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Building a shared vision for the Belt and Road Initiative and the Sustainable Development Goals

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ON GLOBAL GOVERNANCE
“BELT AND ROAD”: A NEW PATH
TO REGIONAL DEVELOPMENT

SCOPING PAPER 2

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Executive Summary

Asia is one of the most prosperous region in today's world in terms of economic outlook, yet is still highly heterogeneous with regards to socio-economic development. This can be partly explained by variations in infrastructure development, which is considered an effective means to sustainable development by driving economic growth and its spill-over effects in public welfare. One of the major challenges faced by the growing demand for infrastructure development is financing, on which China has played a very proactive role in seeking possible solutions. More recently, China initiated the Belt and Road Initiative (BRI), which building on China's experience, provides additional opportunities to boost cross-regional economy by bringing infrastructure development and possible financing.

International experiences have shown that policy/developing finance institutions play a vital role in financing infrastructure development. This is the same case with China, where developing finance institutions (DFIs) – through its innovative financing modalities (e.g., “packaged loans”) and in response to the call of the top-level development planning (e.g., 13th Five-Year Plan) – has made significant contributions to China's infrastructure development.

Meanwhile, the BRI has fully recognized the great potential and demand for infrastructure investment in Asia by advocating infrastructure connectivity as a priority area. It provides an inclusive platform for coordination mechanisms that bring together multiple stakeholders in joint financing beyond traditional means. Through attempts to achieve connectivity physically, economically, socially, and digitally, the BRI holds substantial prospects to provide positive public goods in Asia.

Thus, the BRI – through its approaches and operations - attempts to promote win-win outcomes for both China and other participating countries in infrastructure, but much more. Broadly speaking, the BRI is in line with the purposes and principles of the UN Charter. Through the BRI, more comprehensive, integrated regional plans will be developed that are fully aligned with the 2030 Agenda for Sustainable Development. In this regard, BRI not only embraces and echoes the Sustainable Development Goals (SDGs), but also works very much in line to implement areas that the SDGs prioritize.

In this context, the BRI has achieved a series of important early-stage results since its official announcement two years ago. However, major challenges and risks facing the implementation of the BRI exist, consisting of political risks, economic and financial risks, environmental and social risks.

To tackle these, several suggestions are proposed. First, it is strongly encouraged that relevant countries strengthen partnership and policy coordination with a view to consult and coordinate their development visions/strategies through seeking complementary advantages and interest of convergence. Second, to promote varied modalities of co-financing is vital to ensure sustainable infrastructure financing across the BRI countries, and will also create a multi-participatory atmosphere for enjoying shared interest. Third, to make infrastructure investment more sustainable, green finance and corporate social

responsibility can be promoted to look out for project impacts particularly in social-environmental domains and through engagement with local communities – two indispensable pillars of sustainability.

Introduction

Asia is one of the most prosperous region in today's world in terms of economic outlook, with significant contributions from major emerging economies globally¹⁰. The continent, however, is still highly heterogeneous with regards to socio-economic development, with major differences in economic growth patterns, processes of industrialization, natural resource management and social welfare. This remains a core challenge to further development of the entire region.

Variations in infrastructure development may help explain in part the unbalanced development in Asia. Many Asian economies lack sufficient infrastructure. As projected by the Asian Development Bank (ADB), East Asia and the Pacific needs a total of US\$4,670 billion for infrastructure between 2010 and 2020 (Asian Development Bank Institute: 2009). Therefore, significant infrastructure spending will be needed to fund projects that aim at unleashing the full growth potential of the region, such as those that target clean-energy technologies, transportation, housing, communications and water facilities. The contribution of infrastructure to development has been well-documented. Infrastructure can both raise production capacity and overall productivity of a country, contributing to a higher GDP. Calculation has been done, suggesting that 10% more infrastructure could lead to 0.9% more output in the long run with an overall economic return of 17%¹¹ (Swiss Re & Institute of International Finance: 2014). This relates to both direct and indirect benefits. The latter refers to household welfare, for instance, as infrastructure may impact the demand and supply of public services (e.g., education, healthcare), makes available alternative sources of livelihoods.

One of the major concerns surrounding the growing demand for infrastructure development is financing. There is a growing gap in infrastructure investment, particularly in emerging and developing economies, which has been estimated to reach at least US\$ 1 trillion annually.¹² Confronted with this challenge, China has played a very proactive role in seeking possible solutions. By experimenting with a number of different financial modalities, China has been able to foster domestic infrastructure development with leaps and bounds in recent years. Moreover, China is taking a lead in financing infrastructure projects beyond China, through newly-established multilateral financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). This, undoubtedly, will supplement existing sources of finance for infrastructure and sustainable development in general.

Adding to the pool of resources, the Belt and Road Initiative (BRI) initiated by China, provides additional opportunities to boost cross-regional economy by bringing infrastructure development and possible financing. More importantly, the BRI serves as an important platform for south-south cooperation, one crucial aspect of which points to policy coordination that can have far-reaching consequences in joint financing efforts.

¹⁰ Major emerging economies such as China, India, Indonesia, Saudi Arabia etc.

