bring uncertainty to Egypt's external repayments and fiscal liquidity and more challenges to its debt sustainability. With economic headwinds and reduced foreign investment, Jordan also faces the potential of an economic slowdown. Although its debt burden is moderate, the country has a double-digit unemployment rate. Lebanon's Central Bank adjusted the official fixed exchange rate to 15,000:1 in February, for the first time in 25 years (a tenfold depreciation), resulting in a significant decrease in residents' real wage purchasing power. Considering

Lebanon's debt burden is heavy and lacks mature deliberation in strategy, its public debt could reach nearly 550% of GDP under sluggish reforms. From the perspective of oil-producers, although there are currently no signs of economic downturn and fiscal difficulties, the spillover of conflicts could have multiple effects on their geopolitical, export, fiscal and economic performance. Any escalation or continuation of conflicts could weaken the peace dividends obtained by the GCC countries since early 2023 and stand in the way of their economic diversification and other reform processes.

Fig. 43: Economic Growth Rate in Middle East and North Africa (2017-2023F) (%)

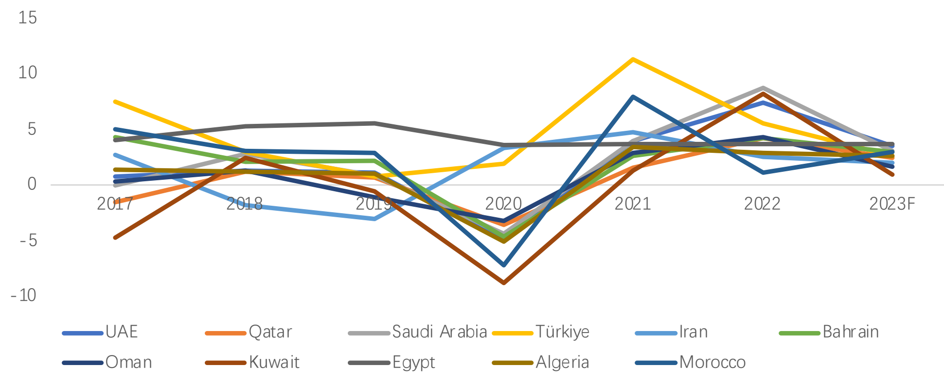


Fig. 44: CPI Growth Rates in Middle East and North Africa (2017-2023F) (%)

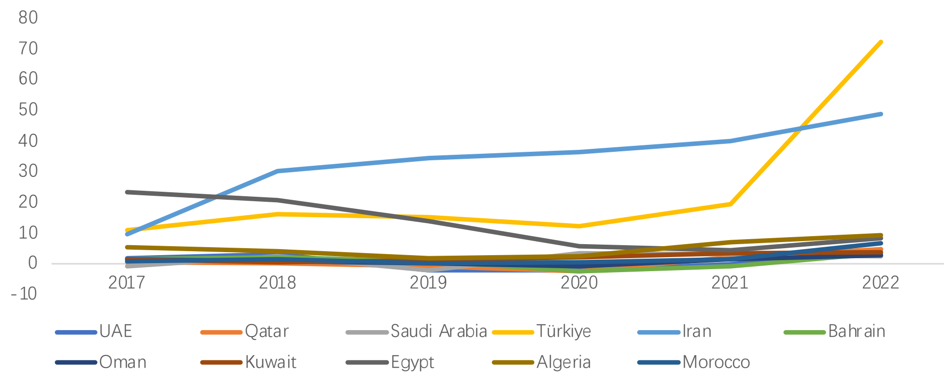


Figure 45: Fiscal Deficit Rates in Middle East and North Africa (2017-2023F) (%)

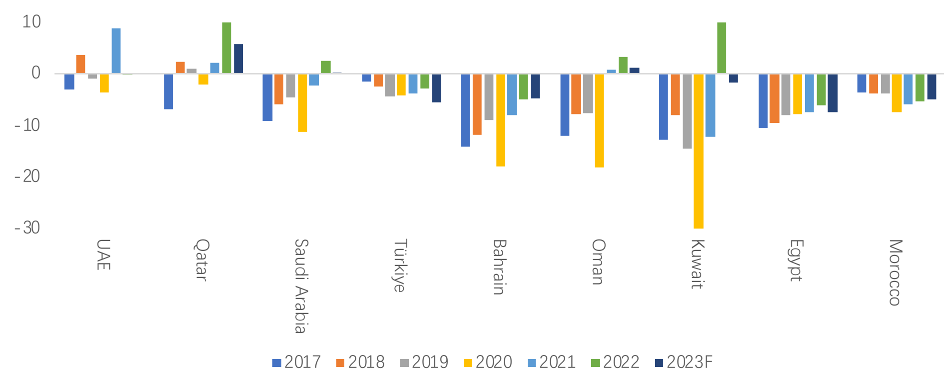


Fig. 46: General Government Debt/GDP in Middle East and North Africa (2017-2023F) (%)

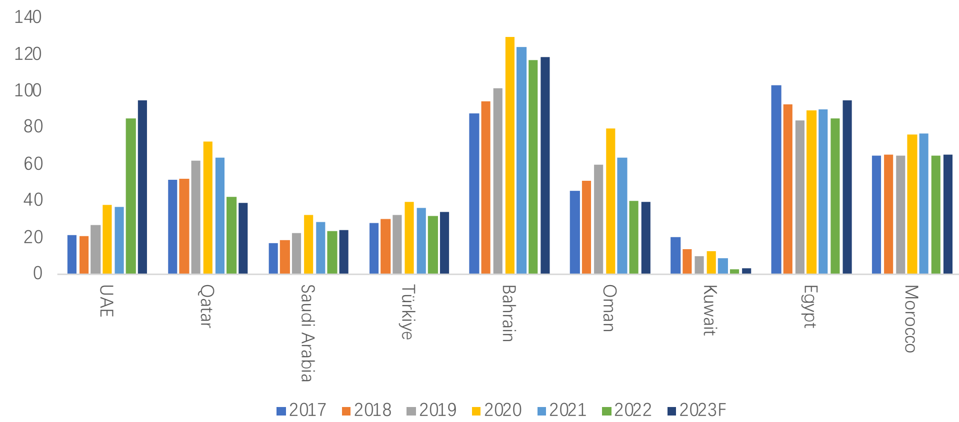


Fig. 47: Current Account Balance/GDP in Middle East and North Africa (2017-2023F) (%)

