



UNPACKING THE BELT AND ROAD INITIATIVE (BRI): BALANCING RISK AND REWARD

Belt and Road projects offer attractive opportunities and can be prime destinations for foreign direct investment, but the location of these projects also poses a range of challenges for these investors, who must ensure that they adequately assess and understand all potential risks.

Ambitious designs

The BRI is an ambitious initiative aimed at promoting and optimizing regional integration by connecting Asia with Africa and Europe via land and maritime networks.

The BRI comprises a Silk Road Economic Belt – a transcontinental passage that links China with Southeast Asia, South Asia, Central Asia, Russia and Europe by land – and a 21st century Maritime Silk Road, a sea route connecting China's coastal regions with Southeast and South Asia, the South Pacific, the Middle East and Eastern Africa, and Europe, with various related projects, such as energy, infrastructure and telecoms.

The BRI is now in its fifth year and the scale of economic cooperation between BRI countries has increased exponentially in both volume and scope. The BRI now involves financial, technical and cultural cooperation; encompasses over 100 countries; and includes a wide range of infrastructure investment projects with an estimated value of \$3.7 trillion. Refinitiv research reveals that, in July 2019 alone, roughly 84 new projects related to the BRI were unveiled.

Our 2019 report, *BRI Connect: An Initiative in Numbers*, further reveals that “the BRI covers a region that accounts for 30 percent of global nominal Gross Domestic Product (GDP), 40 percent of global GDP growth and 44 percent of the world's population.”

These facts and figures underscore an important message – that the BRI undoubtedly offers enormous opportunity for investment and partnership initiatives, and such opportunity deserves further attention. Alongside the potential rewards, however, lie a host of potential risks.

On-the-ground challenges

Although the BRI region's extensive natural resources and markets offer a plethora of attractive opportunities, and have led to significant capital investment over the years, many companies have faced local business environment challenges.

Foreign investors may bring strong technical expertise to the table, but the caveat is that they often lack an adequate understanding of, or expertise in, local business environments. They must therefore ensure that they are able to adequately manage and mitigate the risks they are likely to encounter – and the range of potential risks and challenges linked to the BRI is not insignificant.

According to our report, some major BRI-related risk factors include, but are not limited to:

- Location-based risk, which arises when conducting business in unknown territories
- Political risk, for example a change in government
- Construction-related challenges, which may be exacerbated by gaps in infrastructure
- Regulatory risk
- Commercial challenges, such as accurately identifying the customer demand profile for a new project
- People-related risks, including navigating cultural differences and similarities as a foreign investor into a new market

Best practice tells us that conducting detailed and holistic assessments of all risks before engaging in any new project is critical, and, because risk changes over time, firms must also ensure that well-defined and ongoing risk monitoring processes are in place. In line with this, the report recommends that all risks be “carefully identified, assessed, quantified and mitigated.”

The importance of data

Being able to manage and mitigate risk relies on conducting thorough and complete due diligence, which in turn begins with accessing reliable and complete data.

Comprehensive data can be used for initial screening, an invaluable tool that can uncover hidden risk and flag potential links to financial crime and corruption, particularly in high-risk countries. Although screening alone can never eradicate risk, it nonetheless remains a crucial tool for pinpointing instances where heightened risk may be present. When conducting location-based risk screening, firms need reliable access to risk-based information on specific countries and territories. This data should include criminal, economic and political elements.

Where such screening indicates heightened risk – or even potentially higher risk – enhanced due diligence (EDD) should be conducted. EDD delivers targeted insights and detailed background checks, so that firms can make informed decisions about the risks associated with investing in BRI-related opportunities or partnering with BRI-related companies. Once again, it is the quality of the underlying data that will determine the quality of the final report.

Solutions are readily available

At Refinitiv, we believe in the power of data, and we consistently work to deliver a range of data-powered tools to help firms rank and map BRI-related opportunities.

We also believe in the invaluable nature of human expertise, and are able to offer critical insights into the companies behind these opportunities, providing a high degree of transparency into often complex projects that may involve a range of different companies.

Our market-leading World-Check® database provides comprehensive, reliable and up-to-date risk intelligence data to facilitate the efficient screening of individuals and organizations before entering into any form of investment, partnership or other business relationship; and our Country Risk Ranking tool allows firms to conduct a sophisticated risk analysis of any country or territory.

We have also developed BRI Connect, a powerful app that delivers trusted business intelligence and crucial insights into global BRI investment opportunities and BRI-related organizations. Country Risk Ranking data can be accessed within BRI Connect, enabling users to analyze the potential location-based risk of any project before investing, partnering or otherwise engaging with a foreign entity.

Where heightened risk is detected, or suspected, our robust EDD reports include data on company ownership, operating and litigation history, key management and decision makers, prior business conduct, reputation history, hidden liabilities and more. As such, EDD reports are an invaluable tool to aid decision making when assessing the BRI risk-reward landscape.

With knowledge, you can tap into opportunity

The opportunities presented by the BRI are significant, and firms should not avoid them because the range of potential risks is too large or too daunting. Rather, they should rely on robust data and leading-edge tools to help them make informed decisions.

By developing and maintaining a holistic view of the risks that could impact an investment or partnership decision, firms will be able to realistically consider and assess BRI-related opportunities.

As with any new project, investment, partnership or joint venture, access to thorough and reliable data is the necessary starting point, because with the right data and insights, companies can manage the delicate risk-reward balancing act with skill and precision and make better decisions that will ultimately enable them to tap into the many and varied opportunities presented by the BRI.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in over 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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