Belt and Road Initiative
The view from **Latin America**

2021

Positive outlook

54%

of LatAm participants aim to maintain or increase their involvement in the Belt and Road Initiative (BRI).

Legal risk

66%

of LatAm participants and 71% of Chinese participants see legal and regulatory risk as a major concern in BRI projects.

BRI satisfaction

58%

of LatAm participants are satisfied with the outcome of their involvement in BRI, with only 24% expressing dissatisfaction.

Finding frameworks

54%

of LatAm participants also said legal frameworks were one of the biggest obstacles to their BRI activity.

More opportunities

62%

of LatAm participants believe BRI 2.0 will make BRI more open to non-Chinese participants, as do 83% of Chinese respondents.

Political problems

54%

of LatAm participants said governments and political issues were one of the biggest obstacles to their BRI activity.

New technology

While many traditional types of infrastructure remain central to BRI, digital technology is an increasingly important area for growth and investment.

Green focus

BRI 2.0 will help to promote the environmental priorities of many BRI participants, as well as new partnerships and more sustainable projects.

Health Silk Road

The Covid-19 pandemic is leading to changes, including more investment in BRI healthcare projects, anticipated by 86% of LatAm participants.

Contents

Methodology

In 2020 Acuris, on behalf of CMS, surveyed 500 senior executives to gauge their views on various aspects of the Belt and Road Initiative (BRI). Of the 500 respondents, 50 were either based in Latin America or predominantly working on BRI projects in the region, and are referred to in this report as 'LatAm respondents' or 'LatAm participants'. Another 100 respondents were from Chinese entities. All respondents were either currently active or planning to participate in BRI projects. In order to ensure confidentiality, the identities of all respondents will remain anonymous.

> In September 2013, Chinese President Xi Jinping proposed a Silk Road Economic Belt and in October, a 21st-Century Maritime Silk Road, together now referred to as the Belt and Road Initiative. The initiative attracted considerable attention from the international community and won a positive response from the countries involved. It integrates the historical symbolism of the ancient Silk Road with the new requirements of today. The initiative is a Chinese program whose goal is to maintain an open world economic system, and achieve diversified, independent, balanced, and sustainable development, and also a Chinese proposal intended to advance regional cooperation, strengthen communications between civilizations, and safeguard world peace and stability.
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> *The Leading Group on the Construction of the Belt and Road, May 2017*

Belt and Road Initiative
The view from Latin America

China's Belt and Road Initiative may be the most ambitious development strategy ever.

Since it was launched in 2013, BRI has grown into a multifaceted global initiative. As well as creating infrastructure, it has sought to support priorities such as policy coordination, connectivity, unimpeded trade, financial integration, and connecting people.

There is no official database of BRI projects (and no international consensus on exactly what constitutes a BRI project), but most observers believe that over 3,000 have already been started.

By the end of 2020, China had signed 202 BRI agreements with a total of 138 nations and 31 international organisations. Some LatAm nations have been keen to participate; others have been more cautious. But as our report explains, even countries which have not signed up to the initiative are benefiting from China's adoption of BRI principles and practices.

China continues to invest and develop trading relationships across the region, and Chinese companies continue to win LatAm contracts. But as the global pandemic rages, with Latin America the worst-hit region, and as trade and globalisation are buffeted by geopolitical tensions, there is debate about the long-term future of BRI.

Building on a major survey of BRI participants, we are publishing a series of reports – of which this is the fifth – to assess the challenges for BRI and the steps that BRI participants can take to achieve both success for themselves and a positive future for BRI.

China is so far the only major economy to have grown back beyond its pre-pandemic level, with total GDP growth of 2.3% for 2020, and an additional 0.6% quarter-on-quarter in the first quarter of 2021. Exports have grown throughout the second half of 2020 and the first quarter of 2021: in dollar terms they were 30.6% higher in March 2021 than in March 2020.

To some extent this growth augurs well for the future of BRI and Chinese investment in BRI nations. But, as our report shows, an even greater impact may come from China's pivot towards greener and more sustainable principles for BRI, and an increasing emphasis on the Digital and Health Silk Roads.

We should like to thank all those who participated in our survey and, in particular, our interviewee in this report, Rodolfo Echeverria.

We hope you find this report interesting and would be delighted to discuss any of its contents further with you.

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Latin America: A new frontier for BRI?

Key points

- Sentiment towards BRI is relatively positive in LatAm, with a majority of LatAm respondents wanting to increase their involvement in BRI projects.
- While a small majority of LatAm respondents have found involvement in BRI projects more challenging than expected, a majority have also been satisfied with the outcome of their involvement.

Although China has long-standing links with many nations in Latin America, the region is a relatively recent addition to BRI. Panama became its first BRI member in November 2017, and two months later China announced plans formally to expand BRI to Latin America at a meeting with the Community of Latin American and Caribbean States.

Since then, 19 countries in Latin America and the Caribbean have signed up, including Bolivia, Chile, Peru, Uruguay and Venezuela. Notably absent are Brazil, Mexico, Argentina and Colombia, the four largest economies in Latin America (although Argentina is widely expected to join BRI soon). But all four have enjoyed significant Chinese investment in recent years, and all four have comprehensive bilateral cooperation agreements with China.

The extension of BRI to Latin America could be seen as an attempt to bring conceptual coherence to activities that were already well underway by the time it was announced. BRI has vague boundaries, and China's pragmatic attitude means that even nations which do not officially join it – for political or other reasons – can still benefit from China's approach to outward investment.

Enthusiasm for BRI

Which of the following best describes your organisation's intentions regarding involvement in BRI-related projects?

	China	LatAm	Rest of World
Decrease significantly	5%	24%	31%
Decrease moderately	5%	10%	23%
Remain the same	22%	12%	13%
Increase moderately	37%	34%	24%
Increase significantly	31%	20%	9%

In overall terms, what was the sentiment of your organisation regarding BRI 12 months ago?

	China	LatAm	Rest of World
Very negative	0%	4%	3%
Negative	5%	12%	15%
Neutral	27%	42%	50%
Positive	65%	42%	31%
Very positive	3%	0%	1%

What is it now?

	China	LatAm	Rest of World
Very negative	10%	28%	40%
Negative	14%	6%	16%
Neutral	32%	20%	23%
Positive	43%	46%	20%
Very positive	1%	0%	1%

How would you rate the process of participating in BRI-related projects, based on your experience?

	China	LatAm	Rest of World
Easier than expected	8%	12%	1%
As expected	52%	36%	27%
More challenging than expected	40%	52%	72%

Generally, what has been your level of satisfaction in terms of the process and outcome of your involvement in BRI projects?

	China	LatAm	Rest of World
Very unsatisfied	11%	14%	26%
Moderately unsatisfied	2%	10%	26%
Neutral	12%	18%	14%
Moderately satisfied	52%	50%	24%
Very satisfied	23%	8%	10%

Have you participated in a partnership/JV as part of your involvement in BRI projects?

	China	LatAm	Rest of World
No	31%	38%	52%
Yes	69%	62%	48%

Would you consider such partnerships in the future?

	China	LatAm	Rest of World
No	23%	42%	53%
Yes	77%	58%	47%

How would you rate the overall experience of working with Chinese partners/JVs?

	China	LatAm	Rest of World
N/A	0%	0%	2%
Very negative	6%	6%	17%
Moderately negative	1%	13%	17%
Neutral	29%	39%	36%
Moderately positive	59%	42%	27%
Very positive	5%	0%	1%

How would you rate the overall experience of working with cross-border, non-Chinese partners/JVs?

	China	LatAm	Rest of World
N/A	9%	13%	20%
Very negative	4%	3%	2%
Moderately negative	23%	6%	8%
Neutral	30%	29%	39%
Moderately positive	30%	42%	28%
Very positive	4%	7%	3%

Have you encountered any differences in working with Chinese partners/entities on BRI projects compared to non-BRI projects?

	LatAm	Rest of World
N/A	0%	3%
No	58%	36%
Unsure	0%	1%
Yes	42%	60%

If yes, was it generally easier or more difficult to work with a Chinese partner/entity on a BRI project compared to a non-BRI project?

	LatAm	Rest of World
Neutral	5%	15%
Moderately more difficult	62%	34%
Much more difficult	33%	51%

For instance, China's read-out of a February 2021 call between President Xi Jinping and Colombian President Iván Duque including the suggestion from President Xi that "the two sides should continue to support each other, and better synergise the Belt and Road Initiative and the [existing] Colombia-China Initiative" and that they should both "deepen" cooperation in areas such as energy, infrastructure and telecoms, and "actively expand" cooperation in fields including renewables and digital technology.

This ability to foster a 'BRI-synergised' relationship facilitates an environment in which, even though Colombia is not a member of BRI, Chinese state-owned companies have been entrusted with two of the country's most important infrastructure projects: the first line of the Bogotá Metro (the contract for which was awarded to a consortium formed by China Harbor Engineering Company and Xi'An Metro Company) and the RegioTram project (whose line linking Bogotá with its western suburbs is to be built and operated by China Civil Engineering Construction Corp).

Latin America's wealth of natural resources is another important aspect of its relationship with China, which is an eager importer of such resources. For example, in 2019 it accounted for nearly 40% of global lithium consumption. So it is unsurprising to find Chinese companies such as Gangfeng and Hanaq involved in major lithium extraction projects in Argentina, or Tianqi Lithium holding a stake in a company extracting lithium from the salt flats of Chile's Atacama desert. These natural resources – as well as the region's agricultural output – form a significant part of the burgeoning bilateral trade between Latin America and China.

In a videoconference in July 2020, attended by foreign ministers from 13 LatAm and Caribbean nations, China's Foreign Minister Wang Yi proposed (in the words of China's read-out of the call) "seeking opportunities in the current crisis to advance Belt and Road cooperation. China will continue to deepen cooperation in infrastructure, energy, agriculture and other traditional fields. It also looks forward to branching out into public health, digital economy and other new infrastructure, and building a China-LAC health silk road and a China-LAC digital silk road. The two sides need to enhance policy complementarity to transform and upgrade practical cooperation."

We look at the impact of the current crisis, and potential post-pandemic activity, below. But even leaving aside that context, Wang Yi's words clearly show the depth and breadth of China's ambition for its relationship with Latin America.

"BRI may require more support from developed nations. Currently, geopolitical factors are hindering progress. A better, more positive investment framework will increase our enthusiasm for involvement."

Managing director, Infrastructure investor, Brazil

"The escalating global political issues are disrupting the economic climate. Our enthusiasm will increase once these tensions die down."

Director, Infrastructure operator, Brazil

Attitudes to BRI

Sentiment towards BRI is relatively positive in LatAm, with a majority (54%) of the LatAm respondents in our survey aiming to increase their involvement in BRI projects.

While there has been some downturn in enthusiasm for BRI – not least because of political and pandemic concerns – this deterioration in sentiment has been far milder than that seen elsewhere.

We also found higher levels of satisfaction with BRI projects in LatAm than in many other regions. A majority (58%) of LatAm respondents have been satisfied with the outcome of their involvement in BRI, with only 24% expressing dissatisfaction. While this is a lower percentage than we found in China (75%) and Africa (68%), it is far better than the average of 34% elsewhere.

Despite the region's relative enthusiasm for BRI, however, just over half (52%) of LatAm respondents said that their BRI involvement was more challenging than they had expected (compared with 40% of Chinese respondents who said the same).

Working together

Joint ventures and other partnerships are well suited to addressing the challenges of BRI projects. Pooling resources and knowledge can help to mitigate risk, share skills, encourage local acceptance and move projects forward more rapidly.

A majority (62%) of our LatAm respondents have participated in a partnership or joint venture as part of their involvement in BRI. Those who have had partnerships or JVs with Chinese entities tend to be positive about them, with more regarding them as positive (42%) than negative (19%).