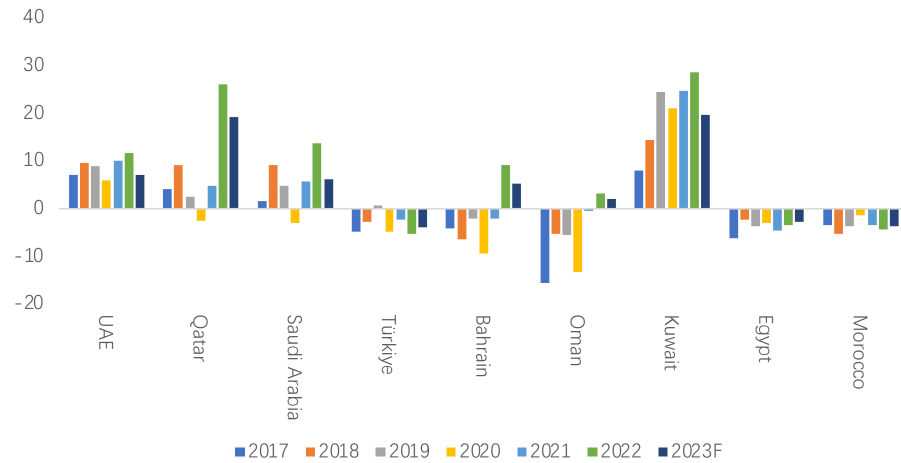
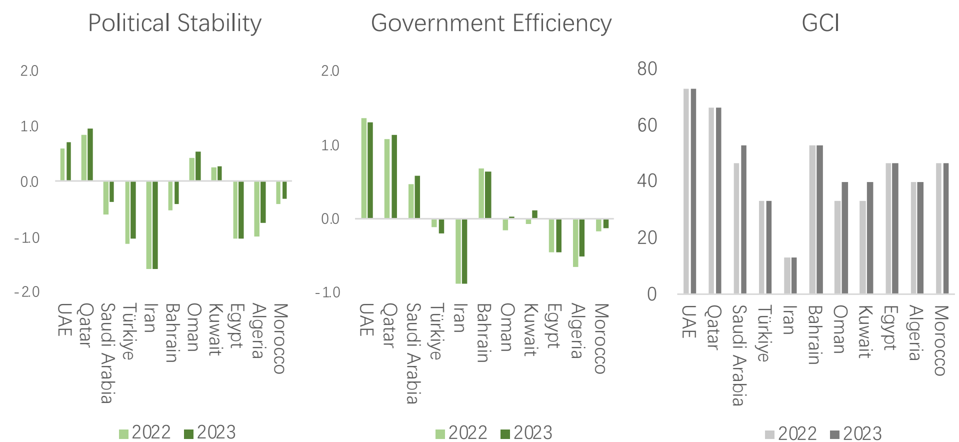


Fig. 48: Political Performance in Middle East and North Africa (2017-2023F) (%)



Part III: 2023 Risks Overview of the Chinese International Contracting Industry

I. Overview of Risks Faced by Chinese International Contracting Industry

Since 2023, the world has been facing multiple crises, including escalating inflation, a notable surge in unilateral protectionism, and significant shifts in the political and economic landscape, which have triggered a series of deeply interconnected global risks. Chinese international contracting industry have also entered a period characterized by both strategic opportunities and formidable risks, accompanied by increasing uncertainties. Existing risks are being concentrate unleashed, posing unprecedented pressure and challenges to the industry's development.

To analyze the industry's risk situation, comprehend the global shifts in risk, and promote the development of Chinese international contracting industry, the China International Contractors Association (CHINCA), following its inaugural release in 2022, has once again presented the Overview of Risks for Chinese international contracting industry in 2023. This overview systematically reviews and summarizes the overall risks facing Chinese international contracting industry in 2023. Through in-depth surveys of member enterprises, the top ten risks are identified according to the respondents' scores on the severity of risks, and the severity percentage of each risk is calculated based on the weighted score distribution. The following parts focus on the analysis and exposition of the identified risks in descending order of severity, and explore the annual risk changes from the perspectives of external environmental risk and enterprise operational risk.

This risk overview is supported by the analysis of China Chengxin International Credit Rating Co., Ltd. It is expected that the overview will provide a valuable reference for member enterprises, aiding in the effective identification, management, and mitigation of risks in the international contracting business.

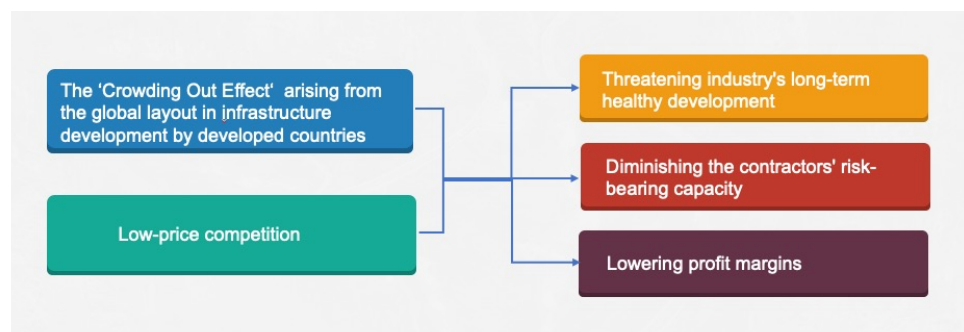
Top 10 Risks for Chinese international contracting industry in 2023

Top 1: Intensified market competition and its derivative effects

Degree of risk：89%

Amid the dual pressure of intensified domestic and international competition, intensified market competition and its derivative effects persist as the most prominent risks faced by the industry. Chinese contractors are experiencing a narrowing scope in the overseas market and a decline in profit margins. Regarding external competition, developed countries are further strengthening their global footprint in the infrastructure sector. Coupled with the sustained slowdown in global economic growth, the effective market demand has decreased, potentially exerting a "Crowding Out Effect" on Chinese international contractors in developing countries in Asia, Africa, and other regions. Simultaneously, some project host countries are implementing protectionist policies, increasing the difficulty of market access for Chinese contractors. Concerning internal competition, in addition to central and local state-owned contractors, small and medium-sized contractors as well as private contractors have also embarked on overseas ventures in recent years. The homogenization of business among Chinese contractors has intensified, leading to the growing trend of fierce price competition and underbidding. The quotations lacking systematic research and assessments cannot cover long-term risks or force majeure events, which diminishes the contractors' risk-bearing capacity and compresses their profit margins. Moreover, some projects have ongoing disputes with the clients due to insufficient funds for additional investments after they win the bid at a low price, which is detrimental to the industry's long-term healthy development.

Figure 49: Market Competition and Its Derivative Effects



Top 2. Increased risks in international operations highlight the urgency of transformation in Chinese contractors' management models

Degree of risk: 76%

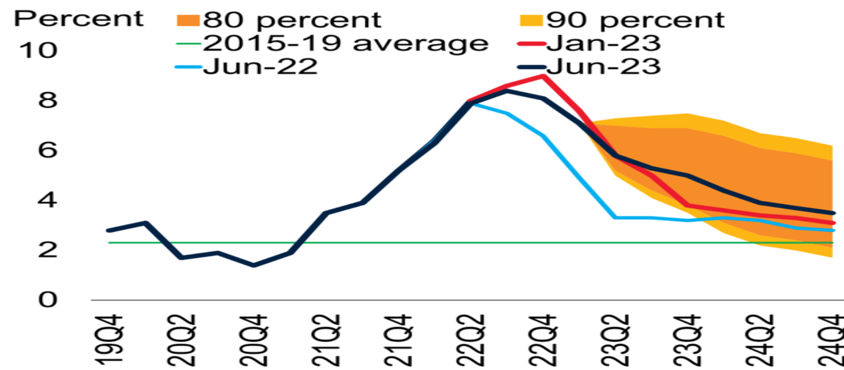
The global economic slowdown has intertwined with localized protectionist measures, amplifying risks associated with international operations. Chinese contractors generally exhibit a singular operational model, requiring enhancement in their capability for business transformation. Presently, with interwoven macro risks and more unstable policies of the host country, it is more urgent for contractors to localize their operations and innovate their operational models to ensure the smooth implementation of projects. However, most Chinese contractors take a broad but shallow approach to localized expansion. Although they have made certain attempts in the localization of institutions, talent, markets, and brands, the vitality for localized development remains untapped. Simultaneously, most Chinese contractors have a relatively singular operational model, focusing on business sectors with lower entry barriers, resulting in intense competition and lower profit margins. Chinese contractors generally display shortcomings across initial design and subsequent maintenance and management phases, particularly in integrating resources across the upstream and downstream of the industrial chain. Therefore, there's an urgent need to enhance their capabilities in the preliminary feasibility study and design stages of projects, as well as in the later operational and managerial aspects, transitioning from a singular construction management approach to an integrated investment, construction, and operation model.