¹¹ Swiss Re & Institute of International Finance, *Infrastructure Investing. It Matters*, 2014, <https://www.iif.com/file/4998/download?token=rHYJlr0c>

¹² Strategic Infrastructure: Steps to Prepare and Accelerate Public-Private Partnerships. May, 2013. Geneva: World Economic Forum. http://www3.weforum.org/docs/AF13/WEF_AF13_Strategic_Infrastructure_Initiative.pdf

Against this backdrop, the paper attempts to provide a better understanding of the BRI in terms of its operations and mechanisms, through insights and lessons learnt from infrastructure development – one of the five priorities of the BRI. In this regard, we analyzed experiences of China and the world in terms of infrastructure development trajectory, as well as policy and financial frameworks, with the hope to provide useful information for overall BRI implementation moving forward. Ultimately, to promote sustainable growth and financing in a more effective way requires an overarching framework of commonly accepted principles, such as the Sustainable Development Goals (SDGs). Such anchoring could help fully realize the development gains of the BRI, including economic growth, social inclusiveness, cultural exchange as well as environmental protection, through both bilateral and multilateral channels.

1. Infrastructure investment as an effective means to Sustainable Development: experiences of China and the world

This chapter argues that investing in infrastructure construction, which is not only highlighted by China, but also by other major economies (both developed and developing) around the world, is and will be one of the most effective means to promote sustainable development through economic growth and other spill-over benefits.

1.1. International Experiences of Policy/Developing Finance Institutions and Infrastructure Investments

International experiences have shown that policy finance institutions play a vital role in financing development. According to a study of the World Bank(José de Luna-Martínez & Carlos Leonardo Vicente: 2012), development banks (DBs)¹³ have been established in former socialist economies, advanced capitalist countries and emerging economies to finance the construction of roads, highways, energy plants, dams, and telecommunication infrastructure; foster incipient industries and small and medium enterprises (SMEs); and provide financial services to low-income households. In emerging market economies, for instance, DBs usually constitute the main source of long term credit, loan guarantees, and other financial services in the infrastructure, housing and agriculture sectors. Even in some advanced economies, where private financial institutions and capital markets satisfy the financial needs of firms and individuals, several DBs continue to play an active role in providing financial services to the strategic sectors of the economy. DBs have been an important instrument of governments to promote economic growth by providing credit and a wide range of advisory and capacity building programs to households, SMEs, and even large private corporations, whose financial needs are not sufficiently served by private commercial banks or local capital markets. More remarkably, during the global financial crisis of

¹³Also according to the study, 53% of DBs surveyed are institutions with specific policy mandates. They include institutions that were specifically established to support the agriculture sector (13% of all DBs), SMEs through their lending, guarantee or advisory services (12%), export and import activities (9%), housing(6%), infrastructure projects (4%), local governments (3%), and other sectors (6%).

2008-2010, most DBs played a countercyclical role by providing credit to private firms that were temporarily unable to access funding from private commercial banks or capital markets. Between the end of 2007 and the end of 2009, the combined loan portfolio of DBs increased from \$1.16 trillion USD to \$1.58 trillion USD. In nominal terms, this 36% increase, in just three years, is well above the 10% increase in private bank credit for the countries surveyed during the same period.

Globally, DBs play a very critical role in making up for market failure, coordinating between the government and the market in allocation of financial resources, and improving efficiency of financial operations. This implies that coherence between development planning and investment outcomes determines long-term benefits that can be derived from infrastructure projects (Rothengatter: 2000). Strategic guidance for development objectives and resource allocation has to be aligned with the decision making parameters and coordination mechanisms for public investment selection and prioritization (Charbit: 2011; Mizell & Allain-Dupre, 2013). As demonstrated by the examples below, diverse institutional frameworks and policy coordination mechanisms act as key catalysts for infrastructure development that are targeted at priority sectors. It is worth noting that Infrastructure investments require different levels of governance and coordination, ranging from local, national, regional to international, which is particularly applicable to cross-regional infrastructure projects. This implies that the planning process needs to undergo different legal authorities, political structures, public accountability, as well as fiscal responsibilities and leverage (CHARBIT & GAMPER: 2014).

Infrastructure investment is in the spotlight of major developed and developing economies around the world. The U.S. government attaches great importance to infrastructure investment with a special focus on improvement of social economy and environmental protection, especially during when Democratic Party is in office. In its early stage of the Westward Movement, both the federal government and state government focused on development of transportation. In Canada, infrastructure investment accounts for around of 30% in (Guo Xingping & Wang Yiming: 2011) total investment in development of new districts, and special attentions are given to economic practicality of the projects and other supporting development. The Japanese government attaches great importance to infrastructure development, making it a national policy. Rural infrastructure of South Korea was very backward and income gap between urban and rural residents was quite large, and the country has implemented mass construction of rural construction since 1970s and successfully reduced urban and rural income gap. Recognizing its extensive infrastructure needs, India government has called for \$1 trillion in infrastructure spending from 2013 to 2017. Priorities include three airports, two ports, an elevated rail-corridor in Mumbai, and almost 6,000 miles of new roads. Plans for \$120 billion worth of road-widening projects are also outlined, together with \$60 billion to be invested in India's ports by 2020. (PWC:2013)

1.2. China's experience: Basic industry and infrastructure investment as key drivers for economic growth and national development

China's basic industries and infrastructure¹⁴ have been significantly and rapidly strengthened through large-scale investment and construction, which provides a solid foundation for the development of national economy and improvement of people's life. According to a report by China's National Bureau of Statistics (China's National Bureau of Statistics: 2008)¹⁵ in 2009, in the past 60 years, investment in basic industries and infrastructure construction in China has witnessed rapid growth. From 1954 to 2008, total investment in national basic industries and infrastructure investment reached 5,452 billion USD (36.5304 trillion RMB)¹⁶, with an average annual increase of 13.7%; 2.4 % higher than the average annual increase of GDP during the same period.