As the head of corporate development of a telecoms infrastructure operator in Mexico said, these arrangements can also lead to future commercial opportunities: "Partnerships are crucial to reach new markets and expand our client base. Through involvement in BRI, we expect to build long-term potential and relationships. Having useful contacts for future sourcing and partnerships is important to our plans."

However, a large minority of LatAm respondents (42%) have also encountered differences in working with Chinese entities on BRI projects compared to non-BRI projects. One complaint – which we have also heard elsewhere – is of a lack of standardisation between projects. "Ideally, there should have been more consistency with decisions and across multiple projects. But this was not the case with BRI-related projects and many deviations from favourable strategies were noticed," said the CFO of a Mexican construction contractor.

Our Chinese respondents likewise mention areas where foreign partners could have made improvements, like the director of a Chinese fund who lamented a "lack of trust", and the Hong Kong infrastructure operator who observed that "cultural issues became evident as soon as the initial talks began, and did raise some serious concerns on compatibility."

Some Chinese respondents also mention a mismatch between the capabilities of their own well-resourced entities and those of their project partners. "Because of this there have been pushbacks," said one Chinese executive, "making the prospects more complicated than we had initially expected."

Consistency, standardisation and transparency are all areas for improvement that were mentioned frequently in our research. A director of an infrastructure operator in Argentina noted an unwillingness among Chinese partners to harness technology to improve output and therefore financial returns for all parties. This, he said, was unlike his experience of working with non-Chinese partners. "During BRI projects, they did not worry about innovation or increasing productivity levels gradually by automation or use of other technology."

China has attempted to address these issues – and many others – in its shift to 'BRI 2.0' (see page 13) and other initiatives to improve aspects of BRI projects such as governance and sustainability. But since some of the problems – particularly in consistency – arise partly from the lack of central control in BRI, that shift to a new approach may not be fully realised for some time. Until then, investors and contractors can still aim to reach better outcomes through clearer communication and by planning project milestones and goals well in advance.

"The process was easier because we were prepared and teams were able to encompass the values and objectives of BRI. Extensive comparison and research really helped us in gaining support from other companies involved."

Director, Infrastructure operator, Argentina

"For sustainable financing options and to ensure that all ESG regulations are completed, partnerships have played a crucial role so far. We will be seeking new opportunities as projects resume and there is more requirement for funding."

Investment director, China

The impact of Covid-19 on BRI projects

Covid-19 has had a huge impact worldwide, with Latin America and the Caribbean being the worst-hit region in both health and economic terms, according to the World Bank. Inevitably, the pace and scope of BRI have also been affected.

According to official Chinese data, in 2020:

- China's outbound direct investment (ODI) was up 3.3% year-on-year at USD 133bn, but non-financial ODI fell marginally to USD 110bn.
- Nearly USD 18bn of non-financial ODI went into 58 countries participating in BRI, a figure up 18.3% from 2019.
- While the number of major foreign engineering projects increased, the total contract value of newly signed projects (in all nations, not only those in BRI) was down 1.8% year-on-year.

New BRI projects are clearly still happening. But there have also been project delays and cancellations, with supply chains and travel disrupted. In June 2020, the Ministry of Foreign Affairs said that about 20% of BRI projects had been seriously affected by the coronavirus pandemic, with another 30–40% somewhat affected.

However, while it has impeded BRI, the pandemic also has the potential to reinvigorate it. Globally, governments have arranged massive stimulus packages to support their economies. And while a number of Latin American nations already have high debt-to-GDP ratios, there is arguably a strong case for governments to capitalise on low borrowing costs to fuel much-needed economic growth by investing in infrastructure.

Chinese respondents believe some of this funding will reach BRI projects. More than two-thirds (69%) expect a greater availability of 'cheap money' for such investments, as do 52% of LatAm respondents. LatAm respondents were more divided in their expectations of whether less commercial funding will be available for BRI projects as banks and investors seek to rebuild their balance sheets: 46% expect this to be the case with 40% disagreeing.

A clear majority (70%) of LatAm respondents (and 78% of Chinese respondents) expect at least some BRI projects to enjoy more favourable terms, as the Chinese authorities seek to create demand for the output of Chinese companies. A slightly smaller majority (62%) of LatAm respondents (and 81% of Chinese respondents) also believe that some nations will now be more open to new BRI projects, in the hope that these will provide a boost to their economies. In practice this may depend on the project in question. Some, such as renewable energy projects or digital initiatives, could provide a relatively immediate boost. Benefits from larger, more traditional infrastructure projects may take longer to come through.

But while there is optimism about some future projects, nearly half (48%) of LatAm respondents agreed that some countries will use the economic situation as a reason to withdraw from unsuccessful or controversial BRI projects

Said one executive from a Mexican infrastructure operator: "Countries will be hoping for some economic relief and if there are prospects through BRI, they will think about participating. However, some projects will become unsustainable because of market volatility and insufficient funding. The creditworthiness of parties involved will be crucial in this regard."

One thing on which our respondents generally agree is that the pandemic will lead to renewed emphasis on the Health Silk Road (see page 40), with 86% of LatAm respondents expecting this to be the case.

Opinions on the impact of Covid-19 on BRI

In the light of the coronavirus pandemic and its likely economic and political impacts, do you agree or disagree with the following statements?

A greater availability of 'cheap money', through measures to stimulate the international economy, will support more international investment in BRI projects.

	China	LatAm	Rest of World
Strongly disagree	3%	12%	18%
Moderately disagree	11%	16%	28%
Neutral	17%	20%	27%
Moderately agree	50%	44%	24%
Strongly agree	19%	8%	3%

China is likely to reduce its emphasis on BRI in favour of supporting more domestic projects.

	China	LatAm	Rest of World
Strongly disagree	41%	26%	32%
Moderately disagree	18%	24%	25%
Neutral	22%	34%	31%
Moderately agree	9%	14%	10%
Strongly agree	10%	2%	2%

Some nations will be more open to new BRI projects, in the hope that they will provide an economic boost.

	China	LatAm	Rest of World
Strongly disagree	2%	8%	4%
Moderately disagree	4%	18%	27%
Neutral	13%	12%	25%
Moderately agree	29%	22%	21%
Strongly agree	52%	40%	23%

Some governments will use the economic situation as a reason to withdraw from unsuccessful or controversial BRI projects.

	China	LatAm	Rest of World
Strongly disagree	3%	0%	1%
Moderately disagree	33%	26%	13%
Neutral	29%	26%	19%
Moderately agree	21%	18%	33%
Strongly agree	14%	30%	34%

The coronavirus crisis will lead to a renewed emphasis on the Health Silk Road, intended to strengthen health coverage in BRI countries through Chinese cooperation and support.

	China	LatAm	Rest of World
Moderately disagree	1%	2%	1%
Neutral	14%	12%	6%
Moderately agree	37%	36%	24%
Strongly agree	48%	50%	69%

Less commercial funding will be available for BRI projects as banks and investors seek to protect and rebuild their balance sheets.

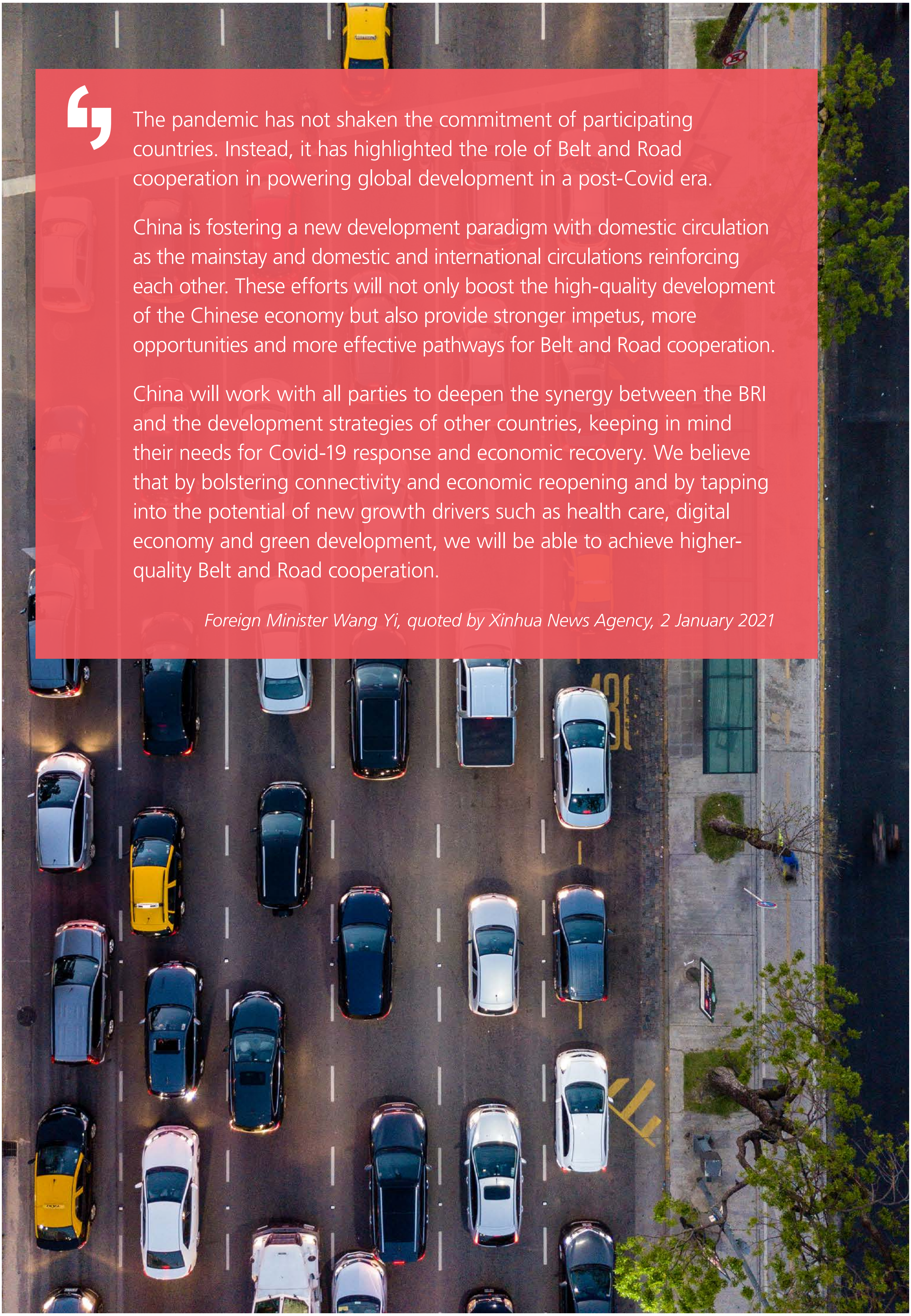
	China	LatAm	Rest of World
Strongly disagree	9%	8%	1%
Moderately disagree	42%	32%	21%
Neutral	23%	14%	13%
Moderately agree	16%	26%	30%
Strongly agree	10%	20%	35%

Some BRI projects will enjoy more favourable terms, as the Chinese authorities seek to create demand for the output of Chinese companies.

	China	LatAm	Rest of World
Moderately disagree	3%	10%	27%
Neutral	19%	20%	35%
Moderately agree	33%	38%	19%
Strongly agree	45%	32%	19%

Some existing BRI projects will become unsustainable and will have to be restructured or abandoned.

