The Economist Intelligence Unit

"ONE BELT, ONE ROAD": AN ECONOMIC ROADMAP

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Acknowledgements

One Belt, One Road: an economic roadmap is a publication of the Economist Corporate Network (ECN), part of The Economist Intelligence Unit. It guides the reader on a journey across select economic topography of what is formally known as The Silk Road Economic Belt and 21st Century Maritime Silk Road. The Belt-Road initiative represents China's official policy for enhancing global supply chains, primarily through infrastructure projects throughout the developing and parts of the developed world.

Rob Koepp, director of ECN in Beijing, was the lead author and managing editor of this report. The supervising editor was Robert Ward, global editorial director of The Economist Intelligence Unit (The EIU). Further editorial assistance was provided by Alex White, director of Country Analysis, and Pat Thaker, editorial director for the Middle East and Africa, at The EIU.

Rob Koepp wrote the regional analysis sections of the roadmap. Most of the country profiles were individually contributed by The EIU analysts who regularly monitor and report on those economies. ECN appreciates their collaboration and the added insights that these analysts provided. In alphabetical listing, the country profile authors were Mohamed Abdelmeguid (Egypt, Qatar), Anwita Basu (Indonesia, Philippines), Pepijn Bergsen (Armenia, Georgia), Miguel Chanco (Cambodia, Myanmar, Vietnam), Aengus Collins (Turkey), David Dalton (Moldova, Poland, Ukraine), Nicholas Fitzroy (Bahrain, Kuwait, Oman), Joan Hoey (Romania), Duncan Innes-Ker (Mongolia), Rob Koepp (Kenya, Tanzania, Zimbabwe), Max Lambertson (Kyrgyz Republic, Macedonia, Tajikistan), Emily Mansfield (Czech Republic), John Marrett (Bangladesh, Thailand), Alex Nice (Azerbaijan, Kazakhstan, Russia), Gabriel Partos (Albania, Hungary), Rob Powell (Iran, Iraq, Saudi Arabia), Peter Power (Laos), Fung Siu (Malaysia, Singapore), Firat Unlu (India, Pakistan, Sri Lanka) and Keren Uzyiel (Israel, Jordan, UAE).

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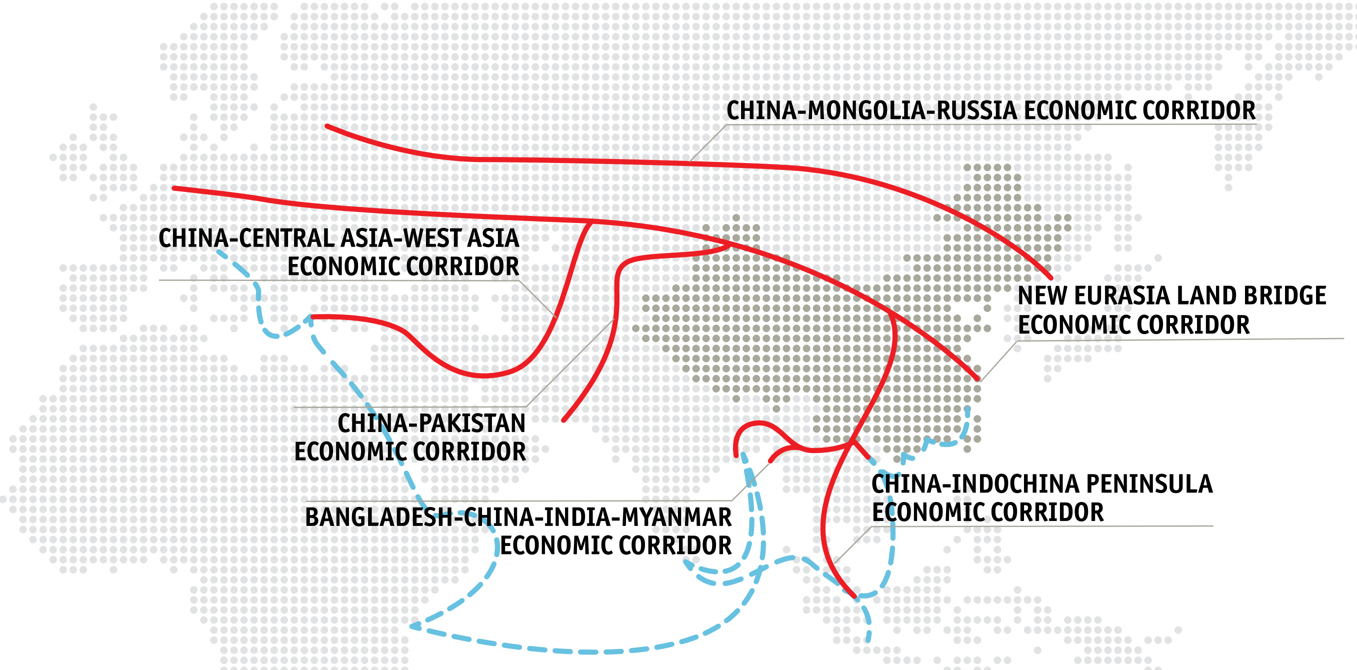


MAPPING CHINA'S MAIN OUTBOUND ROUTE

The Silk Road Economic Belt and 21st Century Maritime Silk Road—better known by its popular shorthand terms of One Belt, One Road (OBOR) and the Belt-Road initiative—has become one of the most discussed topics about China's evolving role in the global economy today.

The Economist Intelligence Unit has produced *"One Belt, One Road: an economic roadmap* to add clarity to the discussion and stimulate more informed consideration about the implications of OBOR. To that end, this report explores seven key regional spheres covered by the Belt-Road initiative: Africa, Central Asia, Eastern Europe, the Middle East, Russia, South Asia and South-east Asia. (Here we examine Russia according to its regional significance and as a national economy.)

As Belt-Road projects heavily emphasise infrastructure development, our regional mapping lists out infrastructure project pipelines. These lists do not aim to provide a complete accounting of projects but rather a varied sampling to show the types of development activities that characterise a region. For the sake of transparent, readily verifiable data, the lists draw from publicly accessible sources such as the World Bank, InfraPPP and CG/LA Infrastructure's *Strategic 100: 2016 Global Infrastructure Report*. The information is current as of February-March 2016.

The regional analysis sections also give overviews of the infrastructure needs of a region’s constituent countries. The analysis further delves into examining the progress, results and the wider ramifications of prominent OBOR projects.

National economic topography

As the prospects with infrastructure projects—even region-wide projects—greatly depend on the prevailing conditions of individual countries, the regional sections conclude with a series of one-page country profiles that offer brief but detailed political-economic portraits.

The structure of the country profiles includes an “infrastructure risk radar”. The radar chart succinctly relates the state of core elements in a nation’s infrastructure base: port facilities, air transport facilities, retail and distribution network, telephone network, road network, power network, rail network and IT infrastructure. The profiles list population and key economic indicators and contain a table on operating risk measures. The operating risk measures rate (on a 0-100 scale) a country’s overall risk level in addition to risk levels for security, political stability, government effectiveness, legal and regulatory conditions, the macroeconomy, foreign trade and payment, finance, tax policy, the labour market and infrastructure. Beyond that, the profiles narrate the economic, political and infrastructure outlooks for each country and provide a transparency and stability assessment. The Economist Intelligence Unit Democracy Index 2015 and its previous annual editions provide further context for describing a country's system of government, governance quality and environment for transparency.

The profiles cover 44 countries, ranging from Albania to Zimbabwe. The contents page lists all the nations profiled. Whereas this report proceeds according to an alphabetical order for regions, we use a top-down approach for countries, listing them in descending order according to GDP size.

ONE BELT, MANY VIEWS

As an official policy, One Belt, One Road is overseen by China’s powerful National Development and Reform Commission (NDRC), Ministry of Foreign Affairs and Ministry of Commerce under sanction from the State Council, the nation’s chief administrative body. In their foreign dealings, Chinese government officials and business executives (especially those at state-owned enterprises) frequently go out of their way to describe various activities as adhering to the principles of OBOR, even when those connections are rather tenuous. OBOR has become the “in” thing to be associated with in China's global economic strategy.

One of the distinct features of the Belt-Road is, somewhat ironically, an inherent ambiguity. Although projects emerge that are attributed to OBOR, publicly released official documents tend to paint the initiative in broad brushstrokes, providing more by way of general conceptualisations than detailed specifics. This invites open interpretation as to what exactly the programme entails. The original term, the Silk Road Economic Belt and 21st Century Maritime Silk Road, repeats “Silk Road” twice. As that suggests, the initiative’s main inspiration comes from the ancient caravan routes that once connected imperial China to the world outside. Moreover, as the word “road” itself implies, projects (especially those involving construction of physical infrastructure) that facilitate commerce between China and the wider global community reflect the basic spirit of OBOR.

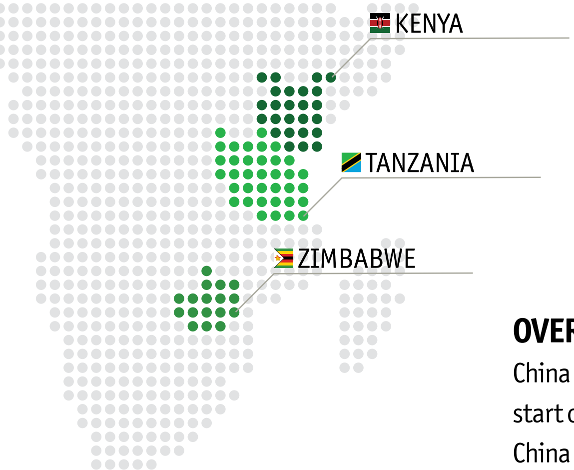
Observers frequently liken Belt-Road to the Marshall Plan (formally titled the European Recovery Programme), an unprecedentedly large aid package given by the US government to Western European countries for reconstruction after the second world war. Although similar in their shared goals for boosting economic growth and trade through infrastructure development, OBOR and the Marshall Plan differ in critical ways. The principal difference is China’s Belt-Road is not based on aid or even foreign direct investment, but on loan financing. This underscores the importance, for creditors and debtors alike, to carefully factor in pertaining risks with OBOR projects. More than is the case for typical government aid packages, within the Belt-Road initiative, *caveat emptor* very much applies.

Belt-Road vistas

Despite its emphatically singular name, One Belt, One Road is really about journeying across widely varying economic landscapes. Our mapping offers readers a means to better anticipate the open roads as well as the roadblocks to be found along the way.

For those interested in additional research from that address OBOR in other contexts, we recommend the China Going Global Investment Index and *Prospects and Challenges on China’s “One Belt, One Road”*. Both can be downloaded from eiu.com.

Africa



OVERVIEW

China has emerged from acting as a relatively minor player in African economies at the start of this century to now serving as a principal source for trade and investment. Today, China represents Africa's single largest funder and builder of infrastructure. China's role in supporting African development pre-dates official pronouncements for One Belt, One Road, but OBOR now provides a galvanizing framework for which Chinese government and corporate leaders and their counterparts can formulate their engagements.

This section on OBOR in Africa offers context and analysis regarding infrastructure development in three representative East African nations: Kenya, Tanzania and Zimbabwe. We begin with an accounting of recently awarded public-private partnership (PPP) infrastructure projects, followed by an extended listing of projects still in a deal flow "pipeline" of pre-development. The section goes on to examine how OBOR-related opportunities and risks manifest in the largest infrastructure project of the largest economy among the three countries analysed, Kenya's Standard Gauge Railway. It also explores China's evolving role in Africa more broadly and considers the implications of China's preferred financing model for infrastructure funding. After this analysis, we individually profile Kenya, Tanzania and Zimbabwe according to the outlooks for their economies, political structures and physical infrastructures. The individual country profiles further assess the transparency and stability of each nation's respective form of government and provide tables and graphics that feature key economic indicators and risk measures.

Africa table 1: awarded PPP infrastructure projects in Kenya & Tanzania

Country	Project	Sector	Segment	Investment (US$ m)	Year awarded
Kenya	Lamu Coal Power Plant	Energy	Electricity generation	2,000	2014
Kenya	Aldwych Lake Turkana Wind Farm	Energy	Electricity generation	635	2014
Kenya	175 km road concession	Transport	Road	325	2015
Kenya	Kwale Sugar plantation	Energy	Electricity generation	200	2013
Kenya	Triumph HFO Power Plant	Energy	Electricity generation	140	2012
Tanzania	Symbion Rental Ubungo Power Plant	Energy	Electricity generation	129.4	2011
Kenya	Thika Thermal Power Project	Energy	Electricity generation	112	2012
Kenya	GEL Heavy Fuel Oil Fired Power Plant	Energy	Electricity generation	95.5	2014
Kenya	Aggreko Westen Kenya Temporary Power Station	Energy	Electricity generation	4.7	2011
Tanzania	Symbion Dodoma Power Plant	Energy	Electricity generation	4.7	2011
Tanzania	Smart Telecom	Telecom	Mobile access	-	2014
Tanzania	Smile Telecom Tanzania (I, II, III)	Telecom	Mobile access	-	2012
Tanzania	Aggreko Ubungo and Tegeta Power Station	Energy	Electricity generation	-	2011

Sources: World Bank; InfraPPP; The Economist Corporate Network.