Major progresses are highlighted as:

- ✓ The supply ability of agriculture, energy, raw material has risen to a new level.
- ✓ Nationwide network systems have been formed in transportation, post and telecommunications sectors.
- ✓ Infrastructure in water conservancy, environment, education, culture, health and sports facilities have been significantly strengthened.
- ✓ A large number of major projects have been completed or pushed forward, including but not limited to : Three Gorges Project, Natural Gas Transmission from West to East China, South-to-North Water Diversion Project, Qinghai-Tibet Railway, Beijing-Shanghai High-Speed Railway, etc (see ANNEX I).

¹⁴According to website of China's National Bureau of Statistics, basic industries and infrastructure include agriculture, energy industry, basic raw material industry, transportation, post and telecommunications, water conservancy, public facilities management, education, culture, health and sports. Basic industries and infrastructure are lifeblood of national economy. These industries and infrastructure support operation of social economy and provide public service facilities for social production and people's life, which play an important role in raising a country's social and economic development level and competitiveness.

¹⁵《庆祝新中国成立 60 周年系列报告之七：基础产业和基础设施建设取得辉煌成就》，国家统计局网站，2009 年 9 月 15 日，http://www.stats.gov.cn/zjtj/ztfx/qzxyzgcl60zn/200909/t20090915_68639.html。China's National Bureau of Statistics, Report Commemorating the 60th Anniversary of People's Republic of China: Remarkable Achievement on Basic Industry and Infrastructure Construction, Sep 15th 2019.

¹⁶Exchange Rate: 1 USD=6.7 RMB

Table 1. Gross Statistics of Basic Industries & Infrastructure Investment from 1954 to 2008¹⁷

Sub-Industries	Total Investment Volume (Trillion RMB)	Average Annual Increase Rate
Agriculture & Water Conservancy	2.0531	10.6%
Energy	10.0945	14.7% (15.8% in electricity sector)
Transportation	8.9988	13.4%
Postal & Telecommunications Services	2.2535 (from 1979-2008)	26.7%
Environment & Public Facilities Management	4.8567 (from 1979-2008)	31.5%
Education, Culture Health, Sports	2.8938	11.4%

According to data released by China's National Commission on Development and Reform (NDCR), in 2015, the growth rate of infrastructure investment in China totals 17.2% (with a year-on-year growth of 6%), and contributes 29.4% of total growth in national investment sector¹⁸. Infrastructure investment and construction are also highly prioritized in the country's 13th Five-Year Plan endorsed in March 2016, and the fundamental guideline is to make infrastructure the leading pillar in economic and social development, through expanding the space of infrastructure and improve infrastructure network that is safe and efficient, smart and green, as well as interconnects with each other. During the first half of 2016, China's investment volume in infrastructure totaled 732.6 billion USD (4908.6 billion RMB) (National Development and Reform Commission of China: 2016) with a year-on-year growth rate of 20.9%, 3.7% more than growth rate of last year (National Development and Reform Commission of China: 2016)

Basic industry and infrastructure investment have acted as the key driving force for China's rapid economic growth and social development, through critical aspects as suggested below:

- ✓ promoting market integration through improving transportation connectivity;
- ✓ accelerating rural development, industrialization & urbanization, especially in un- and under-developed region in the country's central, western, northeast regions;

¹⁷ Same as Note 6

¹⁸ 《2015 年促投资稳增长“组合拳”全面发力》，国家发改委网站，2016 年 2 月 14 日，http://www.sdpc.gov.cn/xwzx/xwfb/201602/t20160214_774638.html. National Development and Reform Commission of China, A Series of Measures on Promoting Investment and Economic Growth Send Strength, Feb 14th 2016.

- ✓ creating investment opportunities and attracting domestic and foreign capital;
- ✓ upgrading economic structure by optimizing traditional industries and developing new & high-end industries ;
- ✓ mobilizing human resources and creating employment opportunities by extending industrial chains, and developing small & medium enterprises;
- ✓ improving people's livelihood by improving public services.

1.3. Building on lessons learnt: The role and “packaged loans” approach of China’s Developing Finance Institution

What are the lessons that can be shared from China’s domestic infrastructure financing policies? The example of China’s developing finance institutions points to the potentials of policy financial institutions in fostering development outcomes and bridging development gaps.

China’s developing financial institutions provides medium to long term financing facilities that serve China’s major long-term economic and social development.

One of the most effective and innovative approach in China’s developing finance institutions financing is the model of “packaged loans” in infrastructure and public utility projects, which are usually characterized as long in construction cycle, low in return and insufficient in repayment cash flow. They makes use of “packaged loans” by re-integrating the future cash flows of loans to different projects, which therefore have different terms, risks, cash flows and returns. Such approach expands their products from infrastructure and utility construction to broader fields of business in China’s urbanization process.

BOX I – Developing finance institutions’ role in promoting development in Jiangsu Province

Development financial institutions’ role in the Suzhou Industrial Park of Jiangsu Province, also as cooperation between Chinese and Singaporean government, is a case of successful use of packaged loans. Developing finance institution started financing the Park’s construction in 1999, and its first loan went to dredging project of Jinji Lake within the Park, rather than any other industrial projects. They believed that although Jinji Lake’s dredging project would produce no direct economic returns, it would improve landscape and environment both on land and in water, so as to optimize the Park’s soft investment environment to attract more capital in the long term. Subsequently, they continued to finance the Park’s construction. Jinji Lake’s dredging project produced positive spill-over effects on real-estate market around the lake by increasing its price and sales volume. Besides, a Central Business District around Jinji Lake is taking shape as more and more domestic and international enterprises settle in the Park, making it outstanding in the Yangtze River Delta.