Top 3: Hyperinflation and supply chain restructuring result in a significant surge in contractors' costs

Degree of risk: 73%

Under the hyperinflation, direct materials and labor costs have experienced a substantial surge, and the supply chain landscape has shifted from "market-driven competition" to being driven by "political maneuvers", escalating instability and eroding corporate profit margins. Since 2022, affected by the Russia-Ukraine conflict, commodity prices have reached a high level not seen since the international financial crisis. Prices of construction materials have skyrocketed and there has been a substantial increase in costs for equipment and labor. Simultaneously, the global supply chain structure is rapidly reconfiguring. Major countries are adjusting their foreign economic policies, placing stronger emphasis on national security, supply chain resilience, and self-sufficiency in critical supplies, highlighting the trend towards deglobalization. The supply chain pattern is transitioning from centralization to diversification, nearshoring, and localization, shifting from market-driven competition to political power struggles. These transformations result in soaring costs, further narrowing the profit margins for contractors.

Figure 50: Forecast of Global Inflation Rates



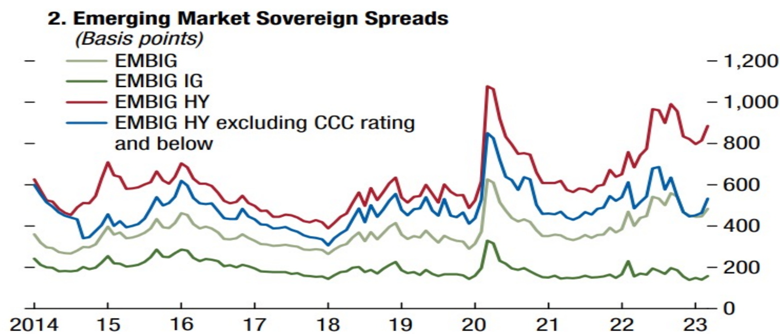
Source: The World Bank

Top 4. Tightened financing environment and increased financing costs amid debt distress

Degree of risk：68%

Amid debt distress, the financing environment in emerging markets and developing economies has contracted, causing a surge in financing expenses and persistent hurdles for contractors' funding. Most of the priority markets for international contracting projects are developing nations with fragile economic foundations and limited risk-bearing capacities. Projects financed by governments have notably decreased. In terms of financing environments and costs, borrowing costs in emerging markets and developing economies remain high in 2023, constraining their fiscal capacity for infrastructure investments and heightening the risk of plunging into debt crises. By June 2023, 25% of these markets and economies exhibited sovereign credit spreads surpassing 1000 basis points, an increase from just 6.8% two years ago. With soaring difficulty and expenses of financing public projects in countries defaulting on debts, sovereign projects are grappling with client insolvency issues, leading to

Figure 51: Emerging Market Sovereign Spreads



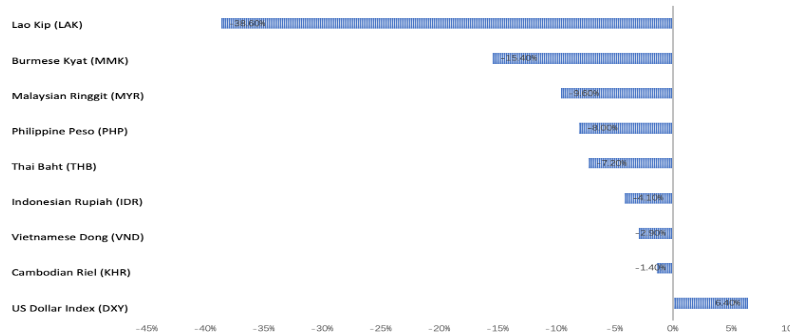
Source: The World Bank

exacerbating risks of project standstills or contracting with funds. As for financing avenues, contractors' funding continues to heavily rely on indirect channels, predominantly bank credit, where the available financial instruments are largely export credits and sovereign-backed financing, and capital markets for funding are rarely used, hence maintaining a relatively singular financing pathway.

Top 5: Exchange rate fluctuations and foreign exchange controls squeeze contractors' profit margins

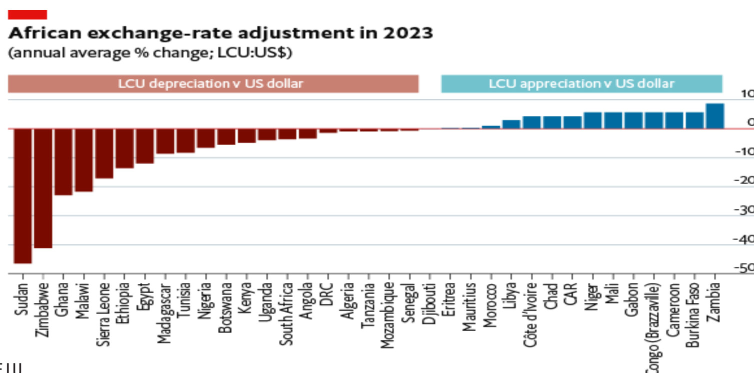
Amidst the Federal Reserve's sustained interest rate hikes, currencies worldwide have depreciated sharply against the US dollar in the past year. Contractors struggle to mitigate the impact of currency fluctuations, and foreign exchange controls in some countries are affecting the inflow of funds and profit metrics for Chinese companies. Over the past year, currencies in emerging markets and developing nations have witnessed frequent fluctuations. However, most international contracting projects currently lack mechanisms to adjust for these currency fluctuations. Contractors face challenges in mitigating these

Figure 52: Currency Exchange Rate Fluctuations in Southeast Asia from March 2022 to June 2023



Source：Wind

Figure 53: Anticipated Floating Adjustments of African Currencies Against the US Dollar in 2023



Source：EIU

fluctuations, and profits from certain projects are insufficient to offset the losses incurred due to currency volatility, which forces contractors to forego projects with lower profit margins and longer construction periods. Concurrently, to curb excessive capital outflows, countries in the Middle East and North Africa are tightening their foreign exchange controls, resulting in the freezing of specific investment funds, which has posed considerable challenges to fund inflows and impacted contractors' profit indicators.

Top 6: Significant increased requirements in ESG compliance and extreme weather impact business operations

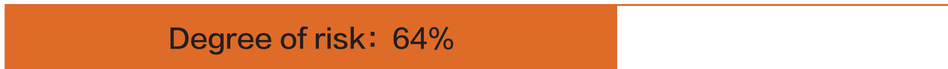
风险程度：66%

Stringent ESG compliance requirements both domestically and internationally are heightening the challenges for corporate transition, while frequent occurrences of extreme weather are causing risks of project delays and casualties. In 2023, climate-induced natural disasters have intensified, prompting governments, regulatory bodies, financial institutions, and project owners, both domestically and internationally, to continually raise the bar on ESG compliance for contractors. Some countries and international organizations have introduced stringent ESG review requirements, such as green and low-carbon standards, for Chinese contractors. Concurrently, Chinese contractors remain resolute in their pledge to cease the construction of new overseas coal-fired power projects. However, the scale of renewable energy ventures like wind and solar power has yet to fill the gap left by exiting the coal power market, leading to constrained industry growth. Concerning the impact of extreme weather, the El Niño has resulted in high temperatures and droughts, causing severe power shortages in certain countries. Frequent natural disasters such as floods and forest fires have resulted in casualties, while the repair of damaged projects and equipment entails significant costs and delays.