	China	LatAm	Rest of World
Strongly disagree	4%	2%	1%
Moderately disagree	23%	22%	11%
Neutral	39%	36%	26%
Moderately agree	25%	18%	39%
Strongly agree	9%	22%	23%



> The pandemic has not shaken the commitment of participating countries. Instead, it has highlighted the role of Belt and Road cooperation in powering global development in a post-Covid era.
>
> China is fostering a new development paradigm with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. These efforts will not only boost the high-quality development of the Chinese economy but also provide stronger impetus, more opportunities and more effective pathways for Belt and Road cooperation.
>
> China will work with all parties to deepen the synergy between the BRI and the development strategies of other countries, keeping in mind their needs for Covid-19 response and economic recovery. We believe that by bolstering connectivity and economic reopening and by tapping into the potential of new growth drivers such as health care, digital economy and green development, we will be able to achieve higher-quality Belt and Road cooperation.
>
> *Foreign Minister Wang Yi, quoted by Xinhua News Agency, 2 January 2021*

Belt and Road 2.0: Looking to the future

Key points

- Launched in 2019, BRI 2.0 addresses many of the points that concern international participants, such as transparency.
- Chinese participants are enthusiastic about e.g. its increased emphasis on environmental and sustainability issues.
- Many international participants are not yet positioning themselves to take advantage of the opportunities it offers, with some clearly sceptical about the change it promises.
- The pandemic is expected to boost the Health Silk Road initiative. There are also significant opportunities for BRI participants along the Digital Silk Road.

China's thinking has evolved since BRI was announced in 2013 and the geopolitical environment has changed significantly. BRI still has strong government support, but as China focuses more on issues such as its domestic economic security, digital development, the reduction of carbon emissions and the financial sustainability of major projects – as well as the need to navigate a world reshaped by the coronavirus – the initiative looks increasingly different from its initial form as a transportation-centred 'Silk Road Economic Belt' running across Asia.

The difference, however, is not quite as great as it may seem. Commentators have tended to focus on the size and strategic ambition of some BRI projects, and to overlook 'softer' aspects of the initiative, such as 'cultural and people-to-people exchanges', 'mutual learning', 'low-carbon infrastructure construction' and 'policy communication', which have been important in China's own view of BRI since the initiative began.

In the absence of any overall system of control or oversight, some projects have reflected these ambitions more consistently than others. One driver behind China's increased emphasis on the need for high-quality, sustainable projects is its wish to avoid any repetition of missteps made by some participants in the early years of BRI. But the drive for higher quality and sustainability also clearly reflects a stronger commitment to greener principles and technological integration.

It also recognises the practicalities of what will be needed to secure commercial funding, as BRI continues to shift from a model primarily supported by finance from Chinese policy banks to one that more closely resembles the public-private partnerships and co-financing models familiar from other infrastructure projects around the world.

The two Chinese policy banks, China Development Bank and the Export-Import Bank of China, have reduced their regional lending significantly in recent years – in fact, their peak LatAm lending came some years before any nations in the region joined BRI. According to data compiled by the Washington-based think tank Inter-American Dialogue, during 2020 the policy banks issued no new finance at all to Latin American and Caribbean governments or state-run companies. However, other Chinese entities – including commercial banks and regional funds – have been increasing their LatAm activities, and have been increasingly willing to engage in co-financing activities with non-Chinese partners.

This shift was highlighted in the intention to "promote high-quality Belt and Road cooperation" expressed in the Government Work Report delivered in March by Premier Li Keqiang. According to the report, the government is "committed to the principle of achieving shared growth through consultation and collaboration" and "will, with enterprises as the main actors and acting on market principles, set up a sound, diversified investment and financing framework, and work to steadily advance cooperation on major projects and promote infrastructure connectivity."

The metamorphosis of BRI has been gradual, but a key moment came in April 2019, with President Xi Jinping's announcement of a 'new phase' of BRI, during his keynote speech at the second Belt and Road Forum for International Cooperation in Beijing. This was described as 'BRI 2.0' by another speaker at the forum, Christine Lagarde, who at the time was managing director of the International Monetary Fund, and that name is now widely used to refer to it.

Opinions of BRI 2.0

Do you agree or disagree with the following statements about BRI 2.0 and future BRI projects?

BRI will be more transparent than in the past.

	China	LatAm	Rest of World
Strongly disagree	6%	20%	31%
Moderately disagree	3%	28%	29%
Neutral	8%	32%	25%
Moderately agree	43%	18%	13%
Strongly agree	40%	2%	2%

In general, BRI will be more open to non-Chinese participants.

	China	LatAm	Rest of World
Strongly disagree	1%	0%	2%
Moderately disagree	3%	6%	8%
Neutral	13%	32%	36%
Moderately agree	26%	20%	31%
Strongly agree	57%	42%	23%

Dispute resolution (including cross-border disputes) will become easier.

	China	LatAm	Rest of World
Strongly disagree	4%	18%	18%
Moderately disagree	11%	8%	34%
Neutral	15%	38%	28%
Moderately agree	40%	28%	14%
Strongly agree	30%	8%	6%

Procurement processes will be more open and competitive.

	China	LatAm	Rest of World
Strongly disagree	4%	28%	37%
Moderately disagree	6%	20%	29%
Neutral	14%	28%	20%
Moderately agree	36%	22%	11%
Strongly agree	40%	2%	3%

Sustainability and environmental considerations will be given greater importance when planning and completing projects.

	China	LatAm	Rest of World
Strongly disagree	1%	2%	8%
Moderately disagree	5%	20%	25%
Neutral	10%	40%	32%
Moderately agree	59%	38%	32%
Strongly agree	25%	0%	3%

President Xi spoke of

- Being guided by the principle of extensive consultation, joint contribution and shared benefits.
- Acting in the spirit of multilateralism.
- Pursuing open, green and clean cooperation.
- Committing to transparency and clean governance.
- Pursuing a high standard of cooperation to improve lives and promote sustainable development.
- Adopting widely accepted rules and standards.
- Respecting the laws and regulations of participating countries.
- Giving priority to poverty alleviation and job creation.
- Ensuring the commercial and fiscal sustainability of all projects.

President Xi additionally described reforms that would expand market access for foreign investment, enhance IP protection, increase imports, and facilitate international macroeconomic policy coordination. He also spoke of ensuring the implementation of related policies, including multilateral and bilateral economic and trade agreements, and the revision and improvement of laws and regulations.

Contrasting views of BRI 2.0

In some quarters President Xi's announcement was viewed as a response to claims that BRI was disproportionately benefitting the interests of the Chinese state and Chinese companies over those of China's partners in BRI.

Such claims are not uncommon. As the managing director of an investment firm targeting Latin America told us: "We are very unsatisfied because BRI projects do not seem mutually beneficial. They cater to the requirements of Chinese establishment and economic development plans. Moreover, the concept of regional development and non-profit undertakings for social good have not been incorporated."

The head of investment of a multilateral development bank in the region highlighted other common complaints regarding BRI, suggesting that, although projects under the BRI banner were "handled effectively", many parties had noticed "problems with transparency issues and environmental impacts". He added: "Local governments have been pushing for better compliance, and I think that incorporating this would be necessary to increase our enthusiasm as well."

However, commentators who saw the announcement of BRI 2.0 only as a way of addressing such foreign criticisms of BRI – or as a portfolio of policies to align BRI more thoroughly with broader development practice – overlooked President Xi's emphasis on international cooperation and joint contributions, as well as its relationship to China's wider national ambitions in areas such as sustainability.

Indeed, some of our respondents feel that a limited response and limited enthusiasm from governments and businesses outside China are preventing BRI from achieving its potential. As one Brazilian respondent said: "We are concerned about how BRI is perceived in other countries. There are still some anti-China and anti-BRI sentiments emerging."

A key driver behind BRI 2.0 is a wish to ensure more non-Chinese participation in BRI: to spread risk, to share knowledge, to raise the quality of BRI projects and related standards, to secure international trade, and to enable the initiative to move forward more rapidly.

Nevertheless, there remain significant levels of scepticism among non-Chinese parties. While there is broadly held optimism that BRI 2.0 will be more open to non-Chinese participants – with 62% of our LatAm respondents agreeing and only 6% disagreeing – other expectations are more downbeat.

For example, only 20% of LatAm respondents agree that BRI 2.0 will be more transparent than the initiative has been in the past. By contrast, Chinese respondents are overwhelmingly positive, with 83% believing that BRI 2.0 projects will become less opaque.

Similarly, only 24% of LatAm respondents agree that tenders will become more open and competitive – a higher percentage than in many other regions, but only a fraction of the 76% of Chinese respondents who expect this to happen.

This pessimistic view of BRI 2.0 among non-Chinese participants may be unjustified. There are signs that Chinese BRI participants are increasingly prepared to take minority stakes in projects, and to work more closely with regional and international players. Similarly, many non-Chinese participants are prepared to take on key roles in certain projects. As one infrastructure fund manager put it: "If a particular part of Belt and Road is investible and bankable, then it will attract all sorts of investors. If it isn't, then it won't." There is real scope for BRI 2.0 to bring about more collaborative and sustainable partnerships between Chinese and international businesses, reflecting the changing global realties of the 2020s.

In some LatAm nations, a perceived Chinese lack of interest in complying with environmental, employment and antitrust regulations, among others, as well as concern about motives for investment, have made Chinese economic participation a matter of domestic political debate. Visible compliance with local standards, and improved transparency and governance, as promoted by BRI 2.0, will undoubtedly help to reduce such controversy.

BRI in the Five-Year Plan

In March the fourth session of the 13th National People's Congress approved China's 14th Five-Year Plan, along with its long-term objectives for the period to 2035.

The plan's section on BRI is largely a high-level reiteration of familiar themes, such as cooperation on finance and in areas such as science and technology, and a general emphasis on the reduction of barriers to global trade and investment through measures such as investment protection agreements and double taxation treaties.

Equally familiar now is the encouragement of higher quality development, sustainability and risk resilience for BRI projects.

A few less familiar concepts are mentioned, such as the 'Air Silk Road', an idea that was first mooted some years ago and which has been gaining more currency in recent months. The 'Silk Road of Innovation' is also namechecked – this was publicised at the Second Belt and Road Forum for International Cooperation but has not been widely promoted since. However, its obvious relevance to the R&D strand of the Five-Year Plan may see it become more prominent in the future. In general, though, there is nothing in the plan to surprise anyone familiar with the principles of BRI 2.0.

Implicitly, the future success of BRI – or at least of its 'hard' infrastructure aspects – rests on its becoming more similar to other international investment programmes. A greater degree of marketisation will result in more attractive opportunities for non-Chinese partners.

The shift to digital

While much traditional infrastructure remains central to BRI 2.0, digital technology is an increasingly important part of the initiative.

Since it emerged as a concept in 2015, the Digital Silk Road (DSR) has not seen as much investment as many other aspects of BRI. But with the new priorities of BRI 2.0 and the worldwide boost given to new technologies by the pandemic, as well as China's strategic push to embed its own technological standards internationally (see page 22), it looks set to achieve much greater prominence over the next decade.

Some DSR projects are traditional BRI-style infrastructure, such as submarine communication cables and mobile phone networks. But there is an increasing understanding that DSR in fact encompasses all types of digital development along the Belt and Road, including fintech, the Internet of Things, smart cities and digital healthcare. As China pursues its aim of becoming a world leader in areas such as semiconductors, quantum computing and artificial intelligence, the Digital Silk Road will become ever broader and busier.

Many DSR projects globally have been focused on meeting local development goals, but others are commercial ventures that reflect the worldwide advance of the digital economy, enabling China's tech businesses to access new markets. DSR also creates demand for telecoms equipment, smart sensors, data centres etc. And as in the rest of the world, the pandemic has acted as a spur for tech innovation in China, accelerating the development of various technologies and providing new opportunities to test them.

Some LatAm countries have already made relatively good progress in this area. But according to the Inter-American Development Bank, more than 60% of the population of Latin America and the Caribbean lack access to quality digital infrastructure. The GSMA, which represents the interests of mobile operators, says that by the end of 2020 nearly 360m people in Latin America were connected to the mobile internet – but that another 300m were still unable to connect to it.

The potential benefits to LatAm nations of improved digital infrastructure, especially after the economic damage caused by the pandemic, are clear. But only 14% of our LatAm respondents are considering DSR projects, with a further 6% having considered them in the past, and a large majority (80%) never having considered them. This compares unfavourably with the interest shown by our Chinese respondents, over one-third (36%) of whom are considering DSR projects.