To sum up, China has made remarkable progress in infrastructure investment during the past several decades. This is attributed to a variety of factors, including the substantial support provided by policy or development financial institutions. In fact, the proactive role played by these institutions responds actively to the call of the top-level policy planning; namely the 13th FYP, which identifies priority areas for development and investment, as well as resource mobilization strategies that also sketch the engagement of diverse stakeholders. These inter-related causes have shaped China’s trajectory of infrastructure development. It also has implications for the implementation of the BRI, where cross-border infrastructure construction would, in many ways including financially and institutionally, need more coordinated efforts to deliver development outcomes.

2. What is BRI and how does it work?

Through infrastructure connectivity, the BRI can offer much more, by integrating the region not only physically, but also economically, socially and digitally. Meanwhile, the BRI provides a variety of mechanisms to achieve such outcomes.

First, the BRI provides an encompassing platform for coordinating development strategies of the participating countries. The primary purpose is to seek complementary advantages, interests of convergence and common visions on the basis of voluntary participation, equal consultation, as well as full understanding of national development visions of countries along the BRI. This can be achieved by strengthening bilateral cooperation through multi-level and multi-channel communication and consultations, e.g., the signing of cooperation Memorandum of Understandings (MOUs) or plans. Moreover, bilateral projects can be set up through

joint working mechanisms that require drawing up joint implementation plans and road maps, and additionally, making use of existing bilateral coordinating mechanisms (e.g., joint committees) which take charge of project implementation.

Second, in addition to bilateral collaboration, the BRI is an inclusive, open and multilateral process involving diversified stakeholders of the region, including major powers and international and regional institutions. Instead of establishing any extra or alternative regional/multilateral mechanisms, existing multilateral cooperation mechanisms¹⁹ can be further applied to facilitate easy entrance to the BRI. It is also encouraged to give full play to the role of existing international forums and exhibitions at regional and sub-regional levels to promote exchanges and communications. Moreover, the BRI highlights the role of the market and welcomes participation of economic agents, including the private sector and the general public, who are willing to be part of the regional economic cooperation and exchanges.

Third, the BRI creates additional financing opportunities for development in strategic sectors, including infrastructure and industrial upgrading, through varied means of co-financing on infrastructure projects (e.g., bilaterally or multilaterally). According to research by the Asia Development Bank (Asia Development Bank: 2009), from 2010-2020, 8.28 trillion USD is needed for infrastructure investment in Asia in order to support the current level of economic growth. However, such needs could not be met alone either by financing individual states, or through individual existing multilateral development institutions. Cooperation, especially co-financing on infrastructure programs/projects among the United Nations, World Bank, Asia Development Bank, European Bank for Reconstruction and Development, Asia Infrastructure Investment Bank, as well as any other development financial institutions, will generate and enlarge shared interests among international communities.

3. Sustainable Development: A common vision aligning SDGs and the BRI across Asia and beyond

Through its approaches and operations, the BRI attempts to promote win-win outcomes for both China and other participating countries in infrastructure, but much more. Broadly speaking, the BRI is in line with the purposes and principles of the UN Charter. It upholds the Five Principles of Peaceful Coexistence: mutual respect for each other's sovereignty and territorial integrity, mutual nonaggression, mutual noninterference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. Moreover, through its approaches to prioritized development areas, the BRI has a lot of potentials to contribute to the SDGs (Table 1).

¹⁹ Such as the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CASCF), China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Subregion (GMS) Economic Cooperation, and Central Asia Regional Economic Cooperation (CAREC), etc.

As addressed by Ms. Shamshad Akhtar (Shamshad Akhtar: 2016), Executive Secretary of UNESCAP, *through the BRI, more comprehensive, integrated regional plans will be developed that are fully aligned with the 2030 Agenda*. In this regard, BRI not only embraces and echoes the SDGs, but also works very much in line to implement areas that SDG prioritizes, as discussed in previous chapters. BRI and the SDGs work towards the sharing vision that greater economic integration, trade and investment facilitation, infrastructure connectivity will bring about positive social-economic and environment outcomes, thus contributing to sustainable development along the BRI countries.

Table 2 BRI²⁰ and the SDGs: Shared Visions and Interests

Belt and Road Initiative		Sustainable Development Goals
Principles	Underscoring the mindset of peace, inclusive development and common prosperity	SDGs are determined to foster peaceful, just and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development.
	Inclusive process involving multi-stakeholders, rather than exclusive and zero-sum way; transnational partnership among governments, enterprises, civil society, multilateral and regional organizations as an indispensable tool for implementation	SDGs propose that all countries and all stakeholders, acting in collaborative partnership, will implement this plan, and is determined to mobilize the means required to implement this Agenda through a revitalised Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people.
General Vision and Priority	To achieve common and sustainable development;	
	BRI aims to promote the connectivity of the Asian, European and African continents and their adjacent seas, in a view to realize to achieve diversified, independent, balanced and sustainable development in these countries.	SDGs seek to build on the Millennium Development Goals and complete what these did not achieve, and are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental aspects.