Figure 54: ESG Policy Documents of Major Countries and Regions

Country/ Region	Policy Documents
European Union	*Non-Financial Reporting Directive*
	Sustainable Finance Disclosure Regulation
	Sustainable Finance Strategy
	Framework for Promoting Sustainable Investment
United States	*Securities and Exchange Commission Guidance on Climate Change-Related Disclosure*
	ESG Reporting Guide 2.0
	ESG Disclosure Simplification Act of 2021
China	*Carbon Peak and Carbon Neutrality*
	Guidelines for Establishing the Green Financial System
	Corporate ESG Disclosure Guidelines and various industry standards

Top 7. Rising compliance operations and litigation risks



Overseas markets are tightening compliance regulations concerning Chinese contractors, resulting in increased compliance risks in foreign operations compared to 2022. In recent years, countries worldwide have successively enacted laws, guidelines, and other documents regarding compliance management, leading to stricter compliance oversight. Contractors engaged in overseas operations face multi-level and multi-link compliance risks. **Simultaneously, differences in the legal systems and policy maturity of host countries elevate the litigation risks for Chinese contractors.** As the international competitiveness of Chinese international contractors continues to improve, they launch a growing number of projects and serve more project owners annually. Due to their transnational and cross-regional nature, overseas projects exhibit significant differences in legal origins, structures, and litigation procedures. Overseas contracts generally apply to the laws of the host country. However, limitations arising from the maturity and stability of these legal systems mean that disputes or conflicts during projects lead to increased litigation risks when reliable legal recourse is unavailable.

Figure 55: Compliance Requirements for Chinese International Contractors

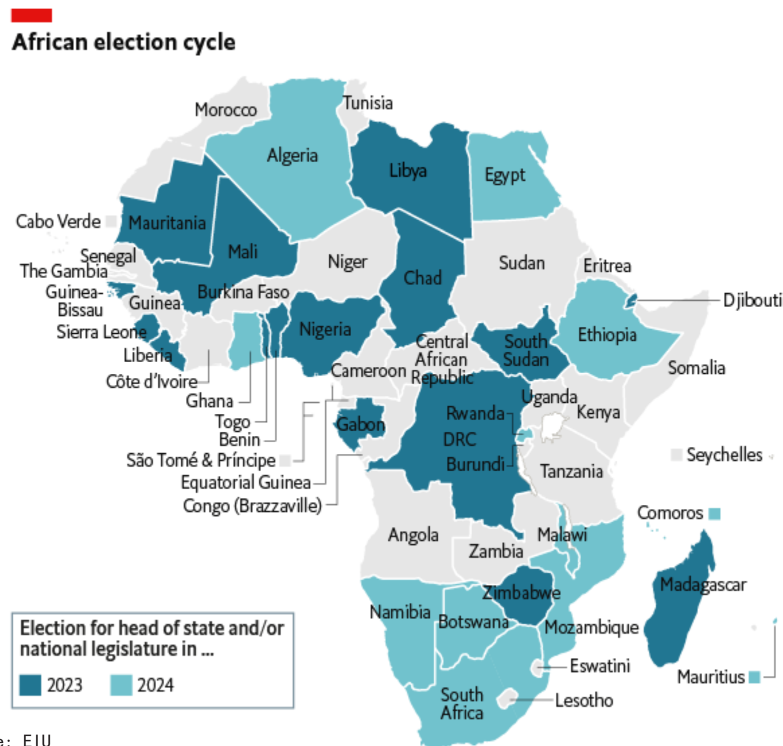
Source: EY

Top 8. Escalating political risks due to political turmoil and government credibility concerns

The intensifying global political risk and political instability affect the scale and structure of the industry market. Some countries witness recurring traditional security incidents, leading to increased risks of government credit defaults and state takeovers. In 2023, countries like Nigeria, Thailand, Turkey, Greece, Argentina, and Pakistan underwent legislative or executive elections. Potential shifts in economic and industrial development goals and priorities may impact the support from national policies for major projects, posing evident risk exposures such as increased costs, project delays, and potential fines.

Simultaneously, political unrest in certain nations and frequent social security incidents create substantial challenges in areas affected by severe armed conflicts, leading to stalled market development and ongoing project suspensions, posing threats to project continuity and personnel safety. Moreover, in certain project host countries, government corruption, lack of governmental credibility, or government defaults have increased the risk of project interruptions or terminations due to nationalization, expropriation, or improper government intervention.

Figure 56: 2023-2024 Electoral Cycles in Africa



Source: EIU

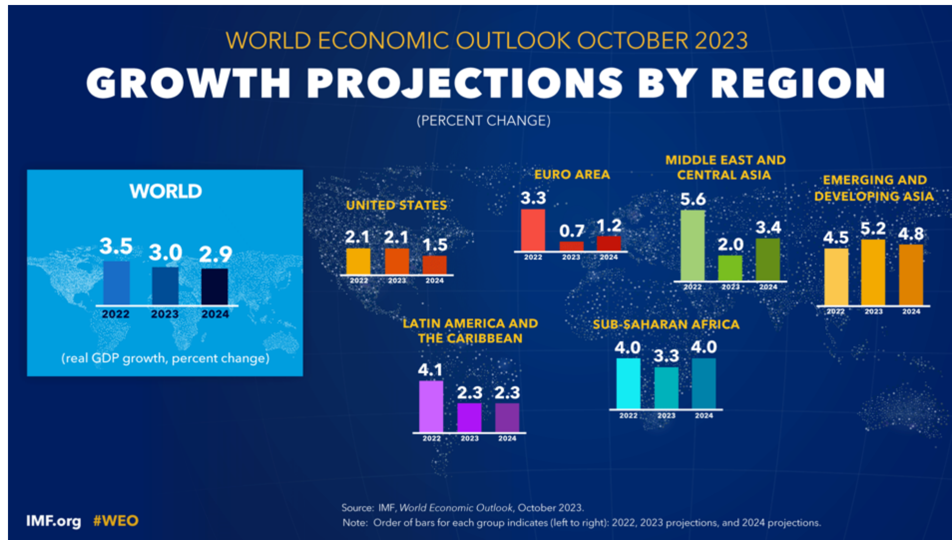
Top 9. Continuous slowdown in global economic growth results in significant decline in effective demand

Degree of risk：50%

The ongoing slowdown in global economic growth has reduced the number of major projects pivotal for enterprise revenue and brand development, heightening the difficulty of market development. According to an IMF report, the global economic growth rate in 2023 drastically drops from 3.5% to 3.0% compared to the previous year. Regions like Africa, Latin America, and Western Asia, which are focal points of key markets, experienced a notable slowdown in economic growth, resulting in a decreased number of major projects pivotal for contractors' revenue and brand development. Simultaneously, the surge in anti-globalization sentiments has weakened rule-based multilateral trade systems, exacerbating

trade protectionism and leading to a decline in effective demand for Chinese international contractors. Moreover, many small and medium-sized infrastructure projects heavily rely on funding from multilateral institutions, offering smaller profit margins. All these present immense challenges for Chinese contractors in both market development and project execution.

Figure 57: IMF World Economic Outlook, October 2023



Source: IMF

Top 10. Ongoing suppression and restraint from the US and the West, persistent risks of sanctions, and prolonged public opinion challenges

Degree of risk：45%

The landscape of international relations remains intricate as the US and Western countries persist in suppressing and constraining Chinese contractors, resulting in a deteriorating overseas development environment for these entities. The extraterritorial jurisdiction wielded by the US and Western nations, coupled with sanctions orchestrated through their dominant international and multilateral bodies, continually targets Chinese contractors. To date, over 1,300 Chinese companies find themselves on the US Entity List, facing recurrent risks of defamation and smear campaigns in public opinion, further deteriorating the overseas business environment for these contractors. In May 2023, the G7 summit revived discussions on the PGII plan, displaying a clear intent to counteract the "Belt and Road Initiative”. The US and EU proposed initiatives like "B3W" and "European Global Gateway", emphasizing values, high standards, and market-driven approaches, seeking collaboration with like-minded partners. This has led to the exclusion of Chinese contractors from the international contracting market, subjecting these firms to heightened security reviews, compliance risks, and challenges in public opinion.

