Evolution of China's Belt and Road Initiative: Green Silk Road

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The Belt and Road Initiative (BRI) remains one of China's most important national strategies. In the past most achievements related to promoting the primary targets of the initiative, the land-based Silk Road Economic Belt and sea-based 21st Century Maritime Silk Road. In recent years, China has expanded its ambitions with the introduction of the Digital Silk Road, Green Silk Road, Health Silk Road, and Polar Silk Road. While developments in these four areas have already changed the BRI landscape, global investors' knowledge of the progress being made is still nascent. We delve into the Green Silk Road dimension of the BRI to allow global investors to better understand the initiative's future roadmap and the relevant investment implications.

What is the Green Silk Road?

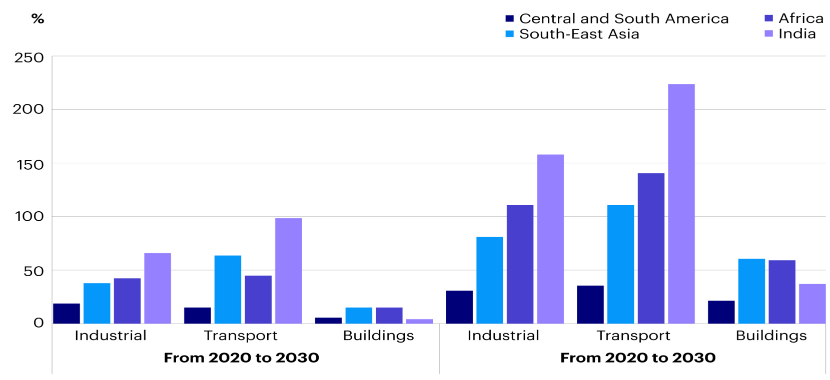
The Green Silk Road looks at making Belt and Road projects greener and more sustainable. Chinese policymakers have increasingly been focused on greening the Belt and Road Initiative in recent years. The scope of the Green Silk Road includes reducing climate emissions, reducing pollution, and protecting biodiversity, while ensuring improved economic opportunities for the countries involved.

Why the Green Silk Road?

There are three main reasons behind China's push to develop the Green Silk Road.

First, it fits into the growing global trend of prioritizing sustainable development. The Green Silk Road can be viewed as an effective solution to promote the implementation of the united Nations' 2030 Agenda for Sustainable Development. The Green Silk Road also serves as a key contributor for China to achieve its goals of peak carbon emissions by 2030 and carbon neutrality by 2060. Climate change is one of humanity's greatest challenges and concerted efforts are required globally, especially in emerging and developing economies (EMDEs). These countries face rising energy needs as they grow, industrialize, and urbanize (Figure 1). Infrastructure investment decisions today can lock in emissions trajectories for decades and make or break the ability of countries to achieve their sustainability objectives. This underscores the importance of the Green Silk Road in driving sustainable development in the Belt and Road region.

Figure 1 – Increases in energy consumption by sector in emerging and developing economies



Source: IEA World Energy Outlook 2021, Stated Policies Scenario

Second, since the introduction of Belt and Road Initiative, western academia and civil society have voiced concerns about potential negative environmental impacts of extensive infrastructure development. The Green Silk Road is a response to this growing criticism and lays the foundation for wider global recognition of the BRI.

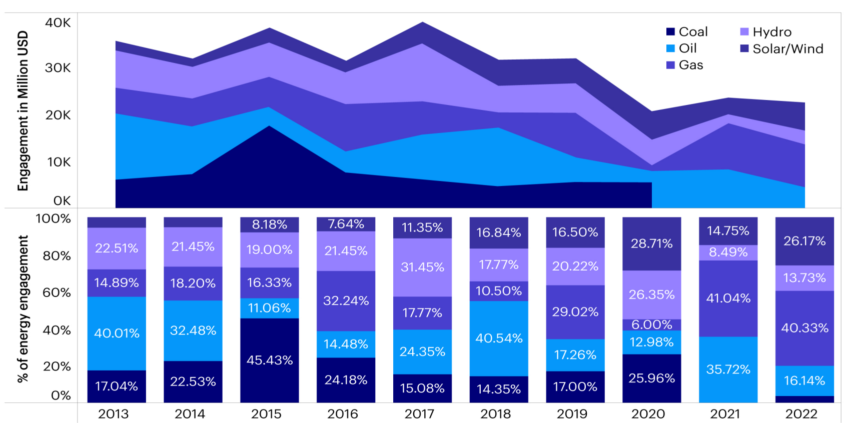
Third, many Belt and Road countries are lagging in terms of sustainable development. China's emphasis on the Green Silk Road allows the country to position itself as a leader in this space, set green standards for Belt and Road projects, and make sustainability a defining feature of Belt and Road cooperation agreements.