Africa table 2: infrastructure projects in progress by investment value

Country	Project	Sector	Investment (US$ m)	Stage
Rwanda/Burundi/ Tanzania	Dar es Salaam-Rwanda-Burundi Railway	Transport	7,600	Tendering
Zimbabwe	Southern Energy Power Project	Energy	2,325	Tendering
Kenya	Standard Gauge Railway: Nairobi-Mala-ba/Kisumu Extension	Transport	2,250	Feasibility study
Kenya	1 gw Solar Energy Development	Energy	2,200	Planning
Tanzania	Dar es Salaam Rapid Bus Transit System	Transport	2,000	Planning
Zimbabwe	Hwange Coal Power Station Expansion	Energy	1,400	Planning
Kenya	2nd Nyali Bridge	Transport	100	Planning
Zimbabwe	Mpilo Central Hospital	Social & health	15	Tendering

Sources: CG/LA; InfraPPP.

INFRASTRUCTURE DEVELOPMENT

According to the World Bank's Private Participation in Infrastructure Projects Database and InfraPPP, Kenya and Tanzania have awarded 12 PPP infrastructure projects since 2011. These represent investments of more than US$1.3bn (see Africa table 1). All projects relate to electricity generation, mobile-phone networks and roadway construction. As the power networks of the African countries individually profiled in this report still demonstrate high infrastructure risk with their domestic power networks, demand for continued energy sector enhancements is likely to persist until more such projects come online.

Among projects in various stages of pre-development with confirmed investment values, the largest directly concerning any of the African countries profiled here is the US$7.6bn Dar es Salaam-Rwanda-Burundi Railway, which involves Tanzania (see Africa table 2). For single country projects, Zimbabwe's US$2.3bn Southern Energy Power Project is being planned around multiple financial contributors including US$1.3bn in debt and US$105m in equity from Chinese sources. Officials in Kenya at present are seeking to address their country's deficiencies in transportation and energy with two big-ticket projects. The first and most prominent is the US$2.3bn extension of the Standard Gauge Railway connecting the capital, Nairobi, to Malaba, on the border with Uganda, and Kisumu, on the edge of Lake Victoria. The other is a US$2.2bn, 1 gigawatt solar energy programme. Dar es Salaam, Tanzania's commercial capital, will further benefit from US$2bn in transportation improvements going towards the city's bus system.

Another 57 identified infrastructure projects are at stages of pre-development or partial completion. Most (nearly 90%) target transportation, water and waste, social and health, energy and telecom needs in Kenya. Tanzania's projects mainly target port facilities in Dar es Salaam and other commercial centres.

Africa table 3: other infrastructure projects in progress

Country	Project	Sector	Stage
Kenya	Magwagwa multipurpose dam	Energy	Planning
Kenya	Mombasa offshore loading and offloading jetty	Energy	Planning
Kenya	Nairobi Solid Waste Management	Energy	Planning
Kenya	Tana Delta irrigation sugar project	Energy	Planning
Tanzania	Mkuranga power plant in Tanzania	Energy	Planning
Tanzania	Southern Energy Power Project	Energy	Partially completed
Kenya	JKIA food courts	Social & health	Partially completed
Kenya	Bomas first-class hotel	Social & health	Planning
Kenya	Bomas International Convention and Exhibition Centre	Social & health	Planning
Kenya	Egerton University student accommodation	Social & health	Planning
Kenya	Embu University College student accommodation	Social & health	Planning
Kenya	Equipment lease and infrastructure improvement	Social & health	Planning
Kenya	Five university hostels	Social & health	Planning
Kenya	Kenyatta National Hospital	Social & health	Planning
Kenya	Maseno University student accommodation	Social & health	Planning
Kenya	Oxygen plant	Social & health	Planning
Kenya	Police and prison housing units	Social & health	Planning
Kenya	South Eastern Kenya University student accommodation	Social & health	Planning
Kenya	South Eastern Kenya University student accommodation	Social & health	Planning
Kenya	Civil servants' housing	Social & health	Tendering
Kenya	Nairobi city county housing	Social & health	Tendering
Kenya	Nairobi city county housing, 2	Social & health	Tendering
Kenya	ICT Services at Kenyatta National Hospital (KNH)	Telecom	Planning
Kenya	Conversion of Berths 11-14 into container terminals	Transport	Planning
Kenya	Dongo Kundu special economic zone (SEZ)	Transport	Planning
Kenya	Dualling of Nairobi-Nakuru road	Transport	Planning
Kenya	Export quarantine station and livestock export zone	Transport	Planning
Kenya	Government Flying School	Transport	Planning
Kenya	Integrated Marine Transport System (IMTS)	Transport	Planning
Kenya	Lamu Port development	Transport	Planning
Kenya	Likoni multi-storey terminal	Transport	Planning
Kenya	Mombasa-Nairobi highway expansion	Transport	Planning
Kenya	Multi-level car park facility in Mombasa	Transport	Planning
Kenya	Multi-level ferry terminal PPP in Mombasa	Transport	Planning
Kenya	Nairobi-Thika road	Transport	Planning
Kenya	Nairobi commuter rail	Transport	Planning
Kenya	JKIA Terminal 2, greenfield development	Transport	Planning
Kenya	Nairobi southern bypass	Transport	Planning
Kenya	Shimoni Port	Transport	Planning
Tanzania	Dry port of Kisarawe North	Transport	Planning
Kenya	Roads Annuity Programme: 3,000 km Phase 1	Transport	Tendering
Kenya	Multi-level parking at Sunken	Transport	Tendering
Kenya	Multi-storey car park & commercial facility within Nairobi CBD	Transport	Tendering
Tanzania	Dar Es Salaam port container terminal	Transport	Tendering
Tanzania	Four new berths at Mtwara port	Transport	Tendering
Tanzania	New port at Mwambani Bay-Tanga	Transport	Tendering
Tanzania	Oil terminal jetty at Kigamboni in Dar es Salaam Port	Transport	Tendering
Kenya	Arror multipurpose dam	Water & waste	Planning
Kenya	Mombasa solid waste management	Water & waste	Planning
Kenya	Munyu multipurpose and greater Kibwezi irrigation project	Water & waste	Planning
Kenya	Mwache Multipurpose Dam	Water & waste	Planning
Kenya	Nairobi bulk water supply	Water & waste	Planning
Kenya	Nakuru solid waste management	Water & waste	Planning
Kenya	Nandi forest multipurpose dam	Water & waste	Planning
Kenya	Tana Delta irrigation project	Water & waste	Planning
Kenya	Lower Turkwel irrigation	Water & waste	Tendering
Kenya	Kajiado county waste management	Water & waste	Tendering

Sources: InfraPPP; The Economist Corporate Network.

OBOR IN AFRICA

SGR: a window on Africa opportunities and risks

One of the highest-profile infrastructure projects in East Africa is Kenya's Standard Gauge Railway (SGR). At an estimated total cost of KSh1.2trn (US$14bn), the SGR constitutes the largest programme of its kind since Kenya gained independence in 1963. Work began in October 2013 on phase one, a 485-km single-track rail line that connects Mombasa, the largest port city in East Africa, to Nairobi, the Kenyan capital. As noted earlier, a feasibility study currently is under way for SGR extensions connecting Nairobi and Malaba/Kisumu. Officials ultimately intend the SGR to connect cities in Kenya with those in Uganda, Rwanda and South Sudan as part of a broader strategy for regional integration.

The SGR presents a nearly ideal fit for the Africa component of China's Belt-Road objectives. Connecting a major African port city to inland areas will offer resources and markets for Chinese producers. Construction of the line will create a strategic economic asset that further binds together the economies of East Africa internally and with the world beyond. The project moreover offers a platform to showcase Chinese funding and technology. China Exim Bank has provided 85% of the announced US$3.8bn in financing for the first leg of the SGR. China Road and Bridge Corporation is serving as contractor and building the line according to Chinese railway design standards.

Project controversies

Despite such obvious advantages to China's involvement with the SGR, questions about costs and lack of transparency in the contracting process have aroused scrutiny and elevated project risks. Not long after the SGR's launch, no less than two parliamentary committees (transport and public investment) and the government's Ethics and Anti-Corruption Commission began investigations into allegations of improprieties. Controversy surrounds why transportation officials opted for a single-sourced deal rather than an open tender, potentially a violation of Kenyan law. Questions have also arisen about the economics of the project and its design. Estimates cost out the SGR at an average of US$5.6m/km, whereas the international norm is about US$2m/km. Neighbouring Ethiopia is laying track at a cost of US$4.8m/km for a more sophisticated electrified, doubletrack line that covers more difficult terrain. Stoking concerns of exploitation, China Road and Bridge Corporation stands accused of breaching its commitment to source at least 40% of goods and services from local firms.

Nevertheless, the host of issues swirling around the SGR so far have not been able to halt its ongoing progress. At the Forum on China-Africa Co-operation (FOCAC, see below) in December 2015, Kenya secured another US$1.5bn loan from China to extend the SGR from Nairobi to Naivasha in the north-west. Terms of financing and construction are similar to those for phase one. The Naivasha extension promises to go even further in addressing Kenya's infrastructure deficiencies by facilitating development of a local industrial park that harnesses geothermal power sources.

Continued China-Kenya collaboration

China continues co-operating with Kenya as the principal sponsor and builder of the SGR. Both sides are now conducting feasibility studies for an additional SGR extension to Malaba. Meanwhile, the inaugural Mombasa-Nairobi section of the line looks set to complete by the end of 2016 and begin operations by 2017. So far, indicators are that positive intergovernmental relations between China and Kenya will likely continue.

For Kenya's economy, the development, operation, and expansion of the SGR will bolster the nation's growth in the medium term. A transportation project of this scale and importance is almost certain to advance the nation's role—as well as Chinese influence—in the region too. Less positively, along with the project-specific risks already highlighted, the SGR's hefty price tag is raising Kenya's external debt burden and debt-servicing costs. For the project's medium-term benefits to extend further out, Kenya authorities will need to manage this new asset well. They will also need to press ahead with political reforms, improving government effectiveness, and addressing security issues. Otherwise, such long-standing problems are likely to detract from the rail system's greater economic potential.

For China, the SGR showcases what Chinese money and capabilities in railways and construction can do for OBOR territory economies. As China grapples with transforming its maturing economy towards consumption-driven growth while moving away from the fixed capital formation that has previously fuelled expansion, projects such as the SGR offer a means for Chinese industries to venture abroad in the face of shrinking domestic markets. Chinese leaders are oft wont to profess that their going-out strategy is a *shuangying* or "win-win" proposition both for China and its trading partners. The multitude of controversies attached to the SGR notwithstanding, the project seems to tangibly embody what the Chinese mean when they speak of *shuangying* opportunities.

China's evolving role in Africa

China's special relationship with African nations is more widely symbolised—and periodically reasserted—through the FOCAC summit that occurs every three years. Since FOCAC summits began in 2000, trade between China and Africa has soared more than 20-fold, from about US$10bn in 2000 to about US$220bn in 2014. As illustrated with Kenya's Standard Gauge Railway, Chinese contributions in financing, technology and construction are providing vital enhancements to a continent that suffers from glaring lack of infrastructure. Figures for 2013 indicate that total spending on infrastructure in Africa reached US$53bn, of which China accounted for the single largest portion of US$13.4bn.

This relationship is not without its costs. From the perspective of sovereign obligations, the growing indebtedness of African states to China is becoming problematic, complicating otherwise warm intergovernmental relations. Risks associated with the rising indebtedness of African states will only become more acute if the prevailing global climate of depressed commodity demand and pricing continues. Not surprisingly, at the December 2015 FOCAC hosted in Johannesburg, South Africa, beyond pledging a further US$60bn in funding to African countries, China was compelled to signal a willingness to consider debt relief. Calls from China’s Africa partners for debt restructuring, including longer repayment terms and possibly write-offs in certain cases, are unlikely to abate.

African countries moreover could conceivably voice requests for new financial models to support China-backed infrastructure projects. To an impoverished nation, China’s preferred debt-funded development template compares unfavourably with foreign direct investment, whereby financial burdens are primarily the responsibility of the investor, not the investment recipient. Yet private-sector investments (including PPP-financed projects as illustrated in Africa table 1 above) thus far have not proven adequate to meet Africa’s massive infrastructure needs. This leaves use of debt financing in some form practically unavoidable. As OBOR initiatives influence and are influenced by unfolding China-Africa relations, the project financing and operational models that accompany these initiatives can be expected to evolve in kind.

Kenya

Economic outlook

Kenya’s GDP, expected to approach US$70bn in 2016, ranks as the largest in East Africa. The Economist Intelligence Unit forecasts real GDP growth to quicken slightly to 5.5% in 2016, from an estimated 5.4% in 2015. Ongoing investment in infrastructure, closer economic integration within the East African Community (EAC) along with continued political and market reforms will be crucial to maintain the country’s rapid expansion. Severe structural problems will continue to weigh on the Kenyan economy, with the large fiscal deficit, corruption, and security issues all posing significant risks. A resource-poor economy, Kenya currently has less natural economic endowments than mineral-rich Tanzania.

Political outlook

The outlook for political stability is broadly favourable, underpinned by the peaceful transfer of power to the president, Uhuru Kenyatta, after the most recent (2013) election and the progressive adoption of the 2010 constitution. We expect Mr Kenyatta to remain firmly in power until the next ballot slated for August 2017. The ruling Jubilee Coalition will merge into a single entity, the Jubilee Party, in the first half of 2016 to provide a unified front. Even with an elected change of government in 2017, we do not anticipate major policy shifts, as all main parties support a broadly pro-market agenda.