Comparison of Risks between 2023 and 2022

Compared to 2022, the industry in 2023 is facing new risk exposures, including hyperinflation and rising political volatility. External risks have diversified and become more concrete, elevating the urgency and level of risk in enterprise capacity building.

Concerning external risks, the negative impact of the COVID-19 pandemic and the Russia-Ukraine conflict has gradually diminished in most contracting segments, leading to their removal from this year's risk list. However, new risk exposures have emerged, including hyperinflation, escalating political risks, deteriorating international business environments, and extreme weather events. Exchange rate risks have ascended in ranking, whereas risks such as global economic slowdown and Western sanctions have decreased in ranking.

Regarding operational risks faced by contractors, the direct impact of intensifying market competition remains the most prominent. The challenges related to enterprise capacity building and overseas operational models have escalated from the top eight to the top two. Additionally, ESG compliance risks have received more attention, ranking sixth with a four-digit surge.

When comparing external risks to enterprise operational risks, the concrete impact of external risks in 2023 becomes more pronounced, exerting a more direct influence on market opportunities and production activities faced by contractors, which has resulted in a decrease in the overall severity of risks. However, alongside the growing complexity of the external environment, there is a heightened sense of urgency and severity in enterprise capacity building, significantly amplifying the challenges faced by contractors.

Figure 58: Risk Change List of 2023

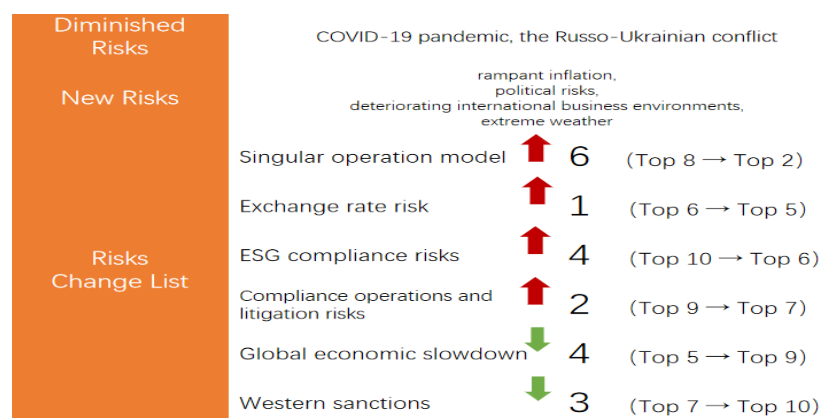
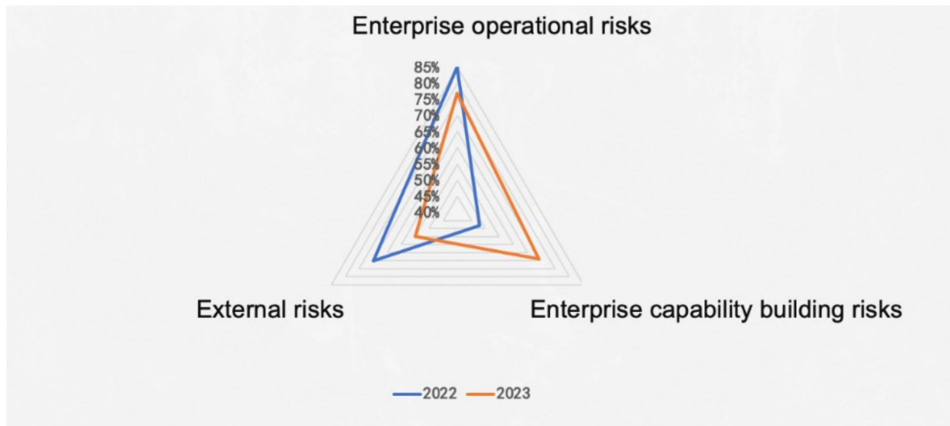


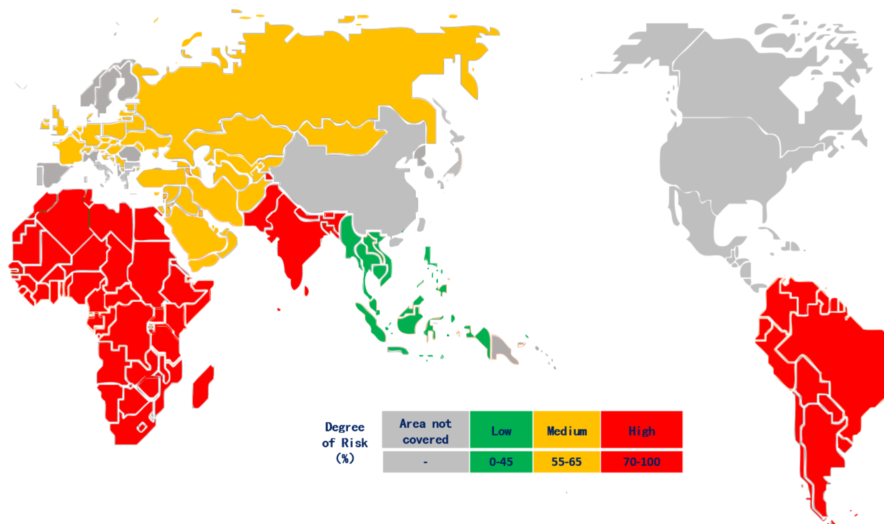
Figure 59: Comparison of Risks (2021 vs. 2022)



II. Differentiated Risk Characteristics among Regions

Cross-border and cross-region are the fundamental characteristics of the contracting industry. To better understand the diverse risks among different countries and regions and help Chinese contractors improve their risk management capabilities in overseas contracting projects, this overview summarizes and refines the distinctive risk characteristics across various regions. Broadly, Africa, Latin America, and South Asia exhibit the highest levels of risk, encompassing fiscal, inflationary, and traditional security risks. West Asia, Central Asia and Mongolia, Western Europe, and Central and Eastern Europe show moderate risk levels, covering political, policy, and non-traditional security risks. Southeast Asia, Hong Kong and Macao areas demonstrate relatively lower risk levels, focusing on policy and ESG compliance risks.

Figure 60: Regional Risk Map of International Contracting Industry



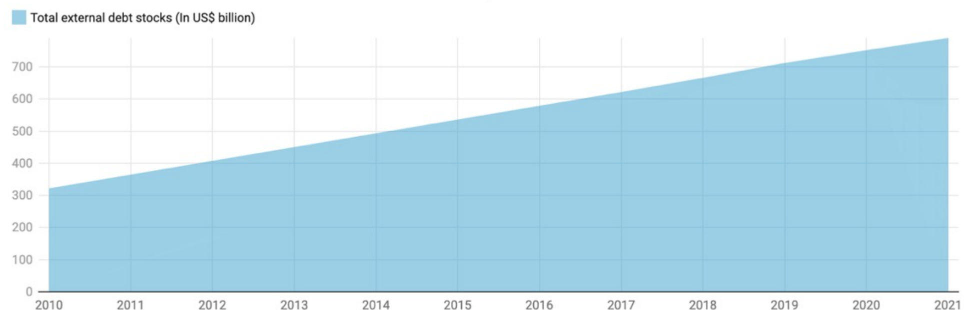
Africa, Latin America, and South Asia Differentiated Risk Characteristics: Fiscal Deterioration, Inflation, and Frequent Traditional Security Incidents

(1) National fiscal deterioration, coupled with rampant inflation, has heightened debt pressure and exacerbated difficulties in corporate financing.