²⁰ See *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* released by Chinese National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce on March 28th 2015 for details

<p>Goals and Approaches</p>	<p>To approach economic growth & regional economic cooperation;</p> <p>BRI is designed to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation. It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all.</p>	<p>The SDGs place great emphasis on sustained economic growth, through cooperation and partnerships.</p>
	<p>To enhance and prioritize social concerns and people's wellbeing;</p> <p>BRI is committed to meeting the interests of the world community, and reflecting the common ideals and pursuit of human societies, and support localized operation and management of Chinese companies to boost the local economy, increase local employment, improve local livelihoods.</p>	<p>SDGs are determined to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfill their potential in dignity and equality and in a healthy environment.</p>
	<p>To address environmental concerns and climate change.</p> <p>BRI calls for conducting investment and trade, increasing cooperation in conserving eco-environment, protecting biodiversity, and tackling climate change, and joining hands to make the Silk Road an environment-friendly one. It also , and proposes that efforts should be made to promote green and low-carbon infrastructure construction and operation management, taking into full account the impact of climate change on the construction.</p>	<p>SDGs are determined to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent actions on climate change, so that it can support the needs of the present and future generations.</p>
<p>Goals and Approaches</p>	<p>Reduction of poverty through economic growth</p> <p>BRI seeks to increase exchanges and cooperation between nongovernmental organizations of countries along the Belt and Road, organize public interest activities concerning education, healthcare, poverty reduction, biodiversity and ecological protection for the benefit of the general public, and improve the production and living conditions of poverty-stricken areas.</p>	<p>Goal 1. End poverty in all its forms everywhere;</p> <p>Goal 10. Reduce inequality within and among countries</p>

	<p>Infrastructure connectivity</p> <p>BRJ recognizes that facilities connectivity is a priority area for implementing the Initiative. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road should improve the connectivity of their infrastructure construction plans and technical standard systems, jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all subregions in Asia, and between Asia, Europe and Africa step by step.</p> <p>Energy modernization</p> <p>BRJ advocates promoting cooperation in the connectivity of energy infrastructure, work in concert to ensure the security of oil and gas pipelines and other transport routes, build cross-border power supply networks and power-transmission routes, and cooperating in regional power grid upgrading and transformation.</p> <p>BRJ also advocates to increase cooperation in the exploration and development of coal, oil, gas, metal minerals and other conventional energy sources; advance cooperation in hydropower, nuclear power, wind power, solar power and other clean, renewable energy sources; and promote cooperation in the processing and conversion of energy and resources at or near places where they are exploited, so as to create an integrated industrial chain of energy and resource cooperation. We should enhance cooperation in deep-processing technology, equipment and engineering services in the fields of energy and resources.</p> <p>Focus on green and low-carbon development</p> <p>BRJ is committed to promoting green and low-carbon infrastructure construction and operation management, taking into full account the impact</p>	<p>Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.</p> <p>Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.</p> <p>Goal 6. Ensure availability and sustainable management of water and sanitation for all;</p>
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	<p>of climate change on the construction, and promoting ecological progress in conducting investment and trade, increasing cooperation in conserving environment, protecting biodiversity, and tackling climate change, and join hands to make the Silk Road an environment-friendly one.</p>	<p>Goal 12. Ensure sustainable consumption and production patterns; Goal 13. Take urgent action to combat climate change and its impacts; Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development; Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.</p>
	<p>Focus on people's livelihood through economic growth: employment, health, education, etc.</p> <p><u>Personnel exchange</u></p> <p>BRI works to promote extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services;</p> <p><u>Education</u></p> <p>BRI is committed to promoting cooperation in jointly running schools (China provides 10,000 government scholarships to the countries along the Belt and Road every year), and increasing personnel exchange and cooperation between countries along the Belt and Road;</p> <p><u>Health</u></p> <p>BRI seeks to strengthen cooperation with neighboring countries on epidemic information sharing, the exchange of prevention and treatment technologies and the training of medical professionals, and improve our capability to jointly address public health emergencies, and provide medical assistance and emergency medical aid to relevant countries, and carry out practical cooperation in maternal and child health, disability rehabilitation, and major infectious diseases including AIDS, tuberculosis and malaria;</p>	<p>Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture;</p> <p>Goal 3. Ensure healthy lives and promote well-being for all at all ages;</p> <p>Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;</p> <p>Goal 5. Achieve gender equality and empower all women and girls;</p> <p>Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;</p> <p>Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable;</p> <p>Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.</p>

	<p><u>Personnel development</u></p> <p>BRI works to integrate existing resources to expand and advance practical cooperation between countries along the Belt and Road on youth employment, entrepreneurship training, vocational skill development, social security management, public administration and management.</p>	
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4. Recent Progress of the BRI

Under the principle of *mutual discussion, mutual construction, mutual privileges*, and the prospects to align BRI and the SDGs, the BRI has achieved a series of important early-stage results (Chinese Ministry of Foreign Affairs (MOFA), Ministry of Commerce (MOFCOM), State Council Information Office: 2016) since its official announcement two years ago (Table 2).

Table 1. Recent progress of the BRI

BRI priorities	Recent progress
Facilitate connectivity	<p><i>Railways, trains and economic corridors</i></p> <ul style="list-style-type: none"> ✓ Constructions of railway between Hungary and Serbia, and High-speed railway in Indonesia have started. ✓ Construction of railway networks connecting China and Laos, China and Thailand have been launched, as well as a number of other high-way projects. ✓ So far more than 1500 trains have successfully traveled between China and Europe. ✓ Only in 2015, 815 trains were launched between China and Europe, which is 2.7 times the number of 2014. ✓ Ten cities in China are launching trains with 7 countries along the line as destinations, with the system of regular transportation forming up. ✓ China, Mongolia and Russia have reached consensus in building economic corridor and are working quickly to formulate plans and outlines. ✓ China-Pakistan economic corridor started early and developed fast, with a number of major projects launched. ✓ New eurasia continental bridges corridor, China-Bangladesh-India-Myanmar economic corridor is steadily developing. <p><i>Industrial capacity cooperation</i></p> <ul style="list-style-type: none"> ✓ China has signed agreement with more than 20 countries to initiate industrial capacity cooperation. ✓ Many of important projects took roots in different countries. So far, various bilateral and multilateral industrial capacity cooperation fund built by the Chinese side have amounted to more than 100 billion U.S. Dollars. ✓ China and Kazakhstan are pioneers in industrial capacity cooperation, with 52 projects in early-stage harvests, which amount to more than 27 billion USD of investment. ✓ In 2015 a total of 75 economic cooperation zones with BRI countries have been in progress with total investment volume of 7.05 billion USD, in which more than half are processing and