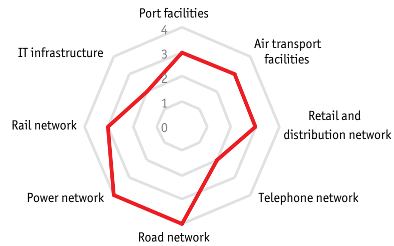
Infrastructure outlook

The government has made alleviation of Kenya’s infrastructure deficiencies a top priority. Major investment in this area, coupled with reforms towards deregulation and privatisation, should help to sustain the country’s economic growth. Kenya’s biggest infrastructure project, the Standard Gauge Railway, entails an estimated total cost of KSh1.2trn (US$14bn). Phase one of the project connects the coastal port city of Mombasa to the capital, Nairobi, and should be operational by 2017. So far Chinese sources have provided 85% of the project’s financing and led the railway’s construction.

Transparency & stability assessment

According to the Democracy Index 2015, Kenya is governed under a hybrid regime. This means civil society in the country is weak, corruption widespread and the rule of law not well established. Kenya ranks 93rd out of 167 countries in the Democracy Index 2015, putting it slightly behind Tanzania but well above Zimbabwe. Among its risk scores (see adjacent table), Kenya’s political stability risk is 55 (on a scale of 0-100). A weak institutional framework underpins an even riskier legal and regulatory risk score (65) and corruption contributes to a government effectiveness risk score of 79. A security risk score of 64 is driven by insurgency from the Somalia-based Islamist group, al-Shabab, and locally recruited radicals.

Kenya infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	46.1	47.3
Nominal GDP (US$ bn)	63.8	66.2
Real GDP growth (%)	5.4	5.5
Nominal gross fixed investment (US$ bn)	15.1	16.1
Real gross fixed investment growth (%)	14.5	8.9
Stock of inward foreign direct investment (US$ bn)	4.8	5.8
Consumer price inflation (yearly average; %)	6.6	5.6
Current-account balance (US$ bn)	-4.4	-4.4
Total foreign debt (US$ bn)	19.1	22.3

Source: The Economist Intelligence Unit.

Kenya risk measures	Score
Overall assessment	60
Security risk	64
Political stability risk	55
Government effectiveness risk	79
Legal & regulatory risk	65
Macroeconomic risk	35
Foreign trade & payments risk	50
Financial risk	58
Tax policy risk	50
Labour market risk	71
Infrastructure risk	75

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Tanzania

Economic outlook

The Economist Intelligence Unit forecasts Tanzania’s economy will generate about US$47bn in 2016. We expect economic growth to remain brisk, with annual real GDP expansion to accelerate to 6.6% in 2016. Agriculture will be constrained by low productivity and inadequate infrastructure but there will be robust growth in construction and services. Manufacturing will expand, but remain dominated by resource-based activity and be held back by lack of skilled labour. Tourism is Tanzania’s largest single foreign-exchange earner, generating some 24% of the country’s exports. Tourism-related export earnings have been rising year on year by over 10% since 2013.

Political outlook

Following its victory in the October 2015 general election, the long-standing ruling party, Chama Cha Mapinduzi, is positioned to retain a firm grip on power. The government has pledged to improve public-sector efficiency but reduction in government overheads will need to be matched by productivity-enhancing reforms or government effectiveness will erode. Economic ties with China—the country’s largest trading partner—will strengthen. The government expresses support for the EAC but closer integration will be challenged by public concerns over land and immigration.

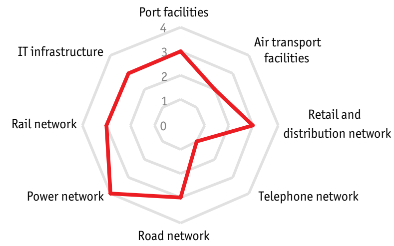
Infrastructure outlook

With the country woefully lacking in electricity supply (see risk map upper right), Tanzania’s government has laid plans for widespread electrification by 2025. This involves boosting generation capacity from 1,500 mw to 10,000 mw and connecting at least 75% of the population, from 36% today. New port infrastructure aims to attract manufacturing investment. The Tanzania Tourism Board is establishing special economic zones across the country that offer favourable tax arrangements and approval prioritisation for tourism-related infrastructure projects.

Transparency & stability assessment

As with neighbouring Kenya, Tanzania’s system of government qualifies as a hybrid regime with civil society weak, corruption widespread and rule of law not well established. Tanzania ranks 91st in the Democracy Index 2015. In terms of risk measures, Tanzania’s political stability earns a 50, the middle of the 0-100 risk scale. Legal and regulatory risk registers much higher (70) and government effectiveness risk scores 64 (the latter attractively compares with Kenya’s 79 for government effectiveness). Among all risk factors, Tanzania performs best in the area of security, with a score of 39. As in the area of security, the country's macroeconomic risk and foreign trade and payments risk also fall below 50.

Tanzania infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	53.5	55.2
Nominal GDP (US$ bn)	44.8	47.4
Real GDP growth (%)	6.2	6.6
Nominal gross fixed investment (US$ bn)	13.6	14.4
Real gross fixed investment growth (%)	4.3	5.9
Stock of inward foreign direct investment (US$ bn)	–	–
Consumer price inflation (yearly average; %)	5.6	6.4
Current-account balance (US$ bn)	-4.2	-4.0
Total foreign debt (US$ bn)	16.1	16.7

Source: The Economist Intelligence Unit.

Tanzania risk measures	Score
Overall assessment	56
Security risk	39
Political stability risk	50
Government effectiveness risk	64
Legal & regulatory risk	70
Macroeconomic risk	40
Foreign trade & payments risk	43
Financial risk	67
Tax policy risk	50
Labour market risk	68
Infrastructure risk	69

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Zimbabwe

Economic outlook

Zimbabwe generated a relatively small nominal GDP of US$13.9bn in 2015. Since 2013, the Harare government has promoted an Agenda for Sustainable Socioeconomic Transformation which struggles to attract foreign investment. Compounding the effects of an indigenisation programme and poor policy environment that deter outside investors, meteorologists foresee severe El Niño weather patterns—which induce drought in Zimbabwe—in 2016. Agriculture output will fall and the mining and manufacturing sectors remain anaemic. After the economy essentially stood still in 2015, real GDP output will contract by 1.1% in 2016.

Political outlook

Led by strongman Robert Mugabe, the Zimbabwe African National Union-Patriotic Front (ZANU-PF) has dominated the nation's political scene since independence in 1980. With Mr Mugabe now in his 90s and lacking a clear successor, risks are increasing for a power struggle, either within the ruling ZANU-PF or initiated by opposition groups vying for control. China has been Zimbabwe's major source of investment, lending the country around US$1bn over the past five years. Chinese assistance comes mainly in the form of project funding and focuses on energy and natural resources.

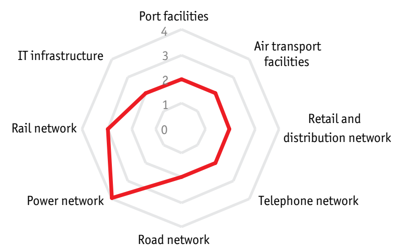
Infrastructure outlook

If ZANU-PF were to addresses structural bottlenecks—principally infrastructure gaps and a forbidding business environment—economic performance would be put on a viable footing for growth. In the current political climate this seems unlikely. As with the larger economies of Kenya and Tanzania, infrastructure risk in Zimbabwe is especially pronounced concerning power supply. Barring a change in its chilly relations with the West, Zimbabwe's government will continue to "look East" for economic assistance, potentially offering nickel, diamond and gold mines as collateral.

Transparency & stability assessment

Although technically a democracy, Zimbabwe's political structure operates on an authoritarian basis. In the Democracy Index 2015, Zimbabwe ranks 141st out of 167. Political pluralism (a category in which the country scores 0.50 on a scale of 0-10) is virtually non-existent. The judiciary lacks independence and government functioning is weak. The country's political stability risk measures 65 (rating CCC). Legal and regulatory risk registers an extremely high 88 and government effectiveness risk registers an even higher 96, the latter indicating almost guaranteed uncertainty. The areas of security (57) and infrastructure (59) demonstrate comparatively less, but still significant, risk.

Zimbabwe infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

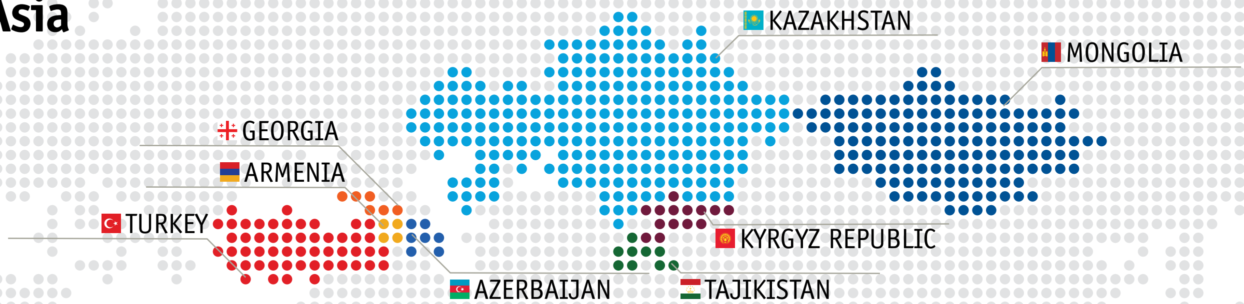
Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	14.9	15.3
Nominal GDP (US$ bn)	13.9	14.2
Real GDP growth (%)	0.2	-1.1
Nominal gross fixed investment (US$ bn)	1.8	1.8
Real gross fixed investment growth (%)	-1.0	-3.8
Stock of inward foreign direct investment (US$ bn)	–	–
Consumer price inflation (yearly average; %)	-2.6	3.5
Current-account balance (US$ bn)	-2.5	-2.6
Total foreign debt (US$ bn)	10.5	10.9

Source: The Economist Intelligence Unit.

Zimbabwe risk measures	Score
Overall assessment	74
Security risk	57
Political stability risk	65
Government effectiveness risk	96
Legal & regulatory risk	88
Macroeconomic risk	70
Foreign trade & payments risk	93
Financial risk	71
Tax policy risk	69
Labour market risk	71
Infrastructure risk	59

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Central Asia



OVERVIEW

During a state visit to Kazakhstan in September 2013, Chinese president Xi Jingping extolled the benefits of China and Central Asia collaboration, which he framed in historic and even poetic terms. "Over the millennia and centuries, on this ancient Silk Road," rhapsodised China's supreme leader, "the peoples of its various countries have mutually composed stories of friendship that have resonated across the ages." On the basis of such precedent, Mr Xi announced that now was the time to "use innovative methods of co-operation to mutually establish a 'Silk Road Economic Belt'".

This speech by Mr Xi served as the conceptual launchpad for the One Belt, One Road initiative. In the time since, the nations of the region have witnessed varying degrees of progress with their economies and with Belt-Road projects. When the idea of a Silk Road Economic Belt was first raised, the global commodities markets that support many Central Asian economies were on a tear. China's economy was growing furiously too. There also seems to have been a belief that modern transport systems, such as high-speed rail, could be brought in with relative ease to replace the ancient caravan routes of the Silk Road and supercharge China's trade flows with the region and beyond. All these aspects of the original rationale for Belt-Road warrant modification in the face of realities that differ from earlier assumptions.

This is not to say that the region does not still hold tremendous promise as a cornerstone of China's OBOR strategy. As the tables detailing recent infrastructure projects clearly show, development activity remains robust. Yet making sense of the successes as well as the difficulties encountered in the birthplace of OBOR is important for organisations to come to terms with a coherent strategy for the region.

This section on Central Asia examines OBOR in relation to Turkey, Kazakhstan, Azerbaijan, Georgia, Mongolia, Armenia, Tajikistan and the Kyrgyz Republic. Turkey, with a forecast nominal GDP of US$740bn for 2016, has an economy over three times larger than that of the other Central Asian nations combined. Its infrastructure pipeline also dominates in terms of the number of domestic large-scale projects. We thus begin by reviewing a sample of Turkey's infrastructure pipeline before looking at projects in other countries.

Central Asia table 1: recent infrastructure projects, Turkey

Country	Project	Sector	Investment (US$ m)	Stage
Turkey	Istanbul third airport	Transport	6,810	Financial close
Turkey	Gebze-Izmir motorway	Transport	6,000	Financial close
Turkey	North Marmara highway; Third Bosphorus Bridge	Transport	2,500	Financial close
Turkey	Northern Marmara motorway, Kurtkoy-Akyazi section	Transport	2,000	Tendering
Turkey	Northern Marmara motorway, Kinali-Odayeri section	Transport	2,000	Tendering
Turkey	Ankara-Nigde motorway	Transport	1,500	Planning
Turkey	Ankara Etlik Health Campus	Social & health	1,200	Financial close
Turkey	Bilkent Integrated Healthcare Campus	Social & health	1,200	Financial close
Turkey	Bosphorus Tunnel	Transport	1,000	Financial close
Turkey	Ankara-Kirikkale-Delice motorway; Kirikkale ring road	Transport	825	Planning
Turkey	Milas-Bodrum Airport terminals	Transport	807	Operational
Turkey	Dalaman Airport	Transport	800	Financial close
Turkey	Mersin International Port	Transport	755	Operational
Turkey	Gaziantep Integrated Health Campus	Social & health	750	Awarded
Turkey	Izmir-Bayrakli Integrated Health Campus	Social & health	718	Awarded
Turkey	Adana Integrated Health Campus	Social & health	597	Financial close
Turkey	Derince Port	Transport	543	Awarded
Turkey	Istanbul Sabiha Gokcen Airport	Transport	530	Operational
Turkey	Instanbul-Ikitelli Integrated Health Campus	Social & health	511	Awarded
Turkey	Golden Horn Port	Transport	500	Awarded
Turkey	Kocaeli Integrated Health Campus	Social & health	477	Awarded
Turkey	Cukurova Airport	Transport	470	Tendering
Turkey	Kayseri Integrated Health Campus	Social & health	463	Financial close
Turkey	Asya Port trans-shipment container terminal	Transport	413	Financial close
Turkey	Istanbul Salipazari Cruise Port	Transport	350	Awarded
Turkey	Konya Hospital	Social & health	349	Financial close
Turkey	Izmir Airport	Transport	347	Financial close
Turkey	Petlim container terminal	Transport	300	Financial close
Turkey	Eskisehirr City Hospital	Social & health	290	Financial close
Turkey	Yozgat Education and Research Hospital	Social & health	121	Financial close
Turkey	Mersinli Wind Energy Project	Energy	80	Planning
Turkey	Mersin Integrated Health Campus	Social & health	-	Financial close
Turkey	Ankara TPHA+TPMDA Campus	Social & health	-	Awarded
Turkey	Bakirkoy Integrated Health Campus	Social & health	-	Tendering
Turkey	Istanbul Uskudar Public Hospital	Social & health	-	Tendering
Turkey	Physical therapy, psychiatry and high-security forensic psychiatry hospitals	Social & health	-	Tendering
Turkey	Ankara high-speed train station	Transport	-	Tendering
Turkey	Western Antalya Airport	Transport	-	Planning

Sources: World Bank; InfraPPP; CG/LA.