Africa:

In Africa, weak fiscal institutions and management systems result in inadequate tax revenues to cover debt obligations. Developing countries in Africa face a debt crisis amid slowed growth and high inflation. The scale of external debt increases annually, posing challenges for local Chinese contractors seeking infrastructure financing. For instance, Ghana recorded an alarming debt ratio of 88.8% in 2022, with 70% of government revenue allocated to servicing debt and most external debt repayments temporarily suspended by the year-end. Due to external factors such as global economic downturn, Federal Reserve interest rate hikes, and the Russia-Ukraine conflict leading to soaring energy and food prices, Ghana experienced an inflation rate of 54.1% in 2022, causing significant currency devaluation and further intensifying debt pressure. These factors have severely restricted public funds available for infrastructure in Ghana, resulting in a lack of sustainable financing sources for Chinese contractors' projects.

Figure 61: Trend of External Debt Scale in Sub-Saharan African Countries



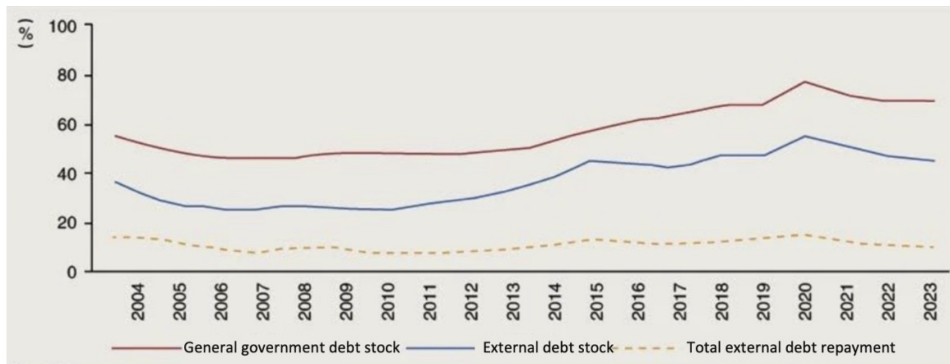
Source: World Bank

Latin America:

Latin America heavily relies on foreign entities, leading to long-standing issues with debt entanglement. The economy of countries in the Latin American region has continued to slump in recent years. Challenges such as insufficient capital accumulation and low productivity remain difficult to address in the short term. The persistent high debt burden presents sustainability risks for local Chinese contractors seeking financing. For example, in 2022, Argentina's external debt reached $268 billion, accounting for approximately 42% of its GDP. However, the foreign exchange reserves were only USD 35.45 billion, resulting in an external debt-to-reserves ratio of 7.56, significantly surpassing the international warning threshold. The imbalance of economic structure has hindered Argentina's ability

to generate internal vitality, weakening the fiscal condition of the government. This imbalance has led to reduced fiscal revenue, increased pressure on inflation and currency devaluation, and a notable escalation in debt pressure. These factors have a substantial impact on Chinese contractors in the region to secure financing in the international market.

Figure 62: Trend of Ratio of General Government Debt, External Debt Stock, and Total External Debt Repayment to GDP in Latin American Countries



Source: IMF, "International Finance"

South Asia:

Economic imbalances aggravated by external shocks, currency depreciation and a depletion of foreign reserves have contributed to the deterioration of national finances. Countries in South Asia heavily rely on borrowing in US dollars. Amid interest rate hikes and import-driven inflation, the local currencies have depreciated, resulting in increased import expenditures and heightened debt pressures. For instance, in 2022, Sri Lanka's total external debt reached $41.5 billion, or 63.6% of its GDP. By the end of the year, Sri Lanka's foreign exchange reserves were only USD 1.9 billion, making it difficult to cover short-term external debt. This substantial debt pressure highlights the financing challenges faced by local Chinese contractors in infrastructure development.

Figure 63: Trend of External Debt-to-GDP Ratio in South Asian Countries

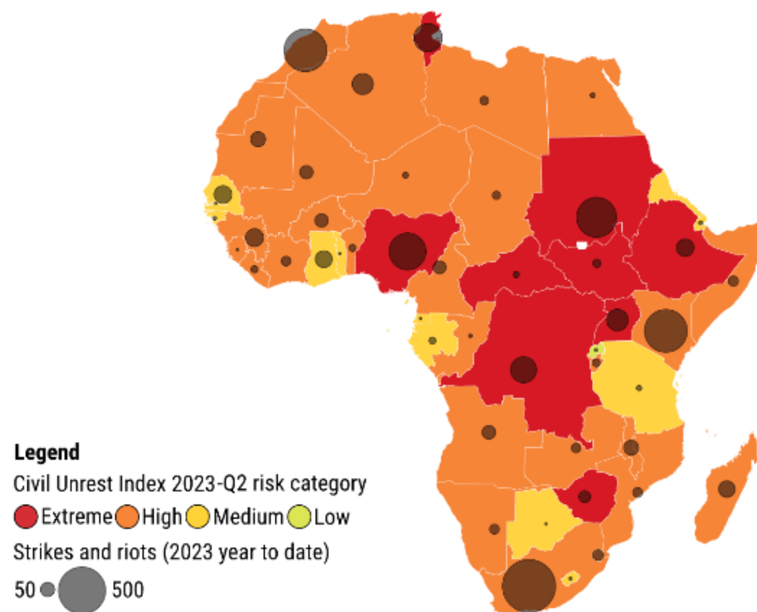
Source: Macrobond, Central Banks of Respective Countries

(2) Political turmoil triggers traditional security threats, and complex regulations increase compliance risks.

Africa:

Africa witnesses frequent armed conflicts and rebellions triggered by election cycles and internal unrest, raising political uncertainty. From 2023 to 2024, as several African countries undergo new rounds of elections, the changes in political leadership and the occurrence of armed conflicts before and after the elections will further escalate the risk of project suspensions. For instance, Ethiopia's three-year internal war, starting in 2020 due to the government's delay of national elections, has brought uncertainty to the political landscape. The social and political upheaval has weakened the government's governance capabilities, exposing personnel and infrastructure projects of Chinese contractors in the region to security threats and market risks.

Figure 64: Conflict Risk Index in Africa, 2023 Q2 (Red indicates the highest level)



Source: ACLED, Verisk Maplecroft

Latin America:

Latin America grapples with a multitude of political parties, intensifying political fragmentation and fostering a concerning social security situation. The ideological polarization in the region amplifies governance challenges, heightening political turbulence. For instance, Peru has long been embroiled in a left-right struggle, witnessing six presidents and two congresses within five years. After President Pedro Castillo was impeached by Congress at the end of 2022, widespread protests and violent incidents erupted in the country. Nations like Peru and Mexico face heightened social security risks due to persistent issues like poverty, social inequality, and the prevalence of organized crimes involved in smuggling and drug trafficking, contributing to a consistent rise in criminal activities.

Figure 65: Electoral Map for Latin America, 2023-2024

Source: EIU

South Asia:

South Asia grapples with intricate and strict land tenure systems, leading to heightened compliance and legal risks. The historical roots of feudal societies in South Asia lie in land ownership, with remnants of quasi-feudal land tenure systems persisting in certain countries, posing challenges for enterprises engaged in local project development. For example, the land policy is complex in Pakistan, where the government holds absolute ownership of all land, leaving individuals with leasing rights only. Chinese contractors involved in infrastructure projects must navigate both national and local land laws, risking asset seizure and detention in case of non-compliance. Moreover, the country's land registration system has severe deficiencies, with frequent loss or misplacement of land transactions and registration documents. The challenges in land verification further elevate compliance risks for contractors.