However, a larger percentage of LatAm participants say they have plans to target BRI tech opportunities (see page 35), so these low numbers may partly reflect a lack of knowledge about DSR, or an unduly limited view of its scope.

Some BRI participants are keen to be involved in DSR projects, but are wary of potential problems, such as rapidly evolving technical standards, and local sentiments about cybersecurity.

A bigger concern for many is geopolitical tension. The Trump administration pushed back against aspects of DSR, notably in its attempts to discourage LatAm nations from striking 5G deals with Huawei, and in its Clean Network Program, intended to restrict or eliminate Chinese involvement in, for example, telecoms networks that connect to US networks, and cloud systems and apps that handle US data.

Such measures may limit the scope of DSR in some markets – there are indications from Washington that the Biden administration will also seek to push back against the regional adoption of Chinese technology, with the Senate also pressing for a policy of 'strategic competition' against China in areas including new technology. But with so many BRI countries, including many in LatAm, still in need of new tech and comms infrastructure, and with Chinese options often available on relatively attractive terms, there are likely still to be significant opportunities for BRI participants along the Digital Silk Road.

Greener and cleaner?

BRI's greener focus coincides with a trend for major investors to reallocate capital from investments with poor ESG credentials to those that prioritise their environmental impact.

Chinese investment in Latin America has become more environmentally friendly in recent years – part of a shift to renewables that is well underway in many LatAm countries, with about 25% of the region's energy now estimated to come from non-fossil fuels.

China is arguably the single largest driver behind this push for renewable power. As a world leader in renewable energy equipment, it is well placed to provide expertise, support and investment.

It is also an important investor in the energy grids that a network of renewable energy sources requires, and looks to the region as a source of minerals for the technology needed to facilitate a zero-carbon economy, most notably lithium for batteries.

Internationally, there is increasing concern among investors that all projects – not just energy projects – should be sustainable, not only in the environmental sense but also in areas such as financing and in their impact on local communities.

However, our LatAm respondents were among the least concerned in the world about such ESG issues. Only 44% said it was important when considering involvement in a BRI project for the project to be sustainable and eco-friendly, compared with 63% in China and 65% across the rest of the world.

This lack of concern is mirrored in our respondents' view of sustainability in BRI 2.0. Just 38% of LatAm respondents believe that sustainability and environmental considerations will be given greater importance when planning and completing BRI 2.0 projects, compared with 84% of Chinese respondents (although only 22% of LatAm respondents actively disagreed with the suggestion).

Our LatAm respondents appear to be underestimating the commitment of their Chinese counterparts to sustainability. Chinese BRI participants are increasingly aware that sustainable projects tend to lead to fewer disputes, and China's strength in areas such as renewables increasingly looks like a commercial advantage. Initiatives such as the China-based BRI International Green Coalition, and the Green Investment Principles for the Belt and Road issued by China and the UK, are attempts to embed sustainability at the heart of BRI.

Regionally, the Inter-American Development Bank (IDB) has collaborated with the China International Contractors Association to develop a set of criteria for sustainable infrastructure, with the aim of improving BRI's ESG credentials and mitigating the environmental and social impact of projects.

Perhaps the most striking sustainability initiative is China's announcement in September 2020 that it will strive to reach a peak in carbon dioxide emissions before 2030 and achieve carbon neutrality by 2060. President Xi Jinping has since gone even further, stating that by 2030 China will cut its carbon dioxide emissions per unit of GDP by more than 65% from 2005 levels. While this is a domestically-focused target, the changes and developments it requires will undoubtedly be reflected in BRI as well.

Research from Refinitiv suggests that more BRI projects were launched in 1H20 than in 1H19 or 1H18, with 392 identified. But their total value was lower than in previous years. This agrees with our

When considering involvement in a BRI project, how important is it that the project should be sustainable/eco-friendly?

	China	LatAm	Rest of World
Very unimportant	0%	10%	2%
Somewhat unimportant	6%	10%	13%
Neutral	31%	36%	20%
Somewhat important	23%	12%	13%
Very important	40%	32%	52%

findings of increasing interest in greener projects, as well as the Digital Silk Road and Health Silk Road initiatives. Many of these projects are quicker and cheaper than traditional large infrastructure projects, and often easier to monetise.

The picture of a green pivot for BRI is reinforced by findings from Moody's which, tracking BRI projects in some 80 countries, found that renewable energy projects accounted for about 58% of new contract values in the first half of 2020.

Chinese banks have also strengthened their focus on sustainable finance. A number of projects unable to show financial viability or sustainability have recently been refused loans. China is well aware that projects will increasingly have to embrace principles such as sustainability to attract the non-Chinese finance BRI needs.

Some LatAm participants in BRI are in tune with this trend. One executive from an energy infrastructure operator in Chile told us that promoting sustainable development in its key markets is not only important, but that his company will only participate in BRI projects that meet the highest standards. He added that "predicting compliance-related issues delivers faster positive outcomes," highlighting the need to incorporate ESG considerations into project risk assessments rather than waiting for issues to arise.

As China continues to promote sustainability – and with pressure from investors, and in some cases governments – it seems likely that the priority given to ESG issues by LatAm BRI participants more generally will increase.

Dual circulation and Chinese standards

China has developed a new ‘dual circulation’ economic strategy, which will reinforce some elements of BRI 2.0 as well as having a broad impact on many aspects of China’s international engagement. The latest Five-Year Plan makes clear that China is accelerating the establishment of dual circulation as the keystone of its “new journey toward the full construction of a modern socialist country”.

First mentioned in May 2020, ‘dual circulation’ refers to the concept that China’s domestic and foreign economic efforts can be adapted to boost each other. The ‘great international circulation’ that saw the export-oriented opening-up of China’s economy from the late 1980s onwards will be complemented by the more recently conceived ‘great domestic circulation’, taking advantage of China’s massive potential domestic market.

This stronger emphasis on ‘domestic circulation’ involves increasing domestic demand while lowering dependence on foreign inputs, with a greater degree of import substitution. ‘International circulation’ (continuing to develop export market share, and further liberalising cross-border capital flows) remains important, but also works more effectively to boost the development of the domestic economic cycle, whose strength in turn reinforces Chinese businesses, making them better able to compete internationally.

While this is a newly minted strategy, it is not exactly a new idea. China has been trying to rebalance its economy with greater domestic demand for some time, but has enjoyed only gradual success. In 2019, final consumption expenditure accounted for just 55.7% of the nation’s GDP, according to World Bank figures. While significantly up from a low of 48.9% in 2010, this lags far behind the levels in the world’s other largest economies, such as 81.8% in the US. The strategic assumption is that increasing domestic demand for Chinese output will ultimately make its economy more self-reliant and sustainable, and less vulnerable to external shocks.

However, exports are still vital for China, and the development of domestic capacity will require foreign technology and investment. So China wants to remain open for global business – even increasing the level of foreign investment in its economy – while neutralising what it now sees as vulnerabilities that may have arisen through the globalisation of trade. The recent EU-China investment agreement and, in Asia, China’s participation in the Regional Comprehensive Economic Partnership both emphasise that China still sets great store by – and hopes to increase – its strong position in international trade.

The dual circulation strategy reflects the disruptions to trade experienced during the pandemic, and longer term concerns around productivity and competitiveness. But it was also clearly prompted by the Trump administration’s restrictions on the export of some hi-tech components to China, most notably semiconductors. Viewing this as a national security issue, as well as a question of sustainability, China aims to ensure that the supply chains for key components are no longer open to such pressure.

A communiqué issued after October’s plenary session of the 19th Central Committee of the Communist Party of China reinforced this stance, by emphasising that self-reliance in science and technology is now a national strategic pillar. But as explained by Wang Zhigang, China's minister of science and technology, self-reliance in science and technology does not conflict with openness and cooperation and does not mean that China intends to 'decouple' from the world. "Open cooperation has been a key component of China's path toward independent innovation. On the other hand, self-reliance is the basis and prerequisite of conducting fair and mutually respected cooperation with other countries."

It has nevertheless been widely noted that this policy has the potential to lead to competing technological standards, with Chinese technology developed as an alternative to western (mainly US) technology. This scenario is apparently contemplated in the China Standards 2035 plan, which has been in development since 2018 but whose final form is yet to be officially articulated.

Promoting standards

In some respects, China Standards 2035 builds on an existing national strategic plan. Introduced in 2015 but little mentioned of late, Made in China 2025 was developed to boost China's industrial and tech capabilities through extensive government support for certain key industries, including robotics and next generation IT. However, it attracted international controversy, amid allegations from other nations of unfair business practices and intellectual property infringement, leading to the imposition of punitive tariffs by the US. Its focus on new technology and innovation now appears to have been been inherited by China Standards 2035.

The Chinese authorities perceive a strong connection between geopolitical power and the setting of standards. A slogan that has been circulating in China's corporate world for some time is that "third-tier companies make products, second-tier companies make technology, first-tier companies make standards". Being able to determine international standards offers any nation significant market advantages. The China Standards 2035 project seeks both to harmonise and improve Chinese standards and to ensure that Chinese standards are incorporated into global standards. One practical reflection of this is the inclusion of terms on standards in various BRI agreements. According to the Office of the Leading Group for Promoting the Belt and Road Initiative, as of April 2019 China had signed 85 standardisation cooperation agreements with 49 countries and regions.

Harmonisation through BRI

The dual circulation strategy clearly has significant implications for the future of BRI. There will, for example, be more emphasis on creating markets for technology originating in China and incorporating Chinese standards, which will further bolster the Digital Silk Road initiative (see page 18). We will see even more of a focus on 'smart' infrastructure. China will seek more scientific and educational partnerships with BRI nations. Some foreign businesses, in certain sectors, may find access to China easier. And China will seek to strengthen and secure its supply chains – an imperative likely to be reflected in some strategic BRI infrastructure projects.

As President Xi said in a speech in November 2020, in the dual circulation strategy "China will work to pursue high-quality Belt and Road cooperation with its partners, and seek greater complementarity between the development strategies and connectivity plans of regions and countries concerned. China will further harmonise policies, rules and standards with BRI partners, and deepen effective cooperation with them on infrastructure, industry, trade, scientific and technological innovation, public health and people-to-people exchange. Together, we will make the Belt and Road a model of cooperation, health, recovery and growth and deepen cooperation on green development."

Spotlight on Chile

In Chile, Chinese state-owned companies have made major investments in sectors such as renewable energy and public utilities, as well as in natural resources such as lithium.

In November 2020, for example, State Grid Corporation of China agreed to buy Chilean electricity distributor CGE for USD 3bn. CGE is Chile's biggest power distribution company and its second-largest transmission company. This came a few months after State Grid's USD 2bn acquisition of Chilquinta, another major player in the Chilean energy distribution system.

State Grid has said that the attractions of Chile as a destination for investment include "political and economic stability, a sound legal system, and a high sovereign credit rating".

Over the last 40 years, these characteristics – and others, such as its strong regulatory institutions, and the protection and empowerment offered by a free market economic system, as well as the legal system's powerful protection of private property – have made Chile one of the preferred countries for foreign investments in the region.

Chile also maintains policies that encourage foreign investment, such as Law 20,848, which grants specific rights to foreign investors, including the remittance of profits abroad, access to the formal foreign exchange market, and the right to be governed by the same legal framework as domestic investors.