	<p>manufacturing park that are closely related to international capacity cooperation. 1209 enterprises (in textile, clothing, light industry, household appliances, etc.) have entered economic cooperation zones, with a total production volume of 42.09 billion USD and tax 1.42 billion USD paid to host country.</p>
Unimpeded trade	<ul style="list-style-type: none"> ✓ Ever since BRI was proposed by Chinese leadership in 2013 till July 2016, Chinese investment to countries along the BRI region has totaled \$51.1 billion RMB, and its bilateral trade volume with BRI countries in 2015 has exceeded 1 trillion RMB. ✓ Chinese enterprises made direct investment in 49 countries along BRI region, with total volume of 14.82 billion USD on a year-on-year increase of 18.2% in 2015; ✓ In 2015 Chinese enterprises signed 3987 foreign contracted projects in 60 countries along BRI region, with total volume of 92.64 billion USD, accounting for 44% of new foreign contracted projects in the same period, in 2015; ✓ In 2015 Chinese enterprises investment to BRI countries (transportation, electricity, telecommunications, etc.) totaled 11.66 billion USD on a year-on-year increase of 80.2%; ✓ In 2015 Chinese enterprises investment to BRI countries in equipment manufacturing industry totaled 7.04 billion USD on a year-on-year increase of 154.2%;
Financial integration	<ul style="list-style-type: none"> ✓ Asian Infrastructure Investment Bank (AIIB) started to operate at the beginning of 2016 (See Box: Essential and visible progress of AIIB achieved). ✓ Silk Road Fund formally launched its first batch of investment projects. ✓ Countries along BRI are actively discussing the establishment or the expansion of bilateral cooperation funds of all kinds.
Policy coordination	<ul style="list-style-type: none"> ✓ More than 70 countries and organizations expressed their support and willingness to join, exceeding the traditional area of BRI. ✓ 34 countries and international organizations signed inter-governmental cooperation agreements with China on BRI, on the basis of which detailed cooperation plans will be formed. ✓ United Nations Development Programme (UNDP) and Chinese government a Memorandum of Understanding (MOU) on cooperation on the Belt and Road Initiative (BRI) during the 71st United Nations General Assembly. The MOU is a strategic cooperation framework that aims to enhance collaboration between UNDP and the Chinese government for the

	<p>implementation of BRI and the 2030 Agenda for Sustainable Development(UNDP: 2016)</p> <p>✓United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) endorsed the resolution during its 71st Commission Session, on <i>strengthening intraregional and interregional connectivity in Asia and the Pacific</i> (UN: 2016) , ESCAP recognizes the importance and value of new financing mechanisms to complement existing international institutions for promoting connectivity and infrastructure development in the region and the world, and is to actively participate in cooperation among members and associate members for effective implementation of relevant initiatives, including the Silk Road Economic Belt and 21st Century Maritime Silk Road, etc. In April 2016, Chinese MOFA and ESCAP secretariat signed a letter of intent, aiming at giving full play to the professional advantages of the secretariat and working together to promote regional connectivity and BRI for the benefit of people.</p>
People-to-people bond	<p>✓China founded Silk Road Chinese Government scholarship, held culture year, art festivals with BRI countries.</p> <p>✓The implementation of "Silk Road Movie Bridge Project" and "Silk Road Book Project" all yielded positive results.</p> <p>✓Silk Road joint application for the List of World Heritage has been a success.</p> <p>✓Maritime Silk Road joint application for the List of World Heritage has been launched.</p>

BOX II: AIIB progress

The first annual meeting of the Board of Directors of AIIB was held in Beijing in June 2016. AIIB's Board of Directors has approved a total of 509 million USD in loans to the first four projects of the bank, covering energy, transport and urban development in Bangladesh, Indonesia, Pakistan and Tajikistan, all in Asia. Three of the first four projects were co-financed with other multilateral development agencies, reflecting the spirit of openness and cooperation that AIIB had been advocating since its establishment, as a way to complement strengths of other multilateral development institutions.

- ✓ Electricity transmission upgrades and expansion projects in Bangladesh: 165 million USD;
- ✓ Indonesian National Slum Upgrading Project: 216.5 million USD;
- ✓ Pakistani M4 National Highway project: 100 million USD co-financed with Asia

Development Bank

- ✓ Road improvement project connecting Dushanbe, capital of Tajikistan to border of Uzbekistan: 27.5 million USD co-financed with European Bank for Reconstruction and Development.

AIIB's annual loan target for 2016 is between 500 million USD and \$ 1.2 billion USD. In the second half of 2016, more loan projects will be submitted to the Board of Directors, and management is preparing for support program for next year.

Most of AIIB's core institutions, rules and regulations for financing and operating have been completed, specific operating rules are being completed and a series of internal management rules are taking shape to ensure the smooth operation of the bank. Management framework of risk control is also under construction.

AIIB has three main requirements for financing projects: sustainable in operation, environmentally friendly and widely accepted by public society.

With a view to ensure the smooth progress of loan projects, AIIB Board of Directors approved the establishment of special funds of AIIB to support members with project preparation, especially to support the less developed and low-income member countries to carry out infrastructure projects in preparing for sovereign loan projects . China has become the first donor to the fund, and will donate 50 million USD paid within 3 years. The agreement was signed between Shi Yaobin, Vice Minister of China's Ministry of Finance on behalf of the Chinese government, and JinLiqun, President of AIIB. The move is aimed at implementing the commitments made by Chinese leaders at AIIB opening ceremony.