Figure 66: South Asia - A Hotspot for Land Disputes

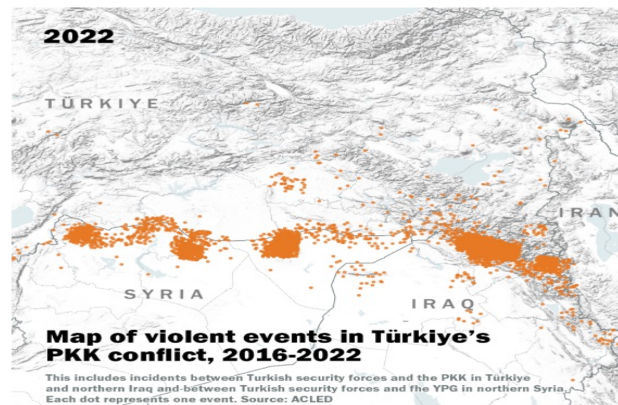
Source: TMP System, Rights and Resources Initiative

West Asia, Central Asia, and Mongolia
Differentiated Risk Characteristics: Political Turmoil, Non-traditional Security Threats, Domestic Priority Policies

West Asia:

The intertwining of political volatility and non-traditional security threats has led to an increase in the risk of terrorism. West Asian countries have long been hotspots for religious disputes and ethnic conflicts, characterized by frequent changes in regimes and widespread popular movements. For instance, Turkey witnessed numerous protests and conflicts around the 2023 elections. The presence of various terrorist forces within the country has led to a persistent rise in violence justified by religious beliefs. The Kurdish issue and the Israeli-Palestinian conflict have further exacerbated security risks in the West Asian region.

Figure 67: Statistics of Violence Caused by Kurdish Conflict in Turkey in 2022

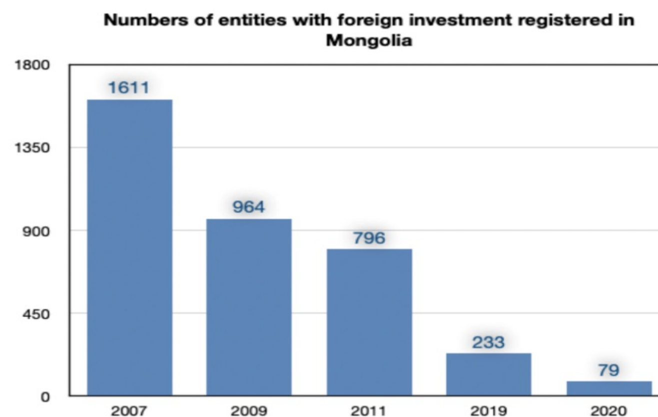


Source: ACLED

Central Asia and Mongolia:

Stringent restrictions on foreign investment lead to high operational costs for businesses. Central Asian countries, rich in natural resources, have practiced resource conservation policies and are cautious

Figure 68: Gradual Decrease in Foreign-invested Enterprises Registered in Mongolia



Source: GRATA International

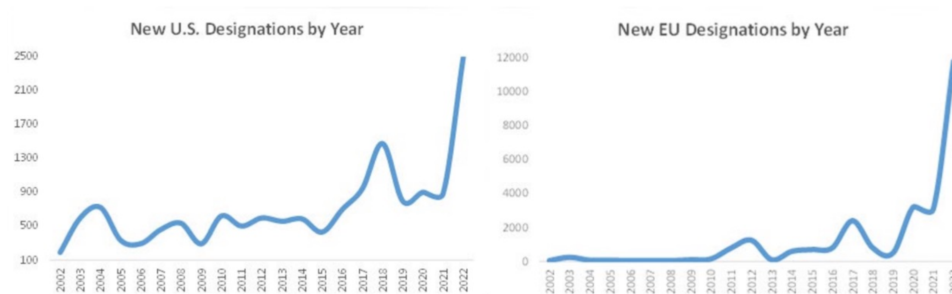
in attracting foreign investments. For example, Kazakhstan restricts foreign engagement in mineral and land investments, capping foreign ownership in these sectors at 50%. Similarly, Mongolia has set high thresholds for foreign investment in the mineral sector, requiring parliamentary approval for any foreign ownership exceeding 49%. Additionally, certain regions in Mongolia have tightened foreign investment regulations by revising existing laws, resulting in a gradual decrease in the number of foreign-invested enterprises registered in the country.

Western, Central and Eastern Europe
Differentiated Risk Characteristics: Sanction Risks under the Russia-Ukraine Conflict, ESG Compliance Risks.

Western Europe:

The Russia-Ukraine conflict has influenced the EU's policy towards China, resulting in an increased risk of sanctions against Chinese international contractors. Western countries, with their extraterritorial jurisdiction, have utilized international non-governmental organizations and multilateral institutions under their influence to impose sanctions on Chinese companies, citing reasons such as national security, environmental protection, and labor rights. These factors have intensified the obstacles faced by Chinese contractors in securing financing, participating in project bids, and managing operations in the region. Since 2022, the EU has consistently cited the Russia-Ukraine conflict as an excuse to impose restrictions and constraints on Chinese contractors, thereby impacting their business operations.

Figure 69: The US and the EU Listed Numerous Individuals and Entities Under Sanctions After the Russia-Ukraine Conflict



Source: Gibson Dunn

Central and Eastern Europe:

Stringent local HSE standards elevate environmental protection and compliance costs for contractors. Central and Eastern European (CEE) countries generally place a strong emphasis on Health, Safety, and Environment (HSE) standards, imposing strict requirements on aspects such as labor protection, safety measures, and environmental protection. Non-compliance with these regulations exposes Chinese contractors to the risk of rectification, claims, or even suspension.

Figure. 70: Health, Safety, and Environment (HSE) Framework

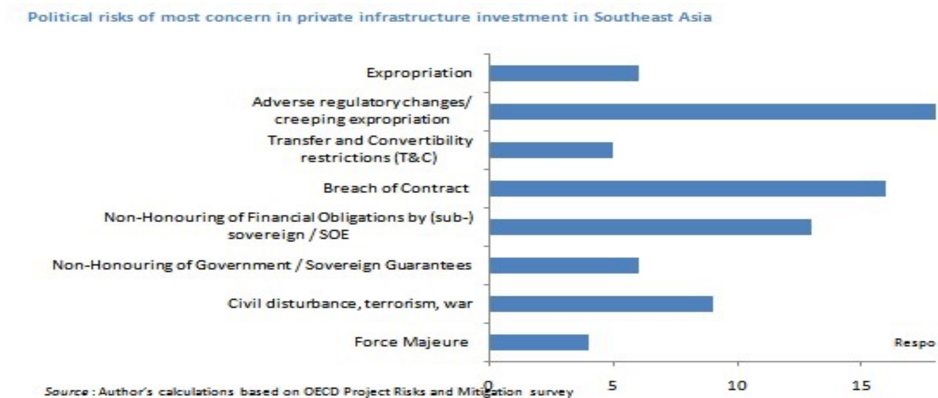
Source: Sertica

Southeast Asia, Hong Kong, and Macau
Differentiated Risk Characteristics: Political and ESG Compliance Risks

Southeast Asia:

Territorial disputes in Southeast Asia escalate political uncertainty, posing policy risks to businesses. In Southeast Asia, territorial disputes and anti-China sentiments in some countries pose challenges. Simultaneously, the diverse political landscape, characterized by numerous political parties with distinct ideologies and policy directions, contributes to an unstable environment, amplifying operational risks for enterprises.

Figure 71: Political and Policy Uncertainty as the Primary Risks in Southeast Asian Infrastructure Investment



Source: OECD

Hong Kong and Macau:

Hong Kong and Macau urgently need sustainable development transformation, with contractors facing ESG compliance pressure. According to the "Hong Kong 2030+" developed by the Development Bureau, Hong Kong is in a phase of transformative development, gradually enhancing its focus on urban sustainable development. The forthcoming development plan for Hong Kong will address environmental and ecological concerns, emphasizing on critical areas including land planning, renewable energy development, climate change mitigation, and water resource conservation. Consequently, Chinese contractors participating in local projects face transformation challenges, demanding higher standards for enterprise capacity building.