INFRASTRUCTURE DEVELOPMENT

Central Asia table 1 lists 38 recent domestic infrastructure projects at various stages of development in Turkey. They represent at least US$35bn in value, with the majority relating to transportation and logistics. Medical facilities are the other major area of focus. The country is also a beneficiary from the second stage of the massive Shah Deniz gas field development in Azerbaijan (described in Central Asia table 2). Turkey along with Georgia will start receiving gas delivery from this project in 2018, with delivery to Europe scheduled to start the following year.

Despite what counts as a fairly strong pipeline of new development activity, we expect Turkey’s physical infrastructure to continue to fall short of the general level of infrastructure development enjoyed by the EU, which Turkey has sporadically aspired to join. Infrastructure weakness will be manifest in power- and water-supply interruptions, an inadequate rail network, poor inter-city roads, and urban traffic congestion. The potential flipside to this situation is that should Turkey’s government commit to address these shortcomings, a wide range of new opportunities for infrastructure development will emerge.

Outside Turkey’s domestic infrastructure activity, other countries in the region are engaged in a broad range of projects covering energy, transportation, water supply and waste treatment, social welfare, mining and telecommunications (Central Asia table 2).

Natural resources lead in attracting big-ticket investment. After the US$28bn Shah Deniz II gas field project in Azerbaijan, Line D of the Chinese led Central Asia-China Gas Pipeline ranks as the largest infrastructure project east of the Caspian Sea. The pipeline is being built with a minimum of US$6.7bn in capital expenditures. When complete the line will span 1,000 km, 840 km across lands outside China. Part of a multi-phased, multiple route energy network that passes through various Central Asian republics to deliver natural gas to China, the project tangibly embodies the modern physical and economic interconnectivity that OBOR offers.

Central Asia table 2: recent infrastructure projects, ex-Turkey

Country	Project	Sector	Investment (US$ m)	Stage
Azerbaijan/ Georgia/Turkey	Shah Deniz II gas field	Energy	28,000	Construction
Uzbekistan/ Tajikistan/Kyrgyz Republic/China	Central Asia-China Gas Pipeline, Line D	Energy	6,700	Construction
Mongolia	Oyu Tolgoi mine	Mining	4,400	Planning
Kazakhstan	Centre South Road Corridor	Transport	2,563	Planning
Georgia	Anaklia Deep Water Sea Port	Transport	2,500	Awarded
Armenia	North-South Road Corridor Investment Programme	Transport	1,500	Construction
Mongolia	Trans-Mongolian Rail, Ovoot extension	Transport	1,300	Planning
Mongolia	Ulaanbaatar Thermal Power Plant No. 5	Energy	1,200	Construction
Georgia	Anaklia Port upgrade	Transport	1,000	Tendering
Kazakhstan	Almaty ring road	Transport	680	Tendering
Georgia	Tbilisi Cluster Healthcare Transformation Project	Social & health	500	Awarded
Kyrgyz Republic	Kara-Balta oil refinery	Energy	430	Operational
Georgia	Shuakhevi Hydropower Plant	Energy	417	Construction
Kazakhstan	Almaty light rail system	Transport	300	Planning
Armenia	Vorotan Hydropower Plant	Energy	250	Construction
Georgia	East-West Highway E-60, Rikoti Tunnel east portal	Transport	210	Procurement
Georgia	Anadolu Paravani Hydropower Plant	Energy	157	Construction
Mongolia	Newcom Salkhit Wind Farm	Energy	120	Operational
Georgia	Inter Rao Khrami Hydropower Plant, 1 & 2	Energy	104	Operational
Kyrgyz Republic	KyrgyzgazGazprom	Energy	40	Acquisition
Georgia	Ostelecom	Telecom	16	Operational
Kazakhstan	Kyzylorda water supply and wastewater management	Water & waste	14	Planning
Kazakhstan	Ust-Kamenogorsk kindergarten system development	Social & health	-	Tendering
Kazakhstan	Astana on-street parking	Transport	-	Planning
Kyrgyz Republic	Bishkek automated fare collection system	Transport	-	Planning
Georgia	Kvemo Kartli Solid Waste Management	Water & waste	-	Planning
Kazakhstan	Aktau Desalination Plant	Water & waste	-	Awarded

Sources: CG/LA; CNPC; InfraPPP; BP; Rio Tinto; SourceWatch; SNCO.

NEW TRACKS OVER ANCIENT ROADS

Large-scale energy projects such as the Central Asia-China Gas Pipeline and the even bigger investments associated with the Power of Siberia system for gas delivery from Russia to China are important components of OBOR. (For further discussion on the Power of Siberia project, see this report's section on Russia.) Undeniably impressive projects, they nevertheless provide one-way supply of a natural resource and are not especially conducive to long-term, wide-ranging economic interactivity outside the realm of energy. Projects that support multi-lateral flows of valuable resources—goods, services, people, information—will be crucial for OBOR to achieve more of its potential as a modern version of the Silk Road.

In this regard, one of the most oft-mentioned visions for OBOR has been the idea for extending China's world-class domestic high-speed railway system westwards through Central Asia and beyond. In November 2015, He Huawu, chief engineer of China Railway, further stoked interest in the subject by formally presenting the outlines for a "Silk Road high-speed railway". If constructed, this high-tech version of ancient trade routes would link together Urumqi in China's westernmost province, Xinjiang, to cities in Kazakhstan, the Kyrgyz Republic, Uzbekistan, Turkmenistan and Iran. The network could eventually be extended further to Turkey and beyond into Europe.

Not as easy as it seems

Mr He's proposal represents an appealing future direction for Belt-Road projects in the region, representing an attempt at higher value inputs that would bequeath great commercial and social benefits to all sides. The plan, however, will likely require downsizing, at least at its initial stages. For a fully integrated, region-wide high-speed rail network based on Chinese technology faces a multitude of challenges.

For one, the Central Asian cities dotting the route from Urumqi to the Iranian capital, Tehran, are moderately or small-sized and spaced far apart. The investment required and difficulty of earning a reasonable return on a high-speed railway that crosses 3,200 km of largely non-industrialised, undeveloped territory is formidable.

The other key issue is more prosaic. The region's existing rail systems use broad-gauge lines, typically based on the Russian standard. In the current Silk Road railway plan, the only other country that shares China's use of international standard-gauge rail systems is Iran. This means that any train systems using Chinese technology will be incompatible—lack "interoperability" as railway parlance goes—with existing railroads.

Thus, if Chinese high-speed or any form of rail technology will be introduced to Central Asia, it will probably need to be implemented incrementally rather than according to a master plan. There is a precedent for this approach. In 2012, Uzbek Railways began operating the first bullet train in the Central Asian republics. The 220 km/h maximum-speed *Afrosiyob*, traverses a 344 km line connecting just two cities, Tashkent and Samarkand. Similarly, cherry picking territories within Central Asia for high-speed rail development could provide a patchwork base that could later be stitched together in an expanding network. This would provide for more readily achievable, albeit piecemeal, results than the herculean effort required to implement a single, unified railroad network.

OPPORTUNITIES AND DIVERGENCES

As China looks for ways to address the complexities of railway interconnectivity with Central Asia, improvements in road and air infrastructure can provide more immediate opportunities for transportation-related development. As illustrated in the preceding tables, a wide range of projects that underpin higher value-added development are also ongoing in areas like waste treatment, social welfare and telecommunications.

Whatever projects Chinese interests decide to pursue in Central Asia, these organisations will be operating in business environments that, as with the region's railroads, diverge from those found in China. The eight individual country profiles that follow this section highlight key aspects of those varying environments. Here we briefly describe two important areas for consideration: macroeconomic risk and infrastructure risk.

Macroeconomic risk

In The Economist Intelligence Unit’s rating of a country’s macroeconomic risk, we evaluate the factors of exchange-rate volatility, risk of recession, price instability, crowding out (ie, government activity that leads to suppression of private investment) and interest-rate volatility. As of the publication of this report, we rate China’s macroeconomic risk a 25 on a scale of 0-100. (For point of reference, the US scores the same at 25.)

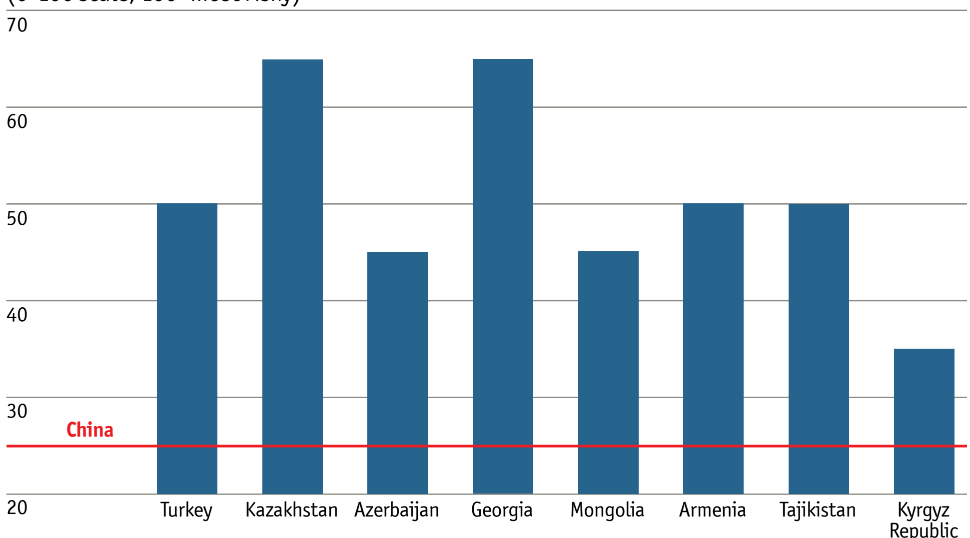
Among the Central Asian nations we examine, all are contending with macroeconomic risks higher than China’s (see Central Asia figure 1). With the exception of the Kyrgyz Republic (whose macroeconomic risk level is 140% higher), other countries have risk levels of 45 up to 65, representing risk that is 180% to 260% above China’s.

Economic risk in early-stage emerging markets is not unusual. Most (but not all) of the economies reviewed in this study demonstrate macroeconomic risks that are higher than China’s. It is important to bear in mind that our risk indicators are indicatively neutral: they do not reflect a “good” or “bad” determination. Instead, they reflect uncertainties about operating in a country. Those uncertainties should be factored in when considering appropriate strategies and actions.

We call out this aspect of macroeconomic risk here because Central Asia serves as the touchstone for the One Belt, One Road vision. The region undeniably holds enticing—indeed, inspiring—potential for China’s objectives. But as the wide spread of macroeconomic risk levels (both compared with China and compared between Central Asian states) shows, China-based organisations that operate in the region will confront risk factors very unlike those they face at home.

Central Asia figure 1: national macroeconomic risk levels vs. China

(0-100 scale, 100=most risky)



Source: The Economist Intelligence Unit.

Infrastructure risk

Regarding conditions with existing infrastructure in the region, risk levels can be even more pronounced. Mongolia, bordering China's north-west, in particular lacks basic infrastructure, leading to extremely high risk levels in that category (Central Asia figure 2, below). High infrastructure risk also applies to China's western neighbours, Tajikistan and the Kyrgyz Republic. For the larger sized, more developed economies of the region—Turkey, Kazakhstan, Azerbaijan, Georgia—infrastructure risk is lower, approximating the amount that exists in China.