Outlook for the Green Silk Road and investment implications

Chinese officials have actively promoted the Green Silk Road by setting up various guidelines and partnership agreements. In late 2018, China released the Green Investment Principles (GIP) for the BRI, a set of principles for greening investments along the Belt and Road. As of June 2021, 39 large international financial institutions had signed up to the GIP[1]. In 2019, the BRI International Green Development Coalition was established to engage in dialogues, exchanges, joint research, capacity building and other activities. It has since attracted more than 150 Chinese and foreign partners from over 40 countries[2] and has garnered a positive response and widespread support from the international community. In mid-2021, China also published the "Green Development Guidelines for Overseas Investment and Cooperation" and the "Guidelines for Ecological and Environmental Protection of Foreign Investment Cooperation and Construction Projects." These two initiatives focus on environmental risk management for overseas BRI projects and supply chains.

As a key aspect of the BRI, Chinese officials have also shown significant commitment toward making energy investments in the Belt and Road region more sustainable. This has mainly been executed in two ways: 1) reducing their coal-related investments; 2) increasing their green energy investments. Since Chinese officials declared their intention of minimizing the financing of coal power plants abroad, coal-related investments and construction projects dropped to around zero in 2021 and 2022 (Figure 2). China is also highly committed to investments in renewable energy and solar, wind and hydropower investments in the Belt and Road region increased by 50% year-on-year in 2022. As China dominates the global manufacturing industry for renewables (accounting for 72% of global solar manufacturing and 50% of global wind turbine manufacturing[3]), it is well-positioned to help deliver low-carbon technologies to Belt and Road countries.

Figure 2 – Chinese energy investments as part of the Belt and Road Initiative from 2013 to 2022



Sources: Green Finance & Development Center, Fanhai International School of Finance (FISF) Fudan, based on AEI data.

1. The Green Investment Principle (GIP) for the Belt and Road Initiative, https://greenfdc.org/green-investment-principle-gip-belt-and-road-initiative/
2. BRI Green Review, November 2021, http://en.brigc.net/Media_Center/BRI_Green_Review/2021/202111/P020211122535645620536.pdf
3. What's After Coal? Accelerating China's Overseas Investment in Renewables, January 2023, https://www.wri.org/insights/whats-after-coal-accelerating-chinas-overseas-investment-renewables

Chinese officials have also cooperated with local governments and corporations in Belt and Road countries to build green infrastructure. One notable example is the Lower Stung Russei Chrum hydropower station in Koh Kong province, Cambodia, which was built and is owned by a large Chinese electricity generation company. The station entered into commercial operation in 2013 with a total installed capacity of 338 megawatts and an annual output of 1.2 billion kilowatt-hours. Since operation as of mid-2022, the project has generated more than 8.4 billion kilowatt-hours of clean power and has helped to advance Cambodia's transition toward greater use of renewable energy. the site of a coal mine. These solar panels generate 150MW of electricity a year, or the equivalent of about 53,000 tons of coal, demonstrating the potential of solar projects along China's Green Silk Road.

Given the efforts mentioned thus far, we expect China's Belt and Road projects to become greener and more sustainable in the longer term. We believe developments across the whole Belt and Road region are likely become more sustainable with time, which can in turn support better long-term investment opportunities in the region. Bond issuers looking to invest in sustainable developments in the region may benefit from this mega trend in the long run.

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

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