There are now 24 new countries applying for AIIB membership. AIIB will open for application for new membership before Sep. 20th in 2016. New members are expected to formally join AIIB in early 2017.

Under the Charter of AIIB, membership of AIIB is open to members of the International Bank of Reconstruction and Development and Asia Development Bank. New members will join as ordinary members. At present, in Latin American only Brazil became the member. AIIB will also support infrastructure projects outside Asia.

At present, AIIB's senior management team is taking shape, and middle management team under recruitment. Currently, AIIB has altogether 39 employees for both staff and management team. It is expected that the number of employees will reach 100 by the end of 2016. (Xinhua & Huanqiu: 2016)

5. Challenges and risks facing the BRI

Major challenges and risks facing the implementation of BRI consists of political and security risks, economic and financial risks, environmental and social risks.

Political Risks	Political Instability: ✓ Domestic turmoil in Middle East: Egypt, Turkey, Iraq, Libya, Syria, Yemen, Saudi Arabia, etc; Power change in Southeast Asia and South Asia: Myanmar, Thailand, Cambodia, Sri Lanka, etc.
	Political Intervention on commercial projects: ✓ Suspension of Colombo Port City project in 2015; Suspension of Myitsone hydropower station project in 2011.
Economic & Financial Risks (China Banking Regulatory Commission: 2010)	Sovereign Risk: risk that a foreign government cannot afford or refuse to pay its direct or indirect foreign currency obligations.
	Risk of infection: risk of a country's unfavorable situation leading to declines in the ratings of other countries in the region or a credit crunch, although these countries do not experience these unfavorable conditions, and their credit conditions have not deteriorated.
	Currency risk: risk that the domestic currency or cash flow held by the debtor is not sufficient to cover its foreign currency debt due to adverse exchange rate movements or currency devaluation.
	Macroeconomic risks: The debtor is exposed to high interest rates as a result of the measures taken by the government to maintain the value of the national currency.
	Transfer risk: the borrower or the debtor cannot obtain the required foreign exchange to repay its overseas debt risk, due to their foreign exchange reserves or foreign exchange control and other reasons,
Environmental & Social Risks	Stricter environmental standards in international investment regulations: Global Compact (the UN), Responsible Investment Principles (UNEP), Social and Environmental Sustainability Performance Standards (IFC), Guidelines for Transnational Corporations (OECD), the Extractive Industries Transparency Initiative Plan, etc.
	Social Risks: resettlement, health, labor policy, land policy etc

6. Policy recommendations and conclusions

Based on the analyses above, several suggestions could be considered by policy makers of the BRI countries, and related multilateral organizations in facilitating BRI implementation and its alignment with the SDGs more comprehensively.

First, it is strongly encouraged that relevant countries strengthen partnership and policy coordination with a view to consult and coordinate their development visions/strategies through seeking complementary advantages and interest of convergence. Making full use of existing coordinating mechanisms (visits by top leadership, bilateral dialogues/forums/exhibitions, joint committees between governments/business communities, MOUs, etc.) could help relevant parties to identify their areas of common interests and determine bilateral/multilateral cooperation projects feasible to be implemented through joint efforts. Such multi-level and multi-channel communications should not only involve government bodies, but also enterprises/industries, as well as research think-tanks, media, and people-to-people links. Besides, communications at existing multilateral mechanisms, led by United Nations bodies and other regional organizations/platforms could also create multi-participatory atmosphere.

Second, to promote varied modalities of co-financing is vital to ensure sustainable infrastructure financing across the BRI countries, and will also create a multi-participatory atmosphere for enjoying shared interest. Encouraging trends are already emerging. For instance, three of AIIB's first four infrastructure projects were co-financed with other development financial institutions, and such model of openness and cooperation could be expanded to give full play to complementary advantages of different DFIs. In addition relevant parties should consult to create a better environment for PPP model to be implemented in financing of a number of infrastructure projects.

It should be reminded, however, that existing institutions that finance BRI projects, including but not limited to AIIB, Silk Road Fund, BRICS New Development Bank, SCO Development Bank, regional organizations, are not yet sufficient to meet the substantial needs for infrastructure financing in Asia. Social and private capital could play a crucial to supplement finance, through Public-Private-Partnership, and via multiple choices of financial products (e.g., sovereign funds, equity funds). This, in turn, requires refined risk management to ensure long-term success. Moreover, demonstration of “early harvest” – through its linkage to the SDGs and the corresponding monitoring and evaluation framework – will be helpful to further facilitate policy coordination and financing.

Third, to make infrastructure investment more sustainable, green finance and corporate social responsibility can be promoted to look out for project impacts particularly in social-environmental domains and through engagement with local communities – two indispensable pillars of sustainability. Green finance, as defined by financial services that address environmental protection, climate change and resource conservation and efficient use, are faced with challenges of maturity

mismatch, information asymmetry, lack of products, among others. In this regard, governments play a key role in tackling environmental externality by means of policy tools that properly incentivize, as well as encourage innovation in financial instruments and services (e.g., green debt, green development funds, green insurance).

Governments could also designate policies that navigate enterprises to fully understand and abide by environmental laws/regulation and related environmental and social responsibility guidelines of host countries, as well as learn from best practices in its own industry. Enterprises could make endeavors to strengthen the awareness of CSR, improve CSR implementation, and enhance their capacity to communicate and engage with local stakeholders (e.g., local communities, media, labor organizations, environmental organizations), through open, regular, transparent information sharing and disclosure.