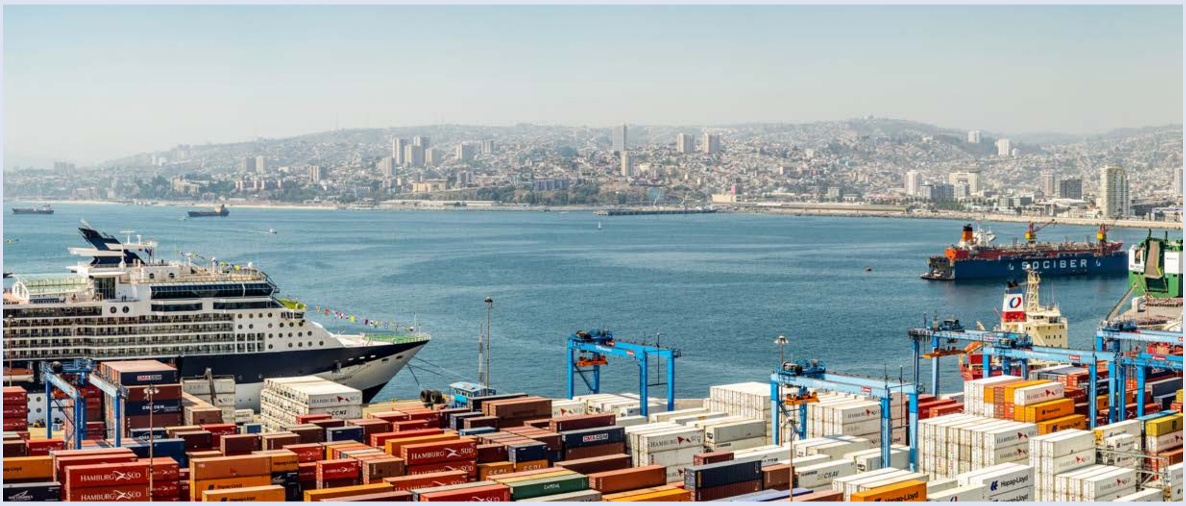
The Chilean competition law regime has established a series of public agents that work to guarantee the competitiveness of the Chilean economy, operating through a set of market concentration measurement systems established for the prevention and detection of potential antitrust regulation violations. It is also worth highlighting the obligatory merger control regime and the enhancement of cartel prosecution enforced by the Chilean competition agency (Fiscalía Nacional Economica).

A new constitution

The most high-profile risk for foreign investment in Chile may be the impending creation of a new constitution, after a referendum in 2020 saw a vote strongly in favour of replacing the present constitution, which dates to 1980 and the military dictatorship of General Pinochet. The new constitution is to be drafted by a Constitutional Convention, whose members are due to be elected in May 2021, and there will be a public vote on the draft constitution in 2022. This process has created a certain amount of uncertainty among local investors.

China and Chile have a free trade agreement which offers Chinese investors in Chile some comfort in the face of this uncertainty. For example:

- The agreement obliges both states to act in good faith and prohibits them from acting in a discriminatory way against the respective countries' companies.
- Both countries are obliged to protect investments so that their investors receive treatment no less favourable than national investors or investors from any other third country would receive under the same circumstances.
- Direct and indirect expropriations are prohibited.



Interview: Rodolfo Echeverria, KPMG Chile

Rodolfo Echeverria, Director of Infrastructure for KPMG Chile, talks about the impact of BRI, the importance of sustainability, and Latin America's infrastructure gap.

What impact have China and BRI had on Chile?

If we start with the impact of the free trade agreement that China and Chile signed in 2005, it has been immense. At that time about 12% of Chile's exports were to China and 10% of imports were from China. Today, figures from the Central Bank of Chile show that in 2020 China accounted for 39% of Chile's exports and 28% of imports.

The numbers show that China is currently Chile's largest trading partner, and together they not only cooperate on a commercial level, but also in areas such as the scientific-technological and cultural, thus demonstrating a bilateral relationship that shows maturity and integration.

And BRI naturally has had an impact on relations between the two countries. For example, a few years ago, we signed an agreement with the Harbin Institute of Technology and China Information and Communication Technology to develop 5G technologies. And that 5G technology will have a direct impact on infrastructure.

Across LatAm, do BRI projects differ from others?

Although the BRI investment portfolio is extensive, the focus has remained on the energy and transport sectors, which together have accounted for more than 60% of total BRI investments.

Most BRI projects are intended to increase regional and inter-regional connectivity and form part of a 'road', unlike other infrastructure projects that are not necessarily planned with regional integration in mind. This feature undoubtedly adds value to BRI infrastructure opportunities, which are also capable of generating potential new opportunities.

It would be interesting to see how BRI can incentivise big infrastructure projects that would remind us of the old interregional initiatives like the old Panamericana – the roads that link Alaska/Canada to Quellón in Chile or Ushuaia in Argentina.

Have you seen China's priorities for BRI changing?

If we look at the evolution of BRI geographically, the initial focus was very much on Asia, Europe and Africa, but more recently that focus has moved to LatAm. And there are other priorities such as sustainability – the relevance of renewable energy in the investment portfolio has grown substantially.

How much more important will sustainability become?

From an ethical and practical point of view, ESG considerations are extremely important and will become more relevant in the future. In terms of investment, companies will need to ask what qualities a new infrastructure project must have to access financing. Issues such as the environment, gender equality, human rights and climate change all need to be taken into consideration. Those are becoming part of any investment today.

Looking at BRI, China has placed more emphasis on the issue of sustainability. There has been a ban on commercial fishing in some Chinese rivers, and a reduction of emissions in transport and public building. These are definitely signs of things to come.

Where are the opportunities for BRI in LatAm?

There are several opportunities for BRI and infrastructure investment in general because LatAm needs to close its huge infrastructure gap. That gap is around 40% of the region's total investment needs. That's a green field full of opportunities.

We see the interest of Chinese companies in Brazil, Colombia, Peru, Chile, Argentina and beyond. Chinese companies have already set up in the region through direct investment, as with lithium mining. And in infrastructure, some have bought or partnered with Spanish companies so they can more easily access LatAm.

These businesses have knowledge of the region and the language capability. Obviously, LatAm is the main foreign region for Spanish companies. But some of these Spanish companies are actually Chinese-owned. And recently those companies have got concessions in Chile. For example, they have started work on a new toll road, which is an investment of around USD 850m. For a small country like ours, it's a huge project.

The opinions of the interviewee expressed in this article do not necessarily reflect the opinions of KPMG.

Overcoming obstacles

Key points

- Legal frameworks and political issues are the most commonly cited obstacles in BRI projects for LatAm respondents. Legal and regulatory risk is the most commonly perceived risk in BRI projects.
- Such risks can be managed through a mitigation plan, with appropriate risk identification, management and mitigation measures.
- A good mitigation plan will include an appropriate strategy for managing disputes, as well as realistic enforcement options.
- BRI participants have additional means to help projects run smoothly and reduce risk, beyond formal mitigation strategies.

For LatAm respondents, national governments and political issues (54%) and legal frameworks (54%) are the most frequently cited obstacles to involvement in BRI-related activity. Legal and regulatory issues are also seen as the most serious risk in BRI projects, being cited as a 'top three' risk by two-thirds (66%) of LatAm respondents – well ahead of project stability (44%) and political risk (42%).

The first criterion for making a project investible or bankable, according to one international investor, is a good legal framework. The second is "a stable political regime, which doesn't decide to build a port one week and then decide not to build it the following week. And then you need a fiscal regime, which means that the economy is structured in a way that it can support the repayments of the investment, either through charging users for the services or raising taxes. So you need quite a lot of things to stack up to make it investible."

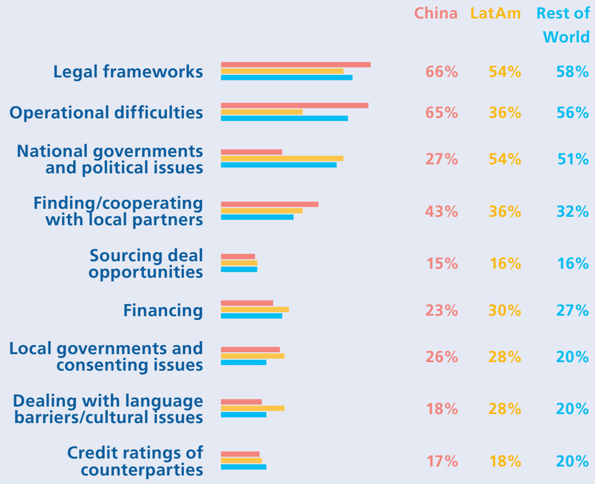
To some extent, the legal risks in BRI projects tend to be those found in similar non-BRI projects. BRI is mainly based on a series of 'soft law' regulations such as non-binding MoUs, declarations, principles and agreements. There is no such thing as 'BRI law', just as there is no single BRI treaty, no legal instrument that establishes the initiative or its protocols, and no regularised accession process.

This lack of uniform regulation gives BRI a high level of flexibility when dealing with different projects in different nations and continents. But it also presents difficulties, as risk management, consistency, predictability and transparency essentially have to be addressed on a project-by-project basis, as do the relationships of participants in projects and, in turn, their relationships with local stakeholders.

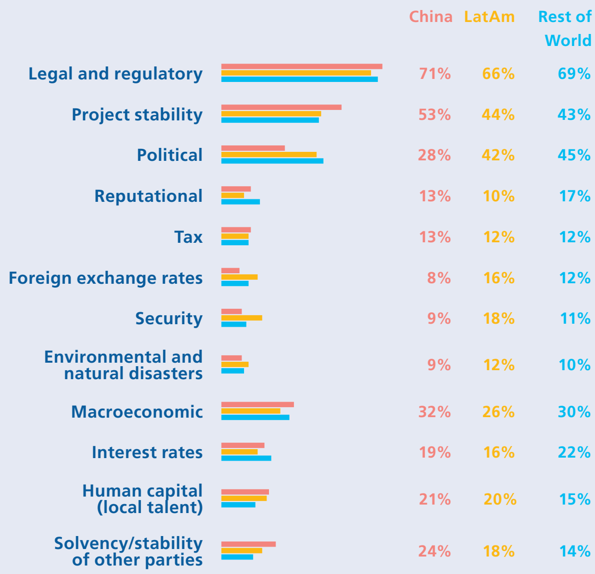
Certain issues recur frequently as sources of legal difficulty in LatAm BRI projects. Latin American countries are increasingly seeking to regulate the environmental impact of infrastructure projects. There is also now a major focus on protecting indigenous communities. In some places there are protected sites, where exploitation is strictly regulated and project development is thus severely limited.

Labour protection in the region has also been considerably strengthened, creating a largely robust regulatory framework. In addition, the increase in migration policies in Latin America has led to difficulties in the participation of immigrants in local businesses, especially in large groups, with limitations on the number of foreigners able to access jobs in specific areas.

Which of the following have presented the greatest obstacles to your BRI-related activity? (Select top three)



Which of the following represent the most serious risks as they relate generally to involvement in BRI projects? (Select top three)



Political issues

Political risk is, of course, distributed unevenly through the region. Some jurisdictions, even on the simplest assessment, clearly carry more risk than others. However, these are often also the ones most in need of investment.

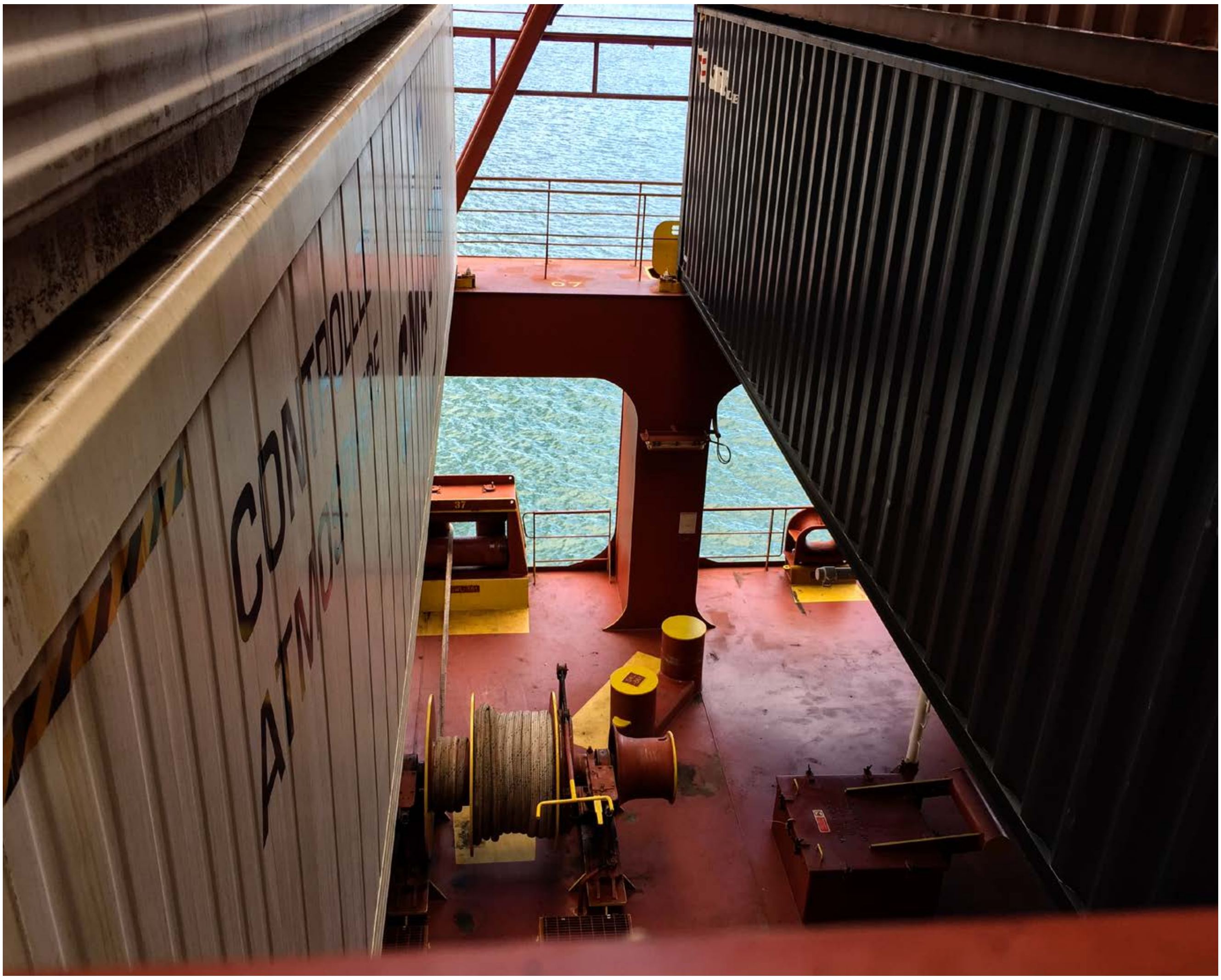
Furthermore, BRI is itself seen in some quarters as a highly political initiative, leading to international pushback against China, most prominently from the US. Many commentators agree with the investor who told us: "I think the United States politically does not want China on its doorstep, and it regards LatAm as its doorstep."

President Biden's suggestion that the US and the UK should respond to BRI by participating in what he described as "essentially, a similar initiative, pulling from the democratic states, helping those communities around the world that, in fact, need help," may or may not be a harbinger of things to come, but it does highlight how keen the US is to check China's increasing influence on the international stage (as did the Trump administration's creation of the U.S. International Development Finance Corporation (DFC), which arguably performs some of the same functions as the initiative mooted by President Biden). In the last days of the Trump administration, the DFC extended a credit line to Ecuador – which had been in financing negotiations with Chinese policy banks – on the condition that it participate in the US Clean Network Program (see page 19).

President Biden's remarks also highlight the fact that BRI is seen as having been successful in promoting Chinese influence around the world, not least in Latin America. The commander of the United States Southern Command, Admiral Craig Faller, recently told the Senate Armed Services Committee that the US was "losing our positional advantage in this Hemisphere", citing China's involvement in over 40 ports – as well as other initiatives already mentioned in these pages, such as medical aid, 5G networks and smart city projects, energy schemes, road projects and many others – to support his case.

According to Admiral Faller: "The PRC is rapidly advancing toward their goal of economic dominance in the region within the next ten years. In 2019, the PRC surpassed the US as the leading trade partner with Brazil, Chile, Peru, and Uruguay and is now the region's second-largest trading partner behind the US. From 2002 to 2019, PRC trade with Latin America soared from USD 17bn to over USD 315bn, with plans to reach USD 500bn in trade by 2025."

The sheer volume of that trade is one indication of how extensive the connections between China and many Latin American economies have become. Any modern Monroe Doctrine, aimed at excluding all Chinese influence from the continent, would founder on the reality of those connections and that mutual reliance. Instead, we can expect to see attempts – explicit or otherwise – to limit Chinese involvement in certain sensitive areas, particularly



those relating to technology, security and critical infrastructure. We may also see, in the light of President Biden's suggestion, how far the US is willing to provide – or encourage the provision of – alternative support and investment.

Domestically, issues such as debt, environmental damage and a negative impact on indigenous communities can also be potent political problems for projects in LatAm. And in recent years a number of high-profile projects, both BRI and non-BRI, have been announced and subsequently cancelled for seemingly political reasons – often, though not always, associated with a change in government.

The options available to BRI participants wishing to mitigate political risk are limited. It is possible to insure against some political risks, and thorough due diligence should be undertaken as a matter of course (and should continue in some form over the lifetime of a project). Businesses can ensure that, as appropriate, security measures are in place on the ground, But the long life of most infrastructure projects, and their illiquidity as assets, will always result in a degree of risk for investors.

Even participants in a shorter time frame, such as contractors, will be unable completely to avoid exposure to the full range of political risks, ranging from peaceful regime change that may result in the reassessment of contracts to violence that can halt projects and endanger a workforce, or sanctions imposed by a third party. Here, too, the most important element is thorough due diligence, informing the development of an appropriate risk management and mitigation strategy.

For one executive from a multilateral development bank in the region: "There are various efforts that teams have put in to make sure that political and local government issues can be avoided. It starts by anticipating instances that prompt disruptions, such as elections, social unrest, etc. Legal risks are also considered based on strict analysis in order to mitigate the impact on projects."

Operational issues

Alongside difficulties in finding and cooperating with partners, operational difficulties are the third most frequently cited obstacle to BRI activity in Latin America. Again, there are various risk mitigation strategies. But there are things that all BRI participants can do to help projects run smoothly and reduce risk, even if they are not part of a formal mitigation strategy.

As noted earlier, positive cooperation – either generally or through structures such as joint ventures – can help to mitigate risk, share skills, encourage local acceptance, avoid local legal difficulties and move projects forward more rapidly. It may be particularly useful for businesses participating in markets with which they are not completely familiar.

Finding reliable partners can itself be challenging – it is one of the obstacles most frequently cited by our LatAm respondents – and if not done well can bring its own risks. Businesses need a range of knowledge about their partners, from their financial strength to their technical capacity. Both these priorities inevitably involve a degree of transparency and information-sharing.

To form effective partnerships, organisations also need to understand where conflicts could arise, and ensure there are effective mechanisms for dealing with them. These include dispute resolution mechanisms, but also processes that can help to avoid conflicts, or to resolve them before they become serious disputes.

Flexible structures and partnerships are likely to be more effective in dealing with problems. But these should not be confused with ill-defined structures. Clarity about the nature and degree of flexibility available provides certainty for all parties.

It is also important to consider potential cultural conflicts or misunderstandings. Some respondents see this as a stand-alone problem to be addressed with training from their HR department.

But there are others who view it as a potential opportunity, such as the Chinese supplier who noted that in dealing with different BRI countries "we have learnt many new things and business concepts that will be useful in future projects."

As one fund manager from Brazil put it: "Finding local partners and then working to coordinate with them is difficult, since operating and management styles often vary. We get a better idea during discussions. Warranties and representations are handled by our legal department to mitigate risks."

Not all BRI participants are enthusiastic about partnerships, like the CIO from Hong Kong who told us that "during these tough times, we prefer to work independently" and the Chinese professional services provider who said "partnerships will be avoided for the most part because we prefer control on decision-making."

But for every comment like that, we gathered many more positive ones, from participants such as the director of a Mexican bank who said that "based on our experience, positive results can be derived by being more mutually understanding and respectful of different cultures."

Comprehensive due diligence

Due diligence for political risks has already been mentioned, but all aspects of a project require due diligence, and the more high-risk the project, or the market, the deeper and more wide-ranging it should be. Despite this, in some cases due diligence is insufficiently thorough, or is undermined by participants making faulty assumptions based on limited experience.

Due diligence should also lead to more than a 'stop/go' conclusion. It is a way of assessing and understanding the risks you are taking on, enabling the early

"BRI projects have a greater threat because of their span across countries with challenging regimes. So, we have hired compliance and legal due diligence officers to provide timely advice. Operations difficulties are handled by trying to implement more flexibility and transparency throughout the process."

Finance director, Supplier, Brazil

"During BRI projects, there were cultural differences, which was expected. Other than that, Chinese entities' reaction to risks was not appropriate. Ideally there should have been more preparedness for high political risks."

DIrector, US investor

identification of potential problems and, crucially, facilitating an appropriate risk management strategy. If it is treated simply as a way of identifying risks, rather than understanding them, it will not fulfil its commercial potential.

Effective due diligence and risk management are essentially collaborative. Identifying risks at the earliest possible stage, especially where local or specialist knowledge is needed, will probably involve expertise not only from within but also from beyond the organisation.

Participants in a project will also benefit from working together, wherever possible, in risk management. Combined efforts are likely to reduce the risk profile of their project in a way that uncoordinated individual risk management strategies will not.

Using technology

Some respondents are addressing operational challenges through the use of technology to improve communication and to ensure projects run more smoothly. For the investment director of a Chinese investment firm: "Adding new technological capabilities helped in communication and coordination among multiple parties and added more confidence to various critical processes. This helped to mitigate operational challenges."

Technology has, of course, become even more important in the past year. For some of our respondents it is a way to improve planning and project management, while others feel that, during the pandemic, remote access to projects and data has become critical.

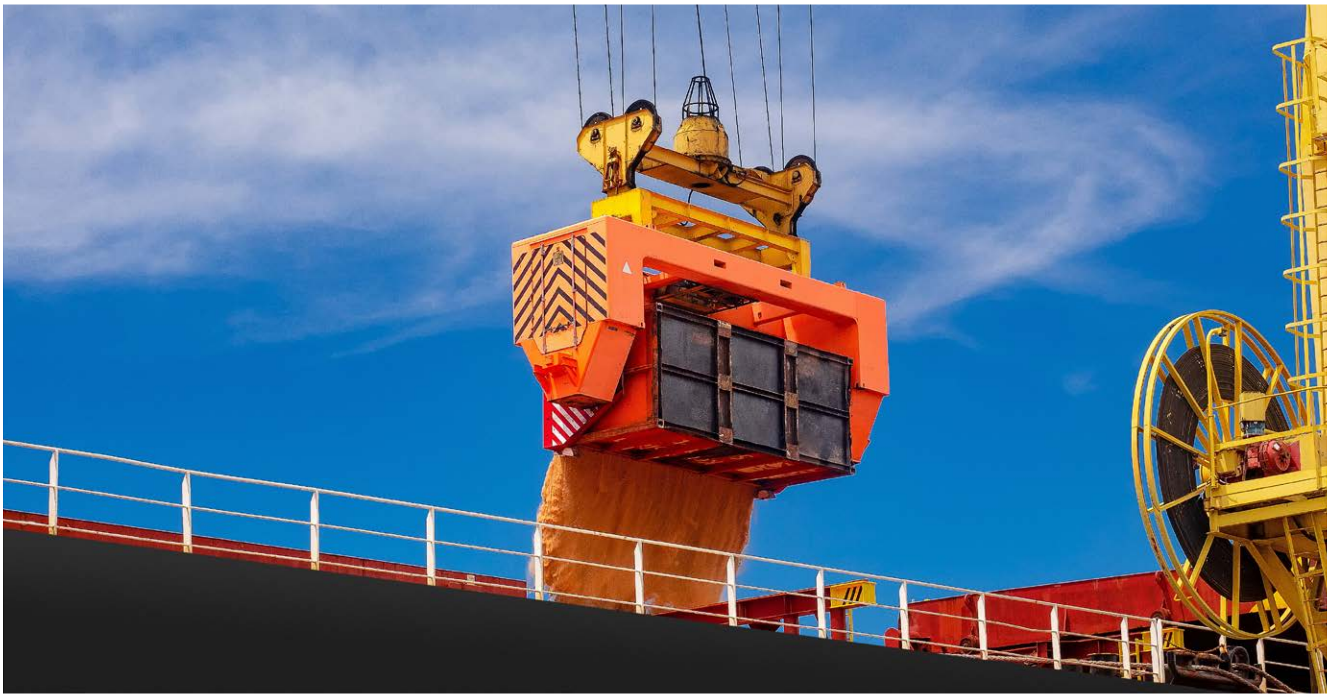
Some contractors hope that mechanisation and automation will reduce the number of people needed to work on projects, which is an issue where freedom of movement is restricted to control the spread of infection. And some plan to use technology to monitor the health of workers, particularly in projects that are not easily accessible.

"We mitigated operational challenges by improving our technological capabilities. New technological changes, that helped in communication and coordination among multiple parties, added more confidence to various critical processes."

Director, Chinese investor

"Mitigating the impact of these challenges requires fresh perspectives each time. Evaluating unique situations in terms of finding local partners, financing challenges and local government problems requires experienced minds and innovative methods."

International investor



Sourcing opportunities

One of the bottlenecks slowing BRI progress has been the ability of prospective parties to source investable projects. There is no official database of BRI projects and so companies and investors are left to their own initiative to access project deal flow.

Our research shows that many of those who have taken part in BRI projects have found the sourcing process challenging. Among LatAm respondents, 44% say identifying and sourcing appropriate BRI opportunities is difficult (compared with 53% in the rest of the world, excluding China). Only 6% of LatAm respondents found the process easy.

Unsurprisingly, Chinese participants experience fewer problems. But even they report some difficulties, with 26% finding it hard to source projects.

China is encouraging the adoption of general international rules and standards for BRI procurement, tendering and bidding. But LatAm participants are divided in their expectations of whether sourcing opportunities will become any easier. A large minority (44%) say sourcing will get more difficult going forward, with 36% believing it will be easier – an optimistic minority larger than that in any other individual region except Africa (46%) and China (51%), and well above the average for the rest of the world (16%).

Generally, how would you rate the process of identifying/sourcing BRI opportunities?

	China	LatAm	Rest of World
Very difficult	7%	14%	22%
Moderately difficult	19%	30%	31%
Neutral	63%	50%	44%
Moderately easy	11%	6%	3%
Very easy	0%	0%	0%

Do you expect this process to get easier or more difficult going forward?

	China	LatAm	Rest of World
Easier	51%	36%	16%
Unsure	19%	20%	10%
More difficult	30%	44%	74%

Dispute resolution

On average, LatAm respondents are slightly more likely than their Chinese counterparts to have been involved in BRI projects that generated legal disputes.

Only 21% of Chinese respondents say legal disputes have arisen in their projects, whereas 24% of LatAm respondents said the same. This is, however, a much lower figure than the average of 40% we found in the rest of the world – a positive difference that may reflect both the BRI projects undertaken in the region and the region's 'late arrival' in BRI.

To some extent, the issues frequently found behind legal disputes in LatAm projects are similar to those that are common elsewhere. Many respondents report disputes involving real estate, or environmental impact, or problems such as non-compliance with local labour laws. Others experienced, for example, a claim for compensation following serious supply chain disruption, the breach of a non-disclosure agreement, or intellectual property disputes. Major BRI projects are vulnerable to the many potential disputes that can arise from any large, complex infrastructure development.

What is the best way to resolve disputes concerning BRI projects? One option is to rely on established mechanisms. The most prominent of these is international arbitration: either commercial arbitration based on the agreement between two commercial parties, or investor-state arbitration based on an investment treaty concluded between sovereign actors.

While arbitrations are now possible in China, many LatAm-related disputes are resolved by long-established arbitral institutions in Europe or the US. Most LatAm participants in BRI would probably prefer such venues. But a contract is arrived at by negotiation, and there may be circumstances in which a LatAm party judges it advantageous to accept the provision of a non-LatAm venue for arbitration in return for concessions in other areas.

Looking ahead, as BRI 2.0 continues to develop, 36% of LatAm respondents believe dispute resolution will become easier, with only 26% disagreeing. This makes BRI participants in the region comparatively optimistic, when set against the average of 20% in the rest of the world who believe dispute resolution will become easier and the 52% who believe it will not.

Risk mitigation

Whatever the challenges posed, participants are well advised to manage their risks through a risk mitigation plan with appropriate risk identification, management and mitigation measures. These may include:

- Conducting robust due diligence on local partners, including their track records on projects, creditworthiness, corporate structures and ownerships, key individuals, compliance with laws, litigation records, and any connections with local authorities.
- Careful negotiation and drafting of contracts to include adequate risk management and allocation provisions, supported by clear liability language.
- Effective contract management and compliance with contractual obligations, ensuring that the project and commercial teams are familiar with the contracts.
- Being alive to areas where the risk of corruption is present, such as excessive commissions to third-party agents or consultants, vague consulting agreements, and any close relationships between third-party agents and officials.
- Avoiding shortcuts around compliance requirements, such as engaging a third party to manage government approvals without adequate due diligence or controls.
- Selecting well-established and neutral dispute resolution forums.
- Appointing appropriate local advisors, familiar with the regulatory environment and relevant authorities, who can be invaluable in due diligence, risk analysis and risk management.

MoUs, MITs and BITs

There is no overall 'Belt and Road Treaty'. But the context for BRI projects is often determined by various local agreements.

As of December 2020, China had signed 202 BRI cooperation documents with 138 countries and 31 international organisations. They include memoranda of understanding on aspects of BRI, cooperation agreements, 'intergovernmental documents', joint statements on various initiatives, and documents relating to particular projects.

Though differing in legal implication from country to country, a memorandum of understanding (MoU) is generally aimed at increasing cooperation within the BRI framework and substantiating the initiative's legitimacy.

In many countries, the strategic framework for the general or sectoral development of BRI projects and the organisational framework for specific BRI projects are introduced by MoUs, typically listing general principles, setting objectives and guiding principles for future cooperation between parties, and covering the main areas of cooperation.

Regardless of whether MoUs are strictly legally binding, they influence and guide the way China engages with these countries and organisations.

The full texts of these MoUs are typically confidential. But an MoU's basic structure generally covers five key cooperation priorities:

- policy coordination;
- facilities connectivity;
- unimpeded trade;
- financial integration; and
- people-to-people bonds.

In addition to its MoUs China has numerous bilateral investment treaties (BITs) and multilateral investment treaties (MITs) which relate to BRI. These are international law instruments agreed between two states (BITs), or between more than two states (MITs). In many cases they were signed before BRI began, but their provisions are often relevant to BRI projects, and Chinese investors in BRI projects in LatAm may be protected by the provisions of these agreements. Some common forms of guaranteed protections include:

- compensation for expropriation or nationalisation of an investor's assets by a state;
- fair and equitable treatment, which creates an obligation to provide a stable and predictable investment environment, and to act transparently and consistently;
- full protection and security, which provides a positive obligation to protect investment by the exercise of reasonable care;
- protection against discriminatory measures: e.g. taxes, fines, penalties, licences, permits, visa restrictions; and
- 'umbrella clauses', i.e. clauses which may be incorporated into contracts entered into between a host state and investors as BIT obligations.

Selecting sectors

Key points

- ‘Traditional’ BRI sectors are still those where many LatAm participants believe the greatest number of opportunities exist.
- However, LatAm participants are increasingly interested in sustainable and eco-friendly sectors, which are also often seen as lower-risk options.

The primary BRI sector focus of LatAm respondents to date has been energy networks and power grids (42%) and conventional power assets (28%), followed by logistics, industrial parks and free trade zones (26%); and road, rail and oil & gas projects (all 22%).

Similar proportions said they will continue to make these sectors focal points going forward, with slight increases in enthusiasm for energy networks and grids (46%), conventional power, logistics (32%) and roads (26%). Enthusiasm for rail projects going forward is unchanged (22%), while interest in oil & gas (18%) is declining – a trend we have seen elsewhere in the world.

However, the stand-out increase is of interest in renewables and hydro projects, which had previously been targeted by 20% of LatAm respondents. Nearly half (48%) of respondents now intend to target them – more than doubling the previous figure. Again, this is a trend we have seen elsewhere, although the degree of enthusiasm in LatAm is at the top of the scale.

Other areas where we found significant increases in interest include smart cities (with 26% of respondents intending to target them, up from the 14% who have previously done so), ports (up from 10% to 18%), and heavy/extractive industries (up to 14%, from 6% previously). The increases for smart cities and ports are broadly in line with what we have seen elsewhere in the world; that for heavy/extractive industries is not, but likely reflects the continuing high levels of Chinese demand for natural resources from the region.

While these examples clearly demonstrate some shifting sector sentiment, 'traditional' BRI sectors are still those where many LatAm participants believe the greatest number of opportunities exist. In particular, a massive 84% view roads as one of the five sectors presenting the most opportunities – well ahead of energy networks and power grids (60%), renewables (56%) and logistics (40%).

For one fund manager: "The most promising opportunities for BRI and LatAm will be anywhere the state-owned Chinese construction companies are able to play a role and then bring in the Chinese supply chains. So, that's almost anything that has large infrastructure consequences, but focused on the energy and transportation sectors."

Risk sectors

By far the riskiest sector, as perceived by our survey respondents, is oil & gas. Four out of five across our total sample see this industry as one of the five most risky, and 77% of LatAm respondents concur. This reflects the long-term transition away from fossil fuels in favour of clean energy sources. Not only are many governments eager to address climate change, but institutional investors are also making ESG issues a matter of priority. And the increasingly competitive costs of renewable energy production are starting to make the development of some less clean alternatives – particularly coal projects – commercially unviable.

Conversely, renewables are seen as a risky sector by an almost unmeasurably small fraction of LatAm respondents. With investors and governments stepping away from fossil fuels, there is huge long-term potential for renewables in the region.

Interestingly, however, conventional power is seen as one of the riskiest sectors by only 33% of LatAm respondents, compared with an average elsewhere (excluding China) of 55%.

Social infrastructure – particularly relating to healthcare – is seen as higher risk in LatAm than internationally. This may reflect concerns about political risk, as financial returns are likely to be highly dependent on future government spending. It is possible, though, that the experience of the pandemic will cause some respondents to revise their opinion on this.

Sector opportunities and risks

In which of the following sectors has your organisation previously targeted BRI opportunities?

	China	LatAm	Rest of World
Energy networks/ power grid	44%	42%	37%
Transportation: Road	47%	22%	31%
Logistics/industrial parks/ free trade zones	37%	26%	28%
Conventional power	30%	28%	27%
Social infrastructure: hospitals, healthcare	34%	18%	22%
Transportation: Rail	33%	22%	17%
Other technology and e-commerce	25%	10%	19%
Oil & gas (including LNG, pipelines, refineries etc.)	22%	22%	17%
Transportation: Ports	30%	10%	15%
Smart city projects	25%	14%	15%
Telecommunications/ICT	20%	8%	14%
Other urban development	23%	10%	13%
Renewables and hydro	18%	20%	12%
Heavy/extractive industries	26%	6%	9%
Other social infrastructure (e.g. schools, civic buildings)	21%	18%	9%
Water and sanitation	16%	2%	7%
Transportation: Air	14%	8%	5%

In which of the following sectors does your organisation have plans to target BRI opportunities?