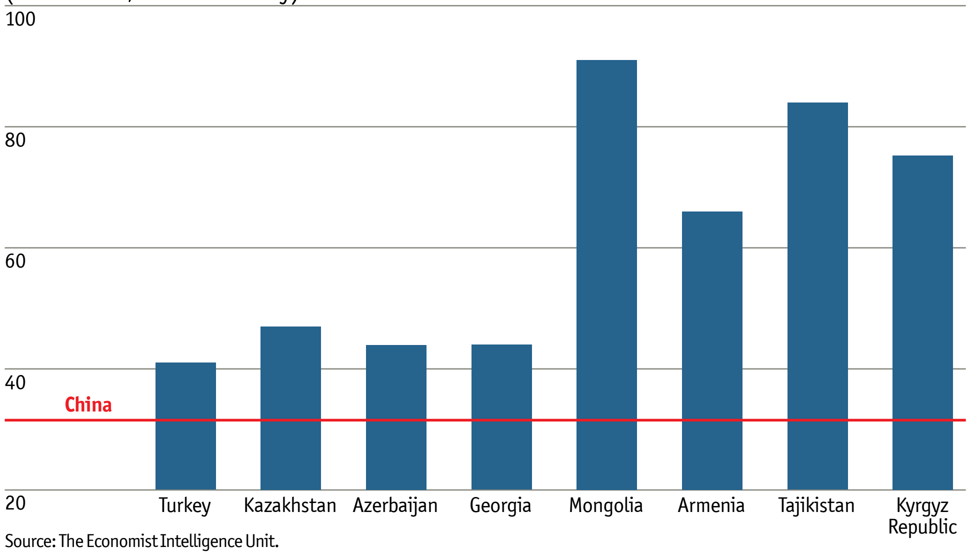
Here too, high risk should not necessarily be interpreted as a deterrent factor. Indeed, countries noticeably lacking in infrastructure have the potential to be all the more welcoming of those who offer to meet their infrastructure needs. This situation pertains especially to countries in regions such as Africa, which often feel neglected by the West. These nations can be eager to embrace opportunities that a new source of infrastructure development like China presents.

Yet the convoluted geopolitics of Central Asian states, especially those located close to China, means that while welcoming Chinese trade and investment, they also tend to be leery of China's economic influence. This can play out in ways that expose the downsides of infrastructure and other risk factors. Zhongda China Petrol Company discovered as much after investing US$430m in an oil refinery it constructed at Kara-Balta in the Kyrgyz Republic. Despite attracting strong support from the Kyrgyz government to build a plant with an annual petroleum output capacity of 850,000 tons, by early 2015, Zhongda management was only able to source enough crude oil to achieve less than 6% of that capacity.

Zhongda's difficulties stem mainly from the unenforceability of contracts to secure supply; ie, are the result of legal and regulatory risk. But local physical infrastructure also plays a role in terms of the availability of facilities and means for alternative

Central Asia figure 2: national infrastructure risk levels vs. China

(0-100 scale, 100=most risky)



Source: The Economist Intelligence Unit.

sourcing. If this sort of infrastructure risk had been sufficiently factored, then the Kara-Balta operations could have had other recourse, or otherwise been identified early on as being too risky to construct. When hearing of the refinery's predicament, the Kyrgyz vice prime minister is alleged to have brusquely quipped: "To build a huge refinery and not know where to get the oil, that's ridiculous!"[1] His comments might gloss over the Kyrgyz government's failure to meet its own obligations to the refinery, but they faithfully underscore the severe consequences of ignoring pertaining risks.

[1] Chris Rickleton, "Kyrgyzstan: Chinese Investor Struggling Without Russian Help," January 27th 2015, eurasianet.org.

Turkey

Economic outlook

Real GDP growth will slow from 3.9% in 2015 to 3.5% in 2016, owing to the negative impact on Turkey of economic sanctions on Russia and a moderate tightening of monetary policy. We estimate that growth will average 3.8% annually in 2017-20, assuming a gradual stabilisation of domestic and external conditions. The re-election of the Justice and Development Party (AKP) with a parliamentary majority in November 2015 increased the likelihood of a renewed focus on sound economic policies. Short-term constraints on growth persist, including potential currency volatility and weaker capital inflows. Other challenges are high unemployment (currently running around 10%), subdued industrial activity, and weak consumer and business sentiment.

Political outlook

Turkey’s political scene will continue to be dominated by the president and *de facto* leader of the AKP, Recep Tayyip Erdogan, who has become increasingly authoritarian and divisive during his time in office. Following a campaign marred by violence, the AKP scored a comfortable victory in the latest general election. This restored its parliamentary majority but did not secure a sufficient majority to begin the process of reforming the constitution to transfer executive powers to the presidency. Security risk will remain high: the resumption of armed conflict between the military and the outlawed Kurdistan Workers’ Party (PKK) has coincided with increasing fallout in Turkey from Syria’s civil war and escalating tensions with Russia.

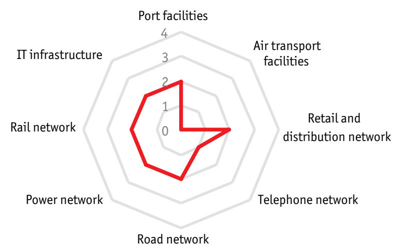
Infrastructure outlook

Turkey’s infrastructure is broadly adequate for doing business. Recent years have seen investment by national and local government and the private sector, leading to some visible improvements, notably growth of domestic air travel, nationwide extension of Turkey’s natural-gas pipeline network, and the spread of broadband Internet and mobile-phone services. Improvements in transport infrastructure will be piecemeal and generally will lag behind EU standards, being especially pronounced in the area of long-distance ground travel. Infrastructure shortcomings are likely to continue regarding power- and water-supply interruptions, an inadequate rail network, poor inter-city roads, and urban traffic congestion.

Transparency & stability assessment

Turkey has had a sharply dropped position in the Democracy Index since 2013 owing to the lack of effective checks on Mr Erdogan’s control of the country. Turkey currently is one of 37 countries classified as hybrid regimes and it ranks 97th globally (one above Thailand), reflecting the steady fraying of the country’s social, political and institutional fabric. The biggest operational risks in Turkey relate to political stability (70) and government effectiveness (68). The country scores 50 for macroeconomic risk and 48 for legal and regulatory risk.

Turkey infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	76.7	77.3
Nominal GDP (US$ bn)	726.2	741.1
Real GDP growth (%)	3.9	3.5
Nominal gross fixed investment (US$ bn)	142.9	138.4
Real gross fixed investment growth (%)	2.3	2.5
Stock of inward foreign direct investment (US$ bn)	184.1	199.1
Consumer price inflation (yearly average; %)	7.7	8.4
Current-account balance (US$ bn)	-34.9	-35.7
Total foreign debt (US$ bn)	406.3	409.0

Source: The Economist Intelligence Unit.

Turkey risk measures	Score
Overall assessment	51
Security risk	54
Political stability risk	70
Government effectiveness risk	68
Legal & regulatory risk	48
Macroeconomic risk	50
Foreign trade & payments risk	32
Financial risk	50
Tax policy risk	38
Labour market risk	57
Infrastructure risk	41

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Kazakhstan

Economic Outlook

Kazakhstan has a growing labour force and considerable catch-up potential, but the weak business environment and large distances to global markets will remain significant constraints. The government has struggled to build a diversified manufacturing sector and the economy remains highly dependent on commodity exports. We forecast that real GDP will contract in 2016 as a result of low oil prices, the devaluation of the currency in the second half of 2015, and high inflation. Growth should be boosted in 2018-20 by increased oil output from the Kashagan and Tengiz fields if the projects are not delayed.

Political outlook

The political system is authoritarian, with a large degree of power focused in the administration of the president, Nursultan Nazarbayev, who has ruled the country since before its independence. Although we expect Mr Nazarbayev to remain in office as long as his health permits, his advanced age means that there is significant uncertainty over when and how a transition of power eventually will be managed. Kazakhstan's super-presidential system has prevented the development of effective institutions that would ensure political stability. There is a risk that Mr Nazarbayev's withdrawal from office could trigger a destabilising power struggle between elite factions. Nevertheless, our core assumption is that all parties will act on their mutual interests to ensure a consensual transition.

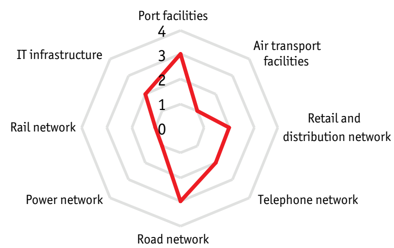
Infrastructure outlook

The government is an enthusiastic supporter of China's One Belt, One Road initiative with Mr Nazarbayev eager to develop Kazakhstan as a key transit route for China's trade with Europe. His government hopes that 7% of China's goods exports to Europe will travel via Kazakhstan by 2020. The current fiscal stimulus plan (Nurly Zhol) envisions additional government spending of US$9bn over three years, much of which will be spent on transportation infrastructure and projects that boost regional connectivity. A dry port has already been built at Khorgos on the border with China. The capacity of sea ports on the Caspian is due to be expanded, and rail and road connections are being upgraded.

Transparency & stability assessment

According to the Democracy Index 2015, Kazakhstan has an authoritarian political system. There is virtually no formal political opposition and the media is closely controlled. Corruption is widespread and the ownership structures of many major companies are not transparent. Industrial unrest has in the past led to deadly clashes with the authorities and could rise again in the near term owing to low commodity prices and the economy slowdown. The country's highest operational risk measure is government effectiveness (which scores 86) followed by legal and regulatory risk (70).

Kazakhstan infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	17.7	17.9
Nominal GDP (US$ bn)	182.8	127.7
Real GDP growth (%)	1.2	-1.6
Nominal gross fixed investment (US$ bn)	42.5	30.2
Real gross fixed investment growth (%)	0.8	0.9
Stock of inward foreign direct investment (US$ bn)	138.6	145.1
Consumer price inflation (yearly average; %)	6.6	13.6
Current-account balance (US$ bn)	-5.3	0.0
Total foreign debt (US$ bn)	152.6	145.9

Source: The Economist Intelligence Unit.

Kazakhstan risk measures	Score
Overall assessment	59
Security risk	57
Political stability risk	65
Government effectiveness risk	86
Legal & regulatory risk	70
Macroeconomic risk	65
Foreign trade & payments risk	61
Financial risk	50
Tax policy risk	50
Labour market risk	46
Infrastructure risk	41

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Azerbaijan

Economic Outlook

Azerbaijan's economic outlook is poor in the near term owing to its high dependency on the oil sector. Oil accounts for over 90% of exports and 40-50% of government revenue. We expect the economy to contract by 2.5% in 2016; a shallow recovery is possible in 2017 if oil prices rise. Growth might be boosted in 2019-20 by the launch of the Shah Deniz II gas field. Yet with oil output in long-term decline, the country's medium-term growth prospects will depend on expansion in non-energy sectors. Import substitution and economic diversification are constrained by weak institutions and limited access to financing. The potential for non-commodity export-led growth also is hampered by high non-tariff barriers to trade.

Political outlook

Political power is tightly consolidated under the president, Ilham Aliyev, who is expected to remain in office beyond his current term ending in 2018. Activities of the extra-parliamentary opposition will be held back by a lack of access to the media, the restrictive political environment, limited funds and internal divisions. Risks to political stability come from increased social unrest driven by worsening economic performance and deepening divisions within the elite. Some conditions are analogous to those that triggered revolutions in Ukraine in 2014 and the Middle East in 2010-11. However, state capacity remains relatively strong and even with low oil prices the government has significant resources to maintain social spending.

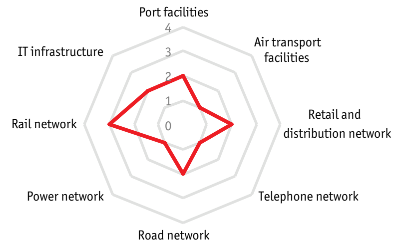
Infrastructure outlook

The sharp fall in revenue from the oil sector will lead to much lower public spending on infrastructure although the medium-term economic impact may be limited. Priority investment commitments include the Southern Gas Corridor, which will carry gas from the new Shah Deniz II gas field via Georgia and Turkey to Europe and the Baku-Tbilisi-Kars railway, which is scheduled to launch in 2016 but has been subject to delays. Azerbaijan wants to expand its role as a transit hub between Europe and the Middle East and Central Asia. The opening of Iran to global trade could provide a fillip to this effort.

Transparency & stability assessment

According to the Democracy Index 2015, Azerbaijan has as an authoritarian government. Corruption is widespread, there is an absence of checks and balances, and the media is neither free nor fair. Yet the threat of widespread social unrest or terrorism remains low for now. Azerbaijan is a largely secular society and radical Islam does not pose a significant security threat, although officials at times find it useful to talk up the threat posed by religious extremism. Government effectiveness risk rates a very high 86; and political stability and legal and regulatory risks also score high at 70 and 68, respectively.

Azerbaijan infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	9.8	9.9
Nominal GDP (US$ bn)	53.0	34.5
Real GDP growth (%)	1.1	-2.5
Nominal gross fixed investment (US$ bn)	16.6	10.7
Real gross fixed investment growth (%)	1.2	-12
Stock of inward foreign direct investment (US$ bn)	66.1	72.3
Consumer price inflation (yearly average; %)	4.1	12.1
Current-account balance (US$ bn)	-0.1	1.3
Total foreign debt (US$ bn)	12.3	12.6

Source: The Economist Intelligence Unit.

Azerbaijan risk measures	Score
Overall assessment	54
Security risk	36
Political stability risk	70
Government effectiveness risk	86
Legal & regulatory risk	68
Macroeconomic risk	45
Foreign trade & payments risk	39
Financial risk	67
Tax policy risk	38
Labour market risk	46
Infrastructure risk	44

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Georgia

Economic outlook

Total output in Georgia's economy in 2015 was US$13.8bn. It has only a small manufacturing sector and export-related activities (apart from the agricultural and tourism sectors) are mostly of little value-add. The economy has been suffering from recessions in its most important trading partners, including Russia and Azerbaijan. Although import compression has gone some way to compensating for the subsequent fall in remittances and depreciation of the currency, domestic demand has taken a hit. We expect elevated political risk, rising interest rates and uncertainty over the outlook for the exchange rate to continue to depress foreign investment in the short to medium term.