Figure 72: Highlights of the "Hong Kong 2030+"

	Highlights
Building Block 1: Enhancing Liveability in a Compact High-Density City	To enhance Hong Kong's liveability in a compact high-density setting, we shall foster a city that caters for development and natural environment, which enables people to lead healthier and low-carbon lives, brings people closer to our blue-green assets and encourages people of all ages and abilities to unleash their fullest potential. We aspire to provide well-planned spatial layout to enable citizens' equal access to the use and enjoyment of the city, and preserve the city's uniqueness and diversity while our ageing city fabric is well maintained with timely rejuvenation.
Building Block 2: Embracing New Economic Opportunities and Challenges	To embrace economic challenges and to tap new opportunities to prosper, we need to be responsive to global megatrends, regional dynamics and development of the GBA, to move our key industries up the value chain, and to diversify our economic base. To this end, we have to provide adequate land supply at strategic locations for different economic activities. We also need to plan for a conductive environment that can harness innovation and technology and enhance our human capital to grow our economy.
Building Block 3: Creating Capacity for Sustainable Growth	To ensure sustainable growth, we have to integrate transport-land use-environmental considerations in planning under a vision-driven and capacity creating approach. This approach is underpinned by the capacity to create development land, transport and other essential infrastructure in a visionary manner alongside continuous efforts to enhance environmental capacity.

Source: Planning Department of Hong Kong

III. Risk Management and Mitigation Strategies for Chinese International Contractors

In 2023, accumulated risks are being unleashed, leading to increased macro-level instability that directly impacts the industry's development. Political risks and ESG compliance challenges are becoming more apparent, compounded by intensified market competition and declining profit margins. Therefore, it is imminent for contractors to mitigate risks and transition their development.

On the one hand, contractors should establish a compliance management system as the foundation and reinforce ESG risk control to address the increasingly stringent compliance and ESG requirements. Simultaneously, they should innovate in operations, management, and technology across multiple dimensions, moving away from a mindset of low-cost competition to enhance their international competitiveness. On the other hand, recognizing the varied risk characteristics across regions, we call on the government departments to enhance specialized support policies accordingly, such as targeted subsidies for areas facing excessive inflation or significant currency fluctuations. To tackle financing challenges, we appeal to financial institutions to innovate financing models and broaden the range of insurance options within the overseas construction insurance system, thereby enhancing contractors' capacity to address risks. Additionally, in the context of market competition and risks like Western sanctions, industry organizations are urged to promote self-regulation, uphold competitive order, and assist in shaping the 'China Construction' brand image to enhance the competitiveness of Chinese contractors.

1.Contractors should establish a compliance management system as the foundation and reinforce ESG risk control.

Chinese contractors need to establish a robust system for compliance and ESG control,

comprehensively understanding and applying internationally accepted ESG standards, while considering the concerns of various stakeholders. The compliance risks faced by international contractors have high levels of uncertainty and complexity due to differences in regions, industries, and cultural norms. Companies can establish compliance management systems in aspects such as tender management, contract management, and project performance based on documents like the Guidelines for Enterprises on the Compliance Management of Overseas Operations issued by the Chinese government. Contractors should also conduct due diligence and impact assessments concerning the host country's cultural practices, ecological environment, labor standards, etc. They should prioritize the needs of local communities, employees, local suppliers, media, and other stakeholders. By aligning with their conditions and the socio-economic development of the host country, contractors should devise tailored ESG risk control measures accordingly.

2.Contractors should innovate across multiple dimensions, including operational models, management, and technology, to enhance international competitiveness.

Chinese contractors should continuously enhance their technological innovation capabilities, nurture locally adept talent teams, implement precise project management, move away from a mentality of low-cost competition, and raise internationalization. Advanced engineering technology, innovative operational models, and a compound talent team are pivotal in raising a company's competitiveness and reducing costs. Regarding the improvement of technological capabilities, contractors can leverage external resources like international academic organizations and conferences to enhance their technological innovation prowess. They can establish a well-rounded system for diversified technological investments, allocating specific R&D expenses, thereby propelling innovation through a robust mechanism. Concerning operational models, contractors should establish a differentiated operational philosophy, actively exploring new collaboration methods such as integrated investment and tripartite cooperation to infiltrate the high-end of the industry chain. In terms of nurturing local talent, contractors can establish domestic and international rotational mechanisms and mentorship systems to cultivate specialized local talent.

3.Government departments should enhance market management regulations and introduce specific support policies tailored to differentiated risks.

Governments should play the role of supervision and guidance by introducing policies and improving regulations and should tailor preferential and specialized support policies for overseas contracting projects based on regional risk differentials. On the one hand, it should strengthen the role of the leading group office for advancing the Belt and Road Initiative (BRI) in policy coordination and developmental leadership. This involves optimizing the office's coordination and oversight in significant planning, policies, and projects, refining policies across ministries to facilitate the high-quality development of the BRI. It should also encourage and support contractors to innovate their development models and explore new business growth. On the other hand, in addressing the diverse risks faced by Chinese contractors in different regions, governments should provide more precise and direct relief policies and supportive measures. For instance, specific support for regions with acute financing challenges like Africa and South Asia could include necessary

assistance in credit, insurance, and foreign exchange transactions. To handle sanction risks in European regions, governments should refine strategies to counter Western sanctions, guiding and assisting personnel abroad in managing risks caused by sanctions, and facilitating communication and coordination with local governments and media. Additionally, for regions in West Asia encountering elevated operational risks due to domestic protectionist policies, governments should formulate relevant supportive policies and international tax subsidies.

4.Financial institutions should innovate financing models and diversify insurance types within the international construction insurance system.

Financial institutions should expand enterprise financing channels through project financing, equity financing, and syndicated financing, and further diversify insurance types within the international construction insurance system to mitigate emerging risks. Financial institutions are encouraged to firmly enhance support for overseas projects by broadening enterprise financing channels through project financing, equity financing, syndicated financing, etc., aligning with the collaborative spirit of the BRI by reducing or minimizing requirements for guarantees and collateral to provide more support for enterprise development. Simultaneously, they should consider formulating tailored repayment policies for nations reaching sovereign debt thresholds or experiencing actual defaults, and promptly resuming disbursement for projects with approved loans, under construction, or near completion. Additionally, it is suggested that financial and insurance institutions streamline approval processes, disclose audit standards publicly, and introduce targeted guidance for projects affected by war-torn countries, enabling contractors to assess and make informed decisions promptly. Given the volatile political environments, frequent terror incidents, and government defaults in host countries, Chinese contractors are faced with substantial political risks and security threats in overseas project contracting. Insurance institutions should encompass risks like government defaults, delayed payments, judicial corruption, conflicts, and terrorist attacks within the ambit of overseas investment and construction insurance, enhancing the range and types of coverage to maximize the protection of Chinese contractors' legitimate rights and interests.

5.Industry organizations should aid in building the 'China Construction' brand image to boost the competitiveness of Chinese contractors.

Industry organizations are urged to guide self-regulation in the sector and uphold operational norms. They should also foster robust collaborations with international institutions, actively shaping the 'China Construction' brand image and enhancing the global competitiveness of Chinese contractors. To address the fierce internal competition among Chinese international contractors, it is recommended that industry organizations play a guiding and coordinating role. They should facilitate healthy competition and coordinated cooperation among Chinese contractors while guiding them to bolster risk prevention and control overseas. They should offer customized service products like risk assessment, early warning information, and safety training for contractors. Moreover, industry organizations should leverage industry-specific features to proactively engage with international organizations and stakeholders. They should showcase vibrant examples of Chinese contractors fulfilling social responsibilities and engaging in sustainable infrastructure projects, thereby cultivating a positive 'China Construction' brand image and uplifting the international competitiveness of Chinese contractors.