Strengthening infrastructure investment in Asia could be considered an effective means to sustainable development through driving economic growth, providing spill-over effects in public welfare and attaching great importance in addressing socio and environmental concerns. The BRI is in line with the purposes and principles of the UN Charter, and also works very much in line to implement areas that the SDGs prioritize. As a positive public good initiated by China, BRI attempts to promote win-win outcomes for both China and other participating countries, including their business communities in infrastructure, as well as in other domains, through providing an open inclusive platform for formulating partnership and strengthening policy coordination. Joint-financing among multiple stakeholders beyond traditional means, rather than through any single entity, has achieved a number of early-stage results, and is critical in ensuring the sustainability of infrastructure investment.

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List of Acronyms

ASEAN Plus China (10+1)

Asia Cooperation Dialogue (ACD)

Asia Development Bank (ADB)

Asia Infrastructure Investment Bank (AIIB)

Asia-Europe Meeting (ASEM)

Asia-Pacific Economic Cooperation (APEC)

Belt and Road Initiatives (BRI)

Central Asia Regional Economic Cooperation (CAREC)

China-Arab States Cooperation Forum (CASCF)

Conference on Interaction and Confidence-Building Measures in Asia (CICA)

Corporate Social Responsibility (CSR)

Developing Finance Institutions (DFI)

Development Banks (DBs)

European Bank for Reconstruction and Development (EBRD)

Greater Mekong Subregion (GMS) Economic Cooperation

Memorandum of Understandings (MOUs)

Ministry of Commerce (MOFCOM)

Ministry of Foreign Affairs (MOFA)

National Development and Reform Commission (NDRC)

New Development Bank (NDB)

Policy Finance Institutions (PFI)

Public Private Partnership (PPP)

Shanghai Cooperation Organization (SCO)

Small and Medium Enterprises (SMEs)

Sustainable Development Goals (SDGs)

United Nations (UN)

United Nations Development Programme (UNDP)

United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

United Nations Environment Programme (UNEP)

World Bank (WB)

Annex I. Selected Examples of Projects/Programs from 1954 to 2008

Time and Status	Selected Examples of Projects/Programs
Slow development before 1978	<ul style="list-style-type: none"> ✓ 25 coal projects: Fuxin, Fushun, Hegang, Pingdingshan, etc; ✓ 2 oil projects: the second oil plant in Fushun, Lanzhou refinery; ✓ 25 power projects: Sanmenxia Water Conservancy Project, Fengman Hydropower Station, Lanzhou Thermal Power Station, etc. ✓ 3 power plants: Beidagang in Tianjin, Douhe in Tangshan Douhe, Yuanbaoshan in Inner Mongolia; ✓ Oilfields: Yumen, Karamay, Shengli, Daqing; ✓ Railways: Lanzhou-Xinjiang, Chengdu-Kunming, Baotou-Lanzhou, Jiaozuo-Zhicheng; ✓ Ports: Tianjin, Lianyungang, Dalian, Shanghai, etc.
Starting up from 1978 to 1989	<ul style="list-style-type: none"> ✓ Three-north Forest Protection Project; ✓ A large number of commodity grain production base; ✓ 153 key energy projects: Gezhouba Hydropower Station, Pingshuo opencast coal mine, etc; ✓ 88 key raw materials projects: Jidong Cement Plant, etc; ✓ 125 key transportation and post & telecommunications communication projects: Datong-Qinhuangdao electrified railway, Qinhuangdao Coal Terminal, etc. ✓ Highways: 1st highway from Shanghai to Jiading; ✓ Steel: Shanghai Baoshan; ✓ Electricity: Baishan Hydropower Station; ✓ Cement: Jidong Cement Plant; ✓ Railway: Xiangfan-Chongqing.
Rapid development from 1990 to 2002	<ul style="list-style-type: none"> ✓ Infrastructure in agriculture, forestry, animal husbandry and fishery: national conversion of degraded farm land into forest and grass land, national wildlife protection and nature reserve construction project, commodity grain base in Heilongjiang and Inner Mongolia, etc; ✓ Energy: Shenfu Dongsheng Mine, Xinjiang Tarim Oilfield, Daya Bay Nuclear Power Station, Lingao Nuclear Power Station, Yellow River Xiaolangdi Water Control Project, Ertan Hydropower Station, etc. ✓ Transportation: Beijing-Kowloon Railway, Beijing West

	<p>Railway Station, Shanghai Pudong Airport, Guangzhou Baiyun New Airport, Shanghai Metro Line 2, Shenyang-Dalian Highway;</p> <ul style="list-style-type: none"> ✓ Water conservancy: flood control construction on the Yangtze River, the Yellow River and other major rivers & lakes, the Three Gorges Water Conservancy Project, etc.
<p>Rapid and overall development from 2003 to 2008</p>	<ul style="list-style-type: none"> ✓ Oil and Gas: project of natural gas transmission from West to East, Daqing Oilfield Capacity Development, CNOOC Offshore Oil and Gas Field Exploration and Development, Zhenhai Refinery in Zhejiang, Shanghai Secco Ethylene Project, etc; ✓ Electricity: West-East electricity transmission project, etc; ✓ Railway: Qinghai-Tibet, Nanjing-Xian, Chongqing-Huaihua, Zhuzhou-Liupanshui, Hangzhou-Zhuzhou, Neijiang-Kunming, etc; ✓ Highway: Fujian Sanfu Highway, etc; ✓ Metro: Guangzhou Metro Line 2, etc; ✓ Port: Tianjin Port expansion project, Yangshan deep-water port container project, etc; ✓ Airport: Guangzhou Baiyun Airport relocation, etc.