Political outlook

The current government, the Georgian Dream coalition, is led by the Georgian Dream Party and has been in office since 2012. A parliamentary election is scheduled for October 2016 and we expect another Georgian Dream-led government to emerge after the election. The run-up to the election is likely to be marred by instability and possibly political violence. Yet we expect a relatively smooth transfer of power if the main opposition party, and leader of the previous government, the UNM wins the election. Reforms efforts likely will remain limited due to political instability.

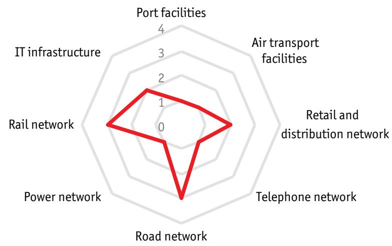
Infrastructure outlook

The country is in need of significant infrastructure investment. Some inroads are being made through, amongst others, investment funded by multilateral lenders. However, progress in recent years has been disappointing. Political instability in the run-up to the next parliamentary election suggests that big reforms or investment decisions are unlikely in 2016. Construction should begin in 2016 on a new Black Sea port in the town of Ankalia. According to the government, the port is meant to fit into China's One Belt, One Road initiative. This year should also see the much-delayed Kars–Tbilisi–Baku railway go into operation, which connects Azerbaijan's and Georgia's capitals with the Turkish town of Kars.

Transparency & stability assessment

Georgia ranks as one of 37 countries with a hybrid regime. Although its score in the Democracy Index has generally improved in recent years, in large part due to the successful conduct of the October 2013 presidential election, civil liberties and the functioning of government are among the factors standing in the way of moving up to democracy status. Operational risk is relatively modest in Georgia, with an overall score of 41. Weighing on the score are macroeconomic, political stability, and financial risk. The nation performs best in tax policy risk, with a score of just 25, but government effectiveness risk is notably higher at 46.

Georgia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	4.0	4.0
Nominal GDP (US$ bn)	13.8	13.3
Real GDP growth (%)	2.6	2.9
Nominal gross fixed investment (US$ bn)	3.4	3.1
Real gross fixed investment growth (%)	-2.1	-0.5
Stock of inward foreign direct investment (US$ bn)	14.3	15.3
Consumer price inflation (yearly average; %)	4.0	5.4
Current-account balance (US$ bn)	-1.6	-1.3
Total foreign debt (US$ bn)	13.1	13.4

Source: The Economist Intelligence Unit.

Georgia risk measures	Score
Overall assessment	41
Security risk	32
Political stability risk	50
Government effectiveness risk	46
Legal & regulatory risk	40
Macroeconomic risk	65
Foreign trade & payments risk	25
Financial risk	50
Tax policy risk	25
Labour market risk	32
Infrastructure risk	44

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Mongolia

Economic outlook

Mongolia’s economic growth slowed to 2.5% in 2015, down steeply down from the average of 11.1% in the preceding five years. Mining investment has slumped, following a sharp drop in global commodity prices and weaker Chinese demand. The impact of these factors was aggravated by antagonistic government policies towards foreign mining investment. However, in 2015 the government secured investment from the British-Australian metals and mining giant, Rio Tinto, to expand the massive Oyu Tologi (OT) copper and gold mine. The beginning of work on this expansion should serve to lift economic growth in 2016. If the OT expansion for some reason were to fail to move forward, foreign investor confidence will weaken.

Political outlook

The next parliamentary election is expected to be held in the second quarter of 2016. Since the last such election in 2012, the balance of power has been tipped towards the Democratic Party (DP). However, the DP will probably see its share of the vote reduced in the 2016 polls owing to its internal divisions and poor record of economic management. Its position would be worse were it not for the weakened state of the opposition Mongolian People’s Party (MPP). We believe that the DP is most likely to head the next government, but it will almost certainly have to rule in coalition.

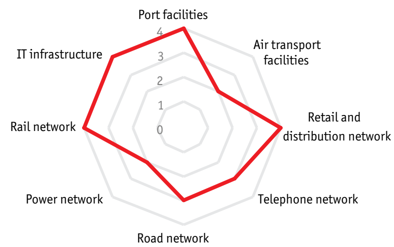
Infrastructure outlook

Investment in Mongolia’s infrastructure has ballooned in line with the mining boom. Thousands of additional kilometres of road have been built since 2010. However, financing issues have delayed some key projects such as railway lines linking important mines to the Chinese border. Mongolia is seeking additional credit from China to finish them, but completion is unlikely before 2020. Power generation capacity is being expanded, largely through additional thermal power (some wind power plants are also being built). A new thermal power plant opened in the capital, Ulaanbaatar, in late 2015. Ulaanbaatar’s urban infrastructure will require additional investment to address transport and social issues in the future, but financing constraints may temper such investment in the near future.

Transparency & stability assessment

Mongolia ranks 62nd out of the 167 countries in the Democracy Index, classifying it as a flawed democracy, similar to Colombia. The country’s ranking is significantly higher than those of neighbouring China and Russia. The country has dealt well with numerous economic and political crises that could have destabilised national politics. However, the political environment can be volatile even though Mongolia’s political stability risk measures a relatively low 35 (the best score in this category for the Central Asia region). The country’s highest rated risk factor is infrastructure, at 81, followed by financial risk, 79, and government effectiveness, 71.

Mongolia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	2.9	3.0
Nominal GDP (US$ bn)	11.9	13.9
Real GDP growth (%)	2.5	6.3
Nominal gross fixed investment (US$ bn)	2.7	4.0
Real gross fixed investment growth (%)	-5.0	39.2
Stock of inward foreign direct investment (US$ bn)	16.9	19.2
Consumer price inflation (yearly average; %)	5.8	6.7
Current-account balance (US$ bn)	-0.9	-2.4
Total foreign debt (US$ bn)	18.2	18.4

Source: The Economist Intelligence Unit.

Mongolia risk measures	Score
Overall assessment	57
Security risk	36
Political stability risk	35
Government effectiveness risk	71
Legal & regulatory risk	65
Macroeconomic risk	45
Foreign trade & payments risk	43
Financial risk	79
Tax policy risk	56
Labour market risk	61
Infrastructure risk	81

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Armenia

Economic outlook

The Economist Intelligence Unit forecasts Armenia's GDP to be US$10bn in 2016, with real growth of 2.4%. The economy has been hard hit by the recession in Russia as remittances (worth 13% of GDP in 2014) fell by 35.8% in 2015, depressing households' incomes. This trend looks set to continue in 2016 as the Russian economy keeps contracting and remittance flows usually follow economic developments with a slight lag. The economy's main structural weaknesses will remain unchanged in 2016-17: lack of domestic competition, restricted access to international markets, weak institutions, high emigration, low investment and a high level of dependence on remittances.

Political outlook

Recent years have seen significant political instability, culminating in large protests over electricity prices in 2015. Discontent with the government and the president, Serzh Sargsyan, remains high because of entrenched corruption, inequality and relatively poor economic performance. We expect this to continue, not in least part because Mr Sargsyan won a referendum to move to a parliamentary system of government in late 2015. This was widely seen as a strategy for him to stay in power (as prime minister) despite term limits for the presidency. The government's willingness and ability to implement significant reform will remain hampered by a lack of confidence in the authorities among the general population.

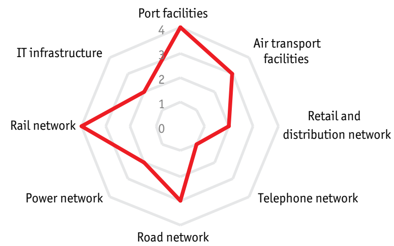
Infrastructure outlook

Infrastructure risk is high in Armenia, with port and air transport facilities, and the rail network being particular issues. Some investment is taking place, such as a major road construction programme, funded in part by the European Investment Bank, to improve north-south connectivity. However, political turbulence means further investment or reforms are unlikely in the short term. International transport links of the landlocked country are impeded by the bad quality of airport transport facilities. The country's biggest challenge in infrastructure development stems from its geographic positioning, being sandwiched between Turkey and Azerbaijan, neither of which Armenia has diplomatic relations.

Transparency & stability assessment

Armenia fell from 113th to 116th place in the Democracy Index 2015. Like several of its regional peers, it qualifies as a hybrid regime. Armenia's overall operational risk score is at mid-point 50 on a 0-100 scale. Its operational risk subindicators for political stability and government effectiveness both score above the overall rating, at 60 and 64 respectively. Its highest risk measure is for infrastructure, where it scores 66. Tax policy, at 31, and labour market risk, 39, are both comparatively low.

Armenia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	3.0	3.0
Nominal GDP (US$ bn)	10.4	10.0
Real GDP growth (%)	2.4	1.5
Nominal gross fixed investment (US$ bn)	1.9	1.9
Real gross fixed investment growth (%)	0.0	2.0
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	3.7	2.7
Current-account balance (US$ bn)	-0.3	-0.3
Total foreign debt (US$ bn)	8.5	8.2

Source: The Economist Intelligence Unit.

Armenia risk measures	Score
Overall assessment	50
Security risk	36
Political stability risk	60
Government effectiveness risk	64
Legal & regulatory risk	58
Macroeconomic risk	50
Foreign trade & payments risk	43
Financial risk	50
Tax policy risk	31
Labour market risk	39
Infrastructure risk	66

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Tajikistan

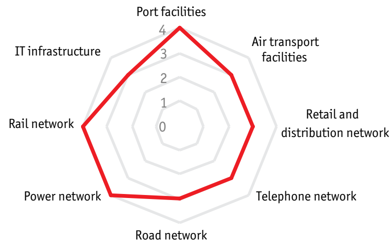
Economic outlook
We forecast Tajikistan's economy will generate about US$5.6bn in 2016, with real GDP growth slowing to -1%, down from 2.0% in 2015. Tajikistan's economic growth has been negatively affected by the deterioration in Russia's economy. With Russia's recession continuing in 2016, this will have ongoing repercussions for investment, trade, remittance flows, budget revenue and the exchange rate. Services, which account for around 40% of total GDP, will be affected by the continued steep fall in remittance flows. We forecast that the authorities will be forced to allow the somoni to depreciate further against the US dollar in 2016, which will also hit economic growth by raising inflation and damaging confidence.

Political outlook
Imomali Rahmon, the president, will continue to dominate the political scene. Clampdowns on political, religious and media freedoms will intensify in 2016 as the authorities' concerns about discontent rise. The risks to Mr Rahmon and the political elite around him have risen since 2015, amid the combined impact of economic deterioration and the fallout from NATO's withdrawal from Afghanistan. The regional influence of China is growing. In September 2015 China signed a US$500m currency swap agreement with Tajikistan, aimed at providing support to the somoni, which has come under pressure as the Russian rouble has depreciated.

Infrastructure outlook
The authorities remain keen to develop energy resources and infrastructure, although progress in these areas is likely to be limited, owing to the weaker investment climate and the opaque business environment. China's involvement in energy exploration is increasing, and we expect the country's investment to expand as it seeks to improve the stability of the Central Asian states to buffer against possible negative spillover from Afghanistan. Tajikistan will benefit from transit revenue and improved energy security upon completion of the new artery of the Central Asia-China gas pipeline in 2017.

Transparency & stability assessment
In the Democracy Index 2015, Tajikistan ranks 158th out of 167 and is classified as an authoritarian state, similar to its neighbours, Kazakhstan, Turkmenistan and Uzbekistan. Political pluralism (a category in which the country scores 0.58 on a scale of 0-10) is virtually non-existent. The judiciary lacks independence and government functioning is weak. The country's political stability risk measures 80. Legal and regulatory risk registers an extremely high 88 and government effectiveness risk registers an even higher 96, the latter indicating almost guaranteed uncertainty. Risk with foreign trade and payments (93) and infrastructure (84) also ranks unusually high.

Tajikistan infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	8.6	8.8
Nominal GDP (US$ bn)	7.8	5.6
Real GDP growth (%)	2.0	-1.0
Nominal gross fixed investment (US$ bn)	0.9	0.6
Real gross fixed investment growth (%)	-23.1	-13.4
Stock of inward foreign direct investment (US$ bn)	0.2	0.2
Consumer price inflation (yearly average; %)	10.8	8.0
Current-account balance (US$ bn)	-0.3	-0.2
Total foreign debt (US$ bn)	3.9	4.0

Source: The Economist Intelligence Unit.

Tajikistan risk measures	Score
Overall assessment	73
Security risk	50
Political stability risk	80
Government effectiveness risk	96
Legal & regulatory risk	88
Macroeconomic risk	50
Foreign trade & payments risk	93
Financial risk	83
Tax policy risk	50
Labour market risk	57
Infrastructure risk	84

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Kyrgyz Republic

Economic outlook

The Economist Intelligence Unit forecasts that economic growth in the Kyrgyz Republic will slow in 2016, only generating about US$6.1bn in output and experiencing annual real GDP growth of 0.6%. A second consecutive year of recession in Russia will harm remittance flows, while export revenue will be negatively affected by the challenging economic outlook for the Central Asia region. Agriculture will be constrained by an expected drought in mid-2016 and manufacturing will remain dominated by extraction of gold, whose global market is likely to remain flat in 2016. Inflationary pressures will weigh on real income, contributing to the slowdown in headline real GDP growth.

Political outlook

The continuation of the Social Democratic Party of Kyrgyzstan (SDPK) at the helm of the governing coalition following the October 2015 parliamentary election bodes well for policy continuity. In May 2015 the country joined the Russian-led Eurasian Economic Union and will remain susceptible to Russian pressure, owing to strong economic, political and security ties. Russia is the main host country for Kyrgyz migrant workers, who are finding it increasingly difficult to find work in Russia, and some have returned home. Along with the fall in the value of remittance inflows, this has the potential to stir up political and social unrest.