	China	LatAm	Rest of World
Energy networks/ power grid	50%	46%	42%
Transportation: Road	49%	26%	35%
Logistics/industrial parks/ free trade zones	57%	32%	36%
Conventional power	34%	32%	20%
Social infrastructure: hospitals, healthcare	41%	24%	26%
Transportation: Rail	43%	22%	21%
Other technology and e-commerce	30%	10%	21%
Oil & gas (including LNG, pipelines, refineries etc.)	19%	18%	11%
Transportation: Ports	42%	18%	17%
Smart city projects	44%	26%	27%
Telecommunications/ICT	32%	8%	13%
Other urban development	32%	20%	21%
Renewables and hydro	43%	48%	32%
Heavy/extractive industries	26%	14%	9%
Other social infrastructure (e.g. schools, civic buildings)	30%	22%	14%
Water and sanitation	24%	6%	13%
Transportation: Air	21%	14%	9%

Which of the following sectors offer the greatest number of BRI-related opportunities? (Select top five)

	China	LatAm	Rest of World
Energy networks/ power grid	48%	60%	49%
Transportation: Road	89%	84%	77%
Logistics/industrial parks/ free trade zones	40%	40%	57%
Conventional power	9%	24%	11%
Social infrastructure: hospitals, healthcare	26%	28%	25%
Transportation: Rail	49%	36%	33%
Other technology and e-commerce	17%	16%	29%
Oil & gas (including LNG, pipelines, refineries etc.)	6%	8%	5%
Transportation: Ports	61%	34%	37%
Smart city projects	35%	30%	42%
Telecommunications/ICT	15%	10%	20%
Other urban development	15%	14%	20%
Renewables and hydro	48%	56%	42%
Heavy/extractive industries	8%	18%	7%
Other social infrastructure (e.g. schools, civic buildings)	8%	8%	8%
Water and sanitation	13%	26%	26%
Transportation: Air	13%	8%	8%

Which of the following sectors are perceived to be the riskiest? (Select top five)

	China	LatAm	Rest of World
Energy networks/ power grid	9%	0%	10%
Transportation: Road	5%	2%	7%
Logistics/industrial parks/ free trade zones	27%	22%	18%
Conventional power	68%	33%	55%
Social infrastructure: hospitals, healthcare	22%	43%	33%
Transportation: Rail	23%	35%	39%
Other technology and e-commerce	13%	8%	5%
Oil & gas (including LNG, pipelines, refineries etc.)	83%	77%	79%
Transportation: Ports	8%	16%	14%
Smart city projects	27%	24%	15%
Telecommunications/ICT	24%	25%	19%
Other urban development	31%	37%	29%
Renewables and hydro	2%	2%	2%
Heavy/extractive industries	57%	41%	52%
Other social infrastructure (e.g. schools, civic buildings)	30%	43%	38%
Water and sanitation	41%	37%	27%
Transportation: Air	30%	55%	51%

Spotlight on Peru

Peru did not sign a BRI agreement until April 2019. But it has attracted significant amounts of Chinese FDI for many years, particularly in the extractive industries.

China's state-owned Shougang Corporation acquired the Marcona iron mine as long ago as 1992, and subsequent investments have included the Toromocho copper mine (owned by Chinalco, which last year announced a USD 1.3bn expansion of the project) and Las Bambas, one of the world's largest copper mines, which is owned by a Chinese consortium. Chinese companies also have significant interests in Peru's oil & gas sector.

Chinese state-owned giant Cosco Shipping Ports is currently partnering with a Peruvian mining company to build a USD 3bn multipurpose port terminal and distribution hub in Chancay. This will facilitate the export of output from the Toromocho mine, but is also expected to act as a gateway for the region, being well positioned for trans-Pacific trade. Further south, China Railway Engineering Group has proposed the construction of a cargo terminal in the port of Ilo, which would probably be well placed to service Las Bambas.

In 2020, China Yangtze Power, China's largest publicly listed power company, acquired Sempra Energy's power assets in Peru for USD 3.6bn The acquisition included Sempra Energy's 83.6% stake in Luz del Sur, Peru's largest electricity company, as well as Tecsur, which provides electric construction and infrastructure services to Luz del Sur and third parties, and Inland Energy, Luz del Sur's generation business. This followed the USD 1.4bn acquisition of the Chaglla hydroelectric scheme by China Three Gorges (China Yangtze Power's parent company) in 2019, which in turn followed China Three Gorges' involvement in the construction of the San Gabán III hydroelectric plant.

A dynamic economy

Peru is one of the most dynamic and resilient Latin American economies, with a strong profile for infrastructure investment. The Peruvian legal system is an important factor in Peru's investment-grade ranking, and its expected recovery post-Covid.

Foreign investors' interests are protected by equal and non-discriminatory treatment, unrestricted access to most economic sectors and free capital transfer. Investors are also provided with certain rights under special contracts with the state (e.g. tax stability) in exchange for a certain level of investment. There is freedom of contract provisions according to the regulations in effect, and contract provisions may not be amended by law. Parties are free to choose Peruvian or foreign law, domestic or foreign courts, arbitration, or other forms of dispute resolution. English law and the law of the state of New York remain as a common option, though Peruvian law is preferable if Peruvian state bodies and enterprises are involved.

The constitution also protects investors against expropriation of property – although exceptions are permissible on public interest grounds, such as public works projects or for national security, and are compensated according to fair market value.

Investors in Peru can use a variety of mechanisms, such as public works, public-private partnerships (PPP), works for taxes and, more recently, government-to-government (G2G) agreements, which legally bypass slower public procurement legislation to benefit from assistance and expertise from the relevant country's delivery team to deliver emblematic or critical infrastructure on time, on budget and to the highest international standards.

One successful example is the 2019 Lima Pan American Games, which left a legacy of world-class facilities, know-how, and the use and expansion of British standard forms of contract. Additional G2G agreements worth USD 4bn have been signed with the UK, France and South Korea, with a reported USD 12bn of G2G agreements in the pipeline. As a consequence, international players such as Mace and Arup are landing in Peru.

Rural and indigenous communities and their lands are highly protected by law and there is a high level of informal occupation of land. Moreover, local stakeholders may play an active role in important decisions with environmental and social aspects. Delicate – and potentially time-consuming – stakeholder negotiations are often necessary.

The Health Silk Road

There is a consensus that the pandemic will lead to a renewed emphasis on the Health Silk Road, strengthening health coverage in BRI countries through Chinese cooperation and support.

The Health Silk Road (HSR) predates the current pandemic. A three-year plan for Belt and Road health exchange and cooperation was devised as long ago as 2015. By 2017 it had evolved into HSR, endorsed both by participating nations and by international bodies such as the World Health Organization and OECD.

Much of HSR's initial focus was on policies such as public health and strengthening people-to-people exchanges. But in 2020 the pandemic highlighted deficiencies in health infrastructure in many BRI countries, and China is now promoting the concept of HSR more strongly than ever. This is in line with both its efforts to position itself as a global leader in the containment of the pandemic and Covid-19 treatment, and its realignment of BRI.

An overwhelming majority (86%) of our LatAm respondents believe that the pandemic will lead to a greater emphasis on HSR, with only 2% disagreeing.

During the pandemic, China's 'health diplomacy' strategy has been well received in most of the region. Boston University's Global Development Policy Center has calculated that China donated USD 215m of medical aid to Latin American and Caribbean countries during the first year of the pandemic.

Much of this aid has come from Chinese businesses rather than directly from the Chinese government. In Brazil, for example, as the health crisis in Amazonas worsened earlier this year, China's Guangdong province and various Chinese entities operating in Brazil, including Huawei and Bank of China, donated oxygen and oxygen generators, as well as hundreds of thousands of masks and other supplies.

Chinese pharma businesses have also been conducting clinical trials of various Covid-19 vaccines in the region, with China pledging USD 1bn in loans for the purchase and distribution of vaccines in the region. Nations such as Brazil, Chile and Peru are now inoculating their populations with Chinese vaccines – at the time of writing, at least 10 LatAm countries have either received or expect to receive shipments from Sinovac or Sinopharm, with the CanSino vaccine also being deployed in the region. Chile's vaccination programme is one of the most advanced in the world, with nearly three-quarters of its doses ordered from Sinovac.

There is little doubt that China's medical outreach has created a generally positive impression in Latin America, and emphasised the potential benefits for some nations of Chinese healthcare projects. "Health cooperation is now being promoted heavily by China and HSR will be useful to limit the effects of such an outbreak in the future," said one executive from an infrastructure operator in Chile.

Across the region, too, there is considerable scope for investment in 'next generation' medical infrastructure, particularly in relation to telemedicine and other digital applications. These offer potential synergies with the Digital Silk Road – an area in which China may also wish to build on its data-driven successes in combating the coronavirus.

China also hopes that cooperation on HSR projects – both those related to the pandemic and those addressing other health needs – will help to build strong foundations for similar cooperation on other aspects of BRI.

A Belt and Road future

BRI is a massive policy initiative but it should still be seen in the context of the world's infrastructure requirements.

The coming decades will pose massive challenges to governments that are seeking investment to upgrade inadequate infrastructure, help them move to carbon neutrality and achieve a variety of sustainable development goals.

In Latin America and the Caribbean, for example, the Inter-American Development Bank estimates an infrastructure investment gap equivalent to 2.5% of regional GDP – about USD 150bn per year.

However big BRI may be, it can only bridge part of that gap. Nevertheless, it seems certain to be the world's largest infrastructure initiative for many years to come. Even many of the commentators who have expressed reservations about BRI acknowledge that the world will not be able to meet its goals for sustainable development and a post-carbon future without extensive Chinese involvement and leadership.

BRI will also continue to evolve. Its participants increasingly look to meet the trends of the future. Affordable projects, embracing modern technologies and methods, as well as the 'open, green and clean' approach of BRI 2.0, will often be those that stand the greatest chance of success. So will those that anticipate the genuine future needs of the societies in which they are built.

As Foreign Minister Wang Yi told a press conference in March 2021; "As we pursue a new development paradigm, we will explore better pathways for Belt and Road cooperation and offer greater opportunities to BRI partners. We are ready to work with all stakeholders to advance high-quality Belt and Road cooperation with renewed commitment and greater resilience. Together, we can turn Belt and Road cooperation into a journey toward common development and prosperity for all."

In its early days BRI was widely seen outside China as being primarily an umbrella under which such projects could be grouped. The question now is whether it will come to be appreciated internationally as a vehicle for higher standards of project sustainability and governance, as well as mutually beneficial cross-border partnerships for both Chinese and foreign participants.

If it does, then it will truly be possible to describe it as, in President Xi's words, a path of "win-win cooperation".

Belt and Road Initiative: CMS reports

As a leader in many of the sectors that make up BRI – including infrastructure, energy, renewables, real estate, technology and healthcare – CMS commissioned a survey and interviews of over 500 BRI participants from around the world, to assess in depth their feelings about BRI and the prospects they see for it.

We are publishing our findings in a series of six reports, beginning with reports on China and the Asia-Pacific region, and continuing with Central and Eastern Europe, the Middle East and North Africa, and this report on Latin America.

Our report on BRI in Africa will be published in May 2021.

You can find the reports at **cms.law/bri**

Thank you to all our CMS contributors to **Belt and Road: the view from Latin America**. They are Jonathan Fenton, Fernando de Carcer, Sebastián Barros, Ted Rhodes, Valerio Salgado, Carlos Hamann, Gonzalo Puertas, Daniel Rodriguez, Maria Lucia Amador, Maria Paula Sandoval and Paula Andrea Gutiérrez.

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Recognised as leaders in many BRI-related sectors – including energy and renewables, mining, infrastructure, banking and finance, technology, and agribusiness – we work with many of the key players shaping growth in Latin America, as well as with key stakeholders in North America and other investors into the region. With offices in Beijing, Hong Kong and Shanghai, we also act for some of the major Chinese entities that are central to BRI.

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