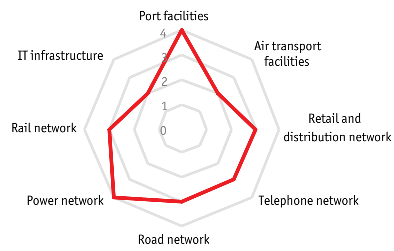
Infrastructure outlook

China has recently increased its investments in infrastructure in the Kyrgyz Republic, rivalling Russia's influence in the country. During a tour of the region by the Chinese president, Xi Jinping, in 2013, deals worth up to US$3bn were signed, including investment in the Kara-Balta oil refinery. The Kyrgyz Republic will benefit from the construction of a new artery of the Central Asia-China pipeline, which will take gas from Turkmenistan to China, in part across Kyrgyz territory. We expect the road, rail and electricity distribution networks to remain mediocre without investments in their upgrading.

Transparency & stability assessment

The only country of the Central Asian republics situated east of the Caspian Sea not to be classified as authoritarian, the Kyrgyz Republic's system of government qualifies as a hybrid regime, with widespread corruption and a poorly functioning government. The Kyrgyz Republic ranks 93rd in the Democracy Index 2015. In terms of risk measures, the Kyrygz Republic's political stability earns a 55. Legal and regulatory risk registers much higher (85) and government effectiveness risk scores 82, financial risk scores 79 and infrastructure risk scores 75. Among all risk factors, the Kyrgyz Republic performs best in the area of macroeconomic risk, with a score of 35.

Kyrgyz Republic infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

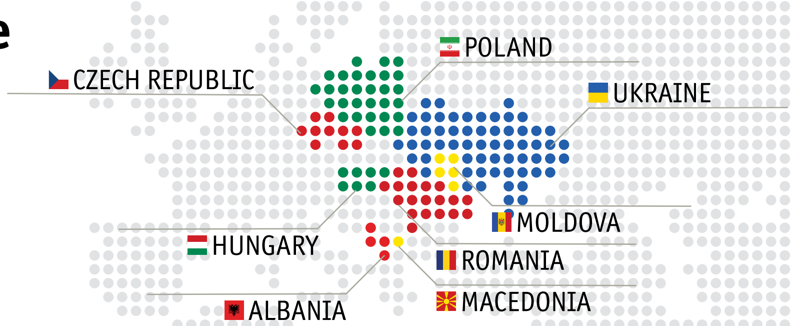
Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	5.7	5.8
Nominal GDP (US$ bn)	7.4	6.1
Real GDP growth (%)	3.5	0.6
Nominal gross fixed investment (US$ bn)	2.1	1.7
Real gross fixed investment growth (%)	1.1	-1.2
Stock of inward foreign direct investment (US$ bn)	3.9	4.2
Consumer price inflation (yearly average; %)	6.5	4.1
Current-account balance (US$ bn)	-1.5	-1.5
Total foreign debt (US$ bn)	7.3	7.7

Source: The Economist Intelligence Unit.

Kyrgyz Republic risk measures	Score
Overall assessment	62
Security risk	57
Political stability risk	55
Government effectiveness risk	82
Legal & regulatory risk	85
Macroeconomic risk	35
Foreign trade & payments risk	50
Financial risk	79
Tax policy risk	50
Labour market risk	54
Infrastructure risk	75

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Eastern Europe



OVERVIEW

Eastern Europe presents not only the farthest geographic stretch of OBOR, it also marks the furthest extent of China's reach into historically more advanced capitalist economies. China and its former Eastern Bloc communist ally nations have embraced post-Cold War global capitalism in different ways and with varying degrees of success. The way in which an economically powerful China now engages these nations on the basis of their respective degrees of integration with Western Europe and in terms of their positioning with Russia, their former Soviet overlord, is revealing in many ways.

This section on OBOR in Eastern Europe considers the region from the perspective of eight economies: Poland, the Czech Republic, Romania, Hungary, Ukraine, Albania, Macedonia and Moldova. Six of these (all but Ukraine and Moldova) are part of a grouping that China has organised that is styled China and the Central and Eastern European Countries (China-CEEC). Made up of 16 regional states, the organisation, also known as the 16+1 mechanism, factors heavily into China's westernmost expansion of the Belt-Road initiative.

A cursory highlight OBOR activities within our eight Eastern European countries would include:

- Poland in effect became the first Belt-Road destination in the region with the inauguration of the China-Poland railway in 2013. Since 2015, the Chinese and Polish governments have been exploring means to expand on that transportation link to develop Poland as an OBOR-affiliated logistics hub. In addition to looking to add routes on the transcontinental railway, both sides are looking at means to enhance seaports at Gdansk, Gdynia, Szczecin and Swinoujscie. Poland is the only country in the region with membership in the Asia Infrastructure Investment Bank.

- The richest Eastern European economy on a per capita basis, the Czech Republic engages in more trade with China than any nation outside the EU. One of the most technologically advanced countries in the region, the Czech Republic is looking to partner with China in sectors such as aviation, biology, education, finance, healthcare, high-speed rail, machinery, nanotechnology, nuclear power, steel and tourism.

- In June 2015, Hungary became the first China-CEEC member to formally sign an agreement for co-operation with China within a stated One Belt, One Road context. It has since then also become the first EU member state to initiate a Chinese high-speed rail project. Budapest plans for Hungary to become the first country in Eastern Europe to issue renminbi bonds. Hungary's automotive manufacturing sector has secured €30m (US$34m) through two Chinese industrial investment packages. Its low-cost airline, Wizz Air, has received financing from China Construction Bank on the lease of eleven new Airbus aircraft valued at US$1.4bn.

- China General Nuclear Power is forming a joint-venture Nuclearelectrica, the Romanian national nuclear company, to add capacity to the Cernavoda power plant in a multi-billion-euro deal. Following completion of the upgrade, the facility will be able to generate almost 40% of Romania's national electricity capacity. Other China-Romania projects being discussed cover hydroelectricity and roads.

- China Development Bank (CDB) has opened a US$3.7bn credit line to implement Chinese technology to convert Ukrainian plants running on Russian natural gas to run on Ukrainian coal. The agreement further supports the development of Ukrainian power plants to be able to gasify lignite and hard coal. CDB is also underwriting a US$50m facility for modernisation of Ukraine's telecommunications network using inputs from China's leading communications equipment company, Huawei.

- Among the region's smaller economies, with Chinese support Albania will receive a two-lane highway connecting its capital, Tirana, with the isolated region of Dibra on the Macedonian border. Macedonia has signed on to purchase six fleets of Chinese high-speed trains. China Shipping Group has added container services to Giurgiulesti, the only Moldovan port on the Danube.

Eastern Europe table 1 on the following page provides a cross-sectional view on various recent regional infrastructure projects.

OBOR GOES WEST

A bridge less far

In December 2014, the 1.5-km Pupin Bridge crossing the Danube to connect urban area of Zemun in the Serbian capital, Belgrade, and neighbouring suburban Borca opened. Including a 21-km connecting route, the project was designed and built by China Road and Bridge Corporation with 85% of the US$260m of the construction costs provided through

Eastern Europe table 1: select projects in Eastern Europe’s infrastructure pipeline

Country	Project	Sector	Investment (US$ m)	Stage
Romania	Cernavoda nuclear power plant, units 3 and 4	Energy	7,800	Planning
Hungary/Macedonia/Serbia	Budapest-Belgrade high-speed railway	Transport	2,900	Signed
Italy/Albania/Greece	Trans Adriatic Pipeline	Energy	2,000	Pre-Construction
Romania	Bucharest metro rail, Line 7	Transport	2,000	Tendering
Romania	Bucharest elevated highway	Transport	2,000	Planning
Romania	Comarnic-Brasov motorway	Transport	1,626	Awarded
Poland	Swinoujscie liquid natural gas terminal	Energy	1,100	Completed
Hungary	M6 Tolna motorway	Transport	739	Operational
Finland/Estonia/Latvia/Lithuania/Poland	Rail Baltica	Transport	540	Design
Czech Republic	R7 expressway	Transport	352	Planning
Macedonia	Skopje tram	Transport	335	Tendering
Poland	Gdansk container terminal, second deep-water berth	Transport	322	Financial close
Poland	Lodz waste-to-energy incineration plant	Water; Energy	305	Planning
Poland	Gdansk waste-to-energy incineration plant	Water; Energy	305	Planning
Czech Republic	R4 expressway	Transport	303	Planning
Ukraine	Boryspil Airport	Transport	280	Planning
Romania	Bucharest South Airport	Transport	271	Planning
Poland	Poznan waste project	Water & waste	242	Financial close
Albania	Tirana-Dibra Arber Highway	Transport	225	In construction
Poland	Olsztyn waste-to-energy project	Energy	222	Tendering
Moldova	Chisinau Airport redevelopment	Transport	189	Planning
Poland	Wloclawek road system	Transport	133	Tendering
Poland	Gdansk Trasa Sucharskiego road	Transport	130	Operational
Ukraine	Yuzhny Grain Port Terminal	Transport	130	Awarded
Ukraine	Odessa Port grain terminal project	Transport	125	Financial close
Poland	LKS Lodz Stadium	Social & health	115	In Construction
Macedonia	Drisla-Skopje landfill	Water & waste	101	Project signed
Albania	Milot-Morine highway	Transport	100	Tendering
Macedonia	Eastern and western natural gas distribution network	Energy	66	Planning
Poland	Krosno highway	Transport	63	Planning
Albania	Tirana transport terminal	Transport	56	Tendering
Poland	Zywiec general hospital	Social & health	50	Financial close
Poland	Sopot Rail Station	Transport	35	Financial close
Poland	Nowy Sacz District Court	Social & health	33	Financial close
Poland	Niepolomice school upgrade	Social & health	25	Tendering
Poland	Jagiellonian University student housing	Social & health	24	Financial close
Romania	Buzau urban road, management & rehabilitation	Transport	24	Tendering
Poland	Opole underground parking	Transport	23	Tendering
Czech Republic	Elizabeth Baths Spa revitalisation	Social & health	14	Tendering
Poland	Minsk Mazowiecki District Hospital	Social & health	13	Planning

a 15-year, 3% fixed interest rate loan from China’s Exim Bank. Signifying the first major greenfield infrastructure project undertaken by China in a European country, this new dimension of OBOR in the west came, somewhat untypically, in the form of a river crossing rather than an energy project, rail line or port development.

Apart from the project’s literal and metaphoric significance as a Chinese bridge into Europe, an underlying geopolitical implication relates to China’s role in Serbia’s reconstruction following NATO’s 1999 bombing campaign against Serbian forces during the war in Kosovo. US-led airstrikes in that conflict resulted in partial destruction of the Chinese embassy in Belgrade, and the deaths of three Chinese in residence there. The incident was viewed as accidental by most mainstream Western media but almost universally seen as

Eastern Europe table 1: select projects in Eastern Europe's infrastructure pipeline (continued)

Country	Project	Sector	Investment (US$ m)	Stage
Macedonia	Bitola street lighting	Energy	6	Tendering
Poland	Gmina Gostycyn housing for the elderly	Social & health	5	Tendering
Poland	Raciborz mechanical & biological waste treatment plant	Water & waste	5	Awarded
Albania	Thumane-Peze-Mullet & Peze-Dushk road project	Transport	-	Awarded
Albania	Public hospital laboratories upgrade	Social & health	-	Planning
Hungary	M6 Duna motorway	Transport	-	Operational
Macedonia	Complex Clinique Mother Tereza, multi-storey parking	Transport	-	Tendering
Macedonia	Skopje waste water treatment plant	Water & waste	-	Planning
Macedonia	Ohrid administrative building	Social & health	-	Tendering
Moldova	Comrat water supply and sewerage project	Water & waste	-	Tendering
Poland	Krakow Sports Centre	Social & health	-	Tendering
Poland	Mikolow urban development	Social & health	-	Tendering
Poland	Gmina Wladyslawowo car park	Transport	-	Tendering
Poland	Wiazowna energy efficiency refurbishment	Social & health	-	Tendering
Poland	Sosnowiec hospital complex energy upgrade	Social; Energy	-	Tendering
Poland	Zgierz energy efficiency refurbishment	Social & health	-	Tendering
Poland	Wroclaw electric car sharing system	Transport	-	Tendering
Poland	Ruda Slaska waste project	Water & waste	-	Tendering
Poland	Gmina Lipinki waste project	Water & waste	-	Tendering
Poland	Kamien county road maintenance	Transport	-	Tendering
Poland	Warsaw urban transport	Transport	-	Tendering
Poland	Stalowa Wola Hospital energy system	Energy	-	Tendering
Poland	Skarzysko-Kamienna municipal waste project	Water & waste	-	Tendering
Poland	Krzywy sewage treatment plant	Water & waste	-	Tendering
Poland	Bobolice retirement home	Social & health	-	Tendering
Poland	Gorzow Wielkopolski Sports Centre	Social & health	-	Planning
Poland	Debie Wielkie public buildings	Social & health	-	Tendering
Poland	Warsaw car park	Social & health	-	Tendering
Poland	Gdansk car park	Social & health	-	Tendering
Poland	Zawoja schools project	Social & health	-	Tendering
Poland	Zawiercie waste-to-energy project	Water; Energy	-	Awarded
Romania	Turnu Magurele-Nikopole bridge	Transport	-	Planning
Romania	CET Govora Biomass	Energy	-	Planning
Romania	Craiova-Pitesti highway	Transport	-	Tendering
Romania	Bucharest district public heating	Energy	-	Planning
Romania	Bucharest South ring road	Transport	-	Tendering
Ukraine	Lviv-Krakovets road	Transport	-	Tendering
Ukraine	Yuzhnyi Port expansion	Transport	-	Planning
Ukraine	Kiev belt road	Transport	-	Planning
Ukraine	Kiev metro rail, Line Four	Transport	-	Planning

Sources: InfraPPP; CG/LA; The Economist Corporate Network.

intentional by the people and government of China. Much of the subsequent Chinese sense-making from the bombing has fostered greater suspicions of Western intentions with China and a perceived need for China to adopt a more aggressive posture in its military objectives.

Belgrade onward

Geopolitical developments have also played a role with former Soviet satellite states now looking towards China to help replace some of their lost export business to Russia in the wake of the Kremlin's military actions in Ukraine. China's penchant for promoting rail linkages is playing a role here as well. Direct rail freight service between China and Eastern

Europe began 2013, with trains running between the south-western Chinese city of Chengdu to Lodz, Poland's third-largest city. Expanding on the success of the Pupin Bridge project, China has made an even bigger push into the European continent with a recently launched a Budapest-Belgrade high-speed railway project.

Co-ordination for the rail project is being orchestrated through an entity known as the Trilateral Group of China, Hungary and Serbia for Traffic and Infrastructure Co-operation. Contracting divides between the Hungarian and Serbian portions of the rail system with China Railway Group leading construction consortiums for both. The Hungarian section of the line requires improvements for 163 km of existing track that connects the Hungarian capital, Budapest, to the border with Serbia. For this Beijing is providing to Budapest a 20-year loan for 85% of the US$1.6bn required for track-doubling, electrification, and upgrading to a 160km/h operating speed for 740 m-long freight trains. This represents China's first high-speed rail development within the EU.

Once this line joins with Serbia's 184 km-long section of the project being built to link Belgrade to the EU border, the system will combine with high-speed connectivity to Skopje, the Macedonian capital, onwards to the Greek capital, Athens, and its nearby port of Piraeus. If finished according to schedule by 2017, that year will mark a significant co-evolutionary stage in the overland Belt as well as maritime Road components of OBOR. The Chinese state-owned shipping conglomerate Cosco already has been investing heavily in improvements at Piraeus through its long-term concessions on cargo piers. In early 2016, the company moved to acquire a majority stake in the entire port's operating company with additional commitments for infrastructure enhancements. Through China's stewardship of the Piraeus Port and expanding Eastern European high-speed rail network, ocean-borne Road and overland Belt traffic will be converging as a modern, large-capacity, high-throughput intermodal trade corridor. Thus will arise the first Chinese-designed (and in many ways, Chinese-managed) integrated superhighway for global commerce at the doorstep of Western Europe.

Poland

Economic outlook

Poland's economic performance has been one of the success stories of the transition from communism, with its nominal US dollar GDP peaking at US$545bn in 2014. Strong real GDP growth in 2015, of 3.6%, was driven by private consumption, but augmented by export growth aided by a weakening of the zloty. However, zloty depreciation saw the economy drop in size, to around US$475bn in 2015. We expect a deterioration in economic policy and a rise political risk under the current government, led by the right-wing Law and Justice (PiS) party, to undermine economic growth in 2016.

Political outlook

Political risk in Poland has risen substantially with the radical turn of the PiS-led government once in office. Since winning the general election in October 2015, it has moved to tame a range of public institutions, including the Constitutional Tribunal, the civil service and public media outlets, fearing that they might otherwise block its political agenda. This has brought into question the post-communist political order, stirring demonstrations at home and alarm abroad. In January 2016, the European Commission said it would investigate the Polish government's actions under the EU's rule of law framework. Poland faces increased domestic political polarisation while its influence within EU institutions has been waning.

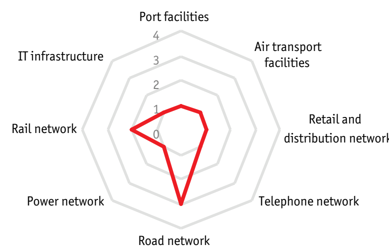
Infrastructure outlook

In the context of the serious deterioration in relations between the EU and Russia over Ukraine, energy security has risen up the agenda of many East European countries, including Poland. In 2013, 60% of Polish gas came from Russia. One of the projects towards this is the construction of a new liquefied natural gas (LNG) terminal, opened in October 2015, to reduce the risk of disruption to natural gas supply. In 2016-17 foreign and private investment interest in Poland may be more muted than in the recent past owing to a less business-friendly turn in policy. New EU funding may drive another burst of transport infrastructure schemes, but probably only after the PiS either reins in some of its more unorthodox policies or is replaced in an early parliamentary election.

Transparency & stability assessment

Poland has strong legal and institutional safeguards for political and religious freedoms, and remains among the countries considered to be flawed democracies, the second-highest category after full democracies in the Democracy Index. Yet the new government has attacked the independence of the judiciary and moved to replace key personnel in public media. Consequently, among Poland's highest risk scores (see adjacent table) is political stability risk, at 50.

Poland infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	38.4	38.3
Nominal GDP (US$ bn)	474.6	447.9
Real GDP growth (%)	3.6	3.2
Nominal gross fixed investment (US$ bn)	367	384
Real gross fixed investment growth (%)	6.7	2.5
Stock of inward foreign direct investment (US$ bn)	256.5	265.7
Consumer price inflation (yearly average; %)	-0.9	0.5
Current-account balance (US$ bn)	-0.9	-4.9
Total foreign debt (US$ bn)	341.6	347.3

Source: The Economist Intelligence Unit.

Poland risk measures	Score
Overall assessment	33
Security risk	18
Political stability risk	50
Government effectiveness risk	46
Legal & regulatory risk	38
Macroeconomic risk	35
Foreign trade & payments risk	32
Financial risk	25
Tax policy risk	19
Labour market risk	36
Infrastructure risk	34

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Czech Republic

Economic outlook

Nominal GDP in the Czech Republic was US$180bn in 2015, and the economy is considered the most stable and highly industrialised of the post-Soviet states. The traditional engines of Czech growth are industry and exports, especially from the automotive sector. Robust foreign direct investment inflows, proximity to west European markets and strong competitiveness facilitated a rapid rise in export capacity before the global financial crisis. Exports now comprise more than 80% of GDP, and the Czech Republic is well integrated in the German-central European supply chain. Growth came to 4.4% in 2015, and is forecast at 2.6% in 2016.

Political outlook

The country is governed by a coalition led by the centre-left Czech Social Democratic Party (CSSD). The other two government parties are the centre-right Christian Democrats (KDU-CSL) and centrist ANO, led by Andrej Babis, a billionaire businessman and minister of finance. The government’s stability has been boosted by strong economic growth, and a divided and unpopular opposition. However, this means that in the regional elections in October 2016 and general election in October 2017 the main contest will be between the coalition partners, raising tensions within the government. We see a 20% chance of an early election, but any new coalition line-up likely will remain business-friendly.

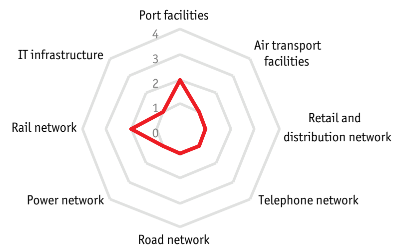
Infrastructure outlook

The Czech Republic ranks first in central and eastern Europe for its infrastructure in our Business Environment Rankings. Transport infrastructure is well developed and should improve further in 2016-20, with planned investments in motorways and railways, especially for cross-border links, and additional support from EU structural funds. The road network is the best in the region, but remains underdeveloped compared with western Europe. The rail network is one of the densest in the world, with 120 km of rail lines per 1,000 sq km, and is well integrated with the European rail network. There is a modern telecommunications infrastructure.

Transparency & stability assessment

The Democracy Index 2015 ranks the Czech Republic 25th globally and second in the central and east European region, qualifying as a flawed democracy. It receives particularly high scores for the electoral process and civil liberties. Political participation scores less well owing to a general disaffection with politics among the electorate. The political institutions underpinning parliamentary democracy have been consolidated since transition, and generally function smoothly. Yet corruption scandals remain an issue and Mr Babis in particular faces frequent conflict-of-interest accusations. The country’s highest risk score is in government effectiveness, which rates a 43, but all other risk factors score below 40.

Czech Republic infrastructure risk radar



Note: 0=negligible risk; 4=high risk..
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	10.5	10.6
Nominal GDP (US$ bn)	180.0	182.0
Real GDP growth (%)	4.4	2.6
Nominal gross fixed investment (US$ bn)	46.0	46.0
Real gross fixed investment growth (%)	6.5	2.8
Stock of inward foreign direct investment (US$ bn)	147.6	153.6
Consumer price inflation (yearly average; %)	0.3	0.8
Current-account balance (US$ bn)	2.2	1.6
Total foreign debt (US$ bn)	130	135

Source: The Economist Intelligence Unit.

Czech Republic risk measures	Score
Overall assessment	28
Security risk	11
Political stability risk	30
Government effectiveness risk	43
Legal & regulatory risk	25
Macroeconomic risk	20
Foreign trade & payments risk	25
Financial risk	38
Tax policy risk	25
Labour market risk	36
Infrastructure risk	31

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Romania

Economic outlook

Measured at purchasing power parity (PPP) exchange rates, Romania is the second-largest economy in Eastern Europe (excluding Russia and the CIS), with GDP projected to reach US$332bn in 2016. Nominal GDP will be US$180bn. In per capita GDP terms, however, Romania lags behind. We forecast consumption-led real GDP growth of 4.2% in 2016 and average annual growth of 3.5% per year in 2016-20. Capacity constraints in industry point to the need for structural reforms to boost labour productivity and for increased expenditure on education and infrastructure, rather than on consumption. Better absorption of EU funding would spur investment in infrastructure, boosting long-term export potential.

Political outlook

After 26 years of post-communist democratic transition, popular dissatisfaction with the political class is profound. Most Romanians have little confidence in the political system. Following mass protests and the resignation of the government in November 2015, a technocratic government was appointed until parliamentary elections in November 2016. The president, Klaus Iohannis, has in effect imposed a presidential system of government. A centre-right coalition government pursuing an anti-corruption, pro-market agenda is the most probable outcome of the 2016 election.

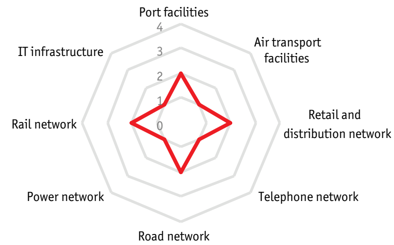
Infrastructure outlook

Romania's infrastructure is poor by EU standards. Inadequate transport links (only 734 km of motorway were in use at the end of 2015) hamper exports and deter foreign investment. Rail-freight services provide a poor service to customers; attempts at modernisation and privatisation have been largely unsuccessful. Romania lacks a framework for developing and executing public investment projects. It has access to a potential €22bn (US$29bn) of EU structural funds in 2014-20, but administrative deficiencies and the need for government co-financing will limit prospects for a big improvement in the country's absorption rate (which was between 65% during the 2007-13 funding period).

Transparency & stability assessment

Romania ranks 59th out of 167 countries in the Democracy Index 2015, putting it in the category of flawed democracies. Governance has been adversely affected since 2008 by the fallout from the economic and financial crisis. There has been a decline in some aspects of political participation and media freedoms. Romania's political stability risk score is 25 (on a scale of 0-100). A weak institutional framework underpins a much riskier legal and regulatory risk score (45) and corruption contributes to a lowly government effectiveness risk score of 61. Security risk is low, with a score of 18.

Romania infrastructure risk radar



Note: 0=negligible risk; 4=high risk..
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	19.5	19.4
Nominal GDP (US$ bn)	178.8	179.9
Real GDP growth (%)	3.7	4.2
Nominal gross fixed investment (US$ bn)	156.8	169.5
Real gross fixed investment growth (%)	7.0	7.0
Stock of inward foreign direct investment (US$ bn)	79.7	83.8
Consumer price inflation (yearly average; %)	-0.6	-0.8
Current-account balance (US$ bn)	-1.9	-2.7
Total foreign debt (US$ bn)	101.6	103.6

Source: The Economist Intelligence Unit.

Romania risk measures	Score
Overall assessment	36
Security risk	18
Political stability risk	25
Government effectiveness risk	61
Legal & regulatory risk	45
Macroeconomic risk	40
Foreign trade & payments risk	18
Financial risk	42
Tax policy risk	31
Labour market risk	46
Infrastructure risk	38

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Hungary

Economic outlook

Real GDP growth is set to slow in 2016, as inflows of EU funds, which helped to drive economic activity in 2015, will decline. This is because most EU-financed infrastructure projects forming part of the EU's 2014-20 funding cycle are only at the planning stage. However, growth will hold up relatively well as import demand in the euro zone continues to expand, boosting Hungarian exports. Meanwhile, the import-boosting effects of moderate consumer spending growth will be outweighed by a fall in imports for capital investment projects. Lower international oil prices will also constrain import costs.

Political outlook

The governing nationalist party, Fidesz-Hungarian Civic Union (Fidesz)—assisted by its junior coalition partner, the Christian Democratic People's Party (KDNP)—has dominated political life since it was elected to office in 2010. It faces no real challenge to its authority, because the left-liberal opposition is fractured and the ultra-nationalist Jobbik party has been neutralised by the government's strongly anti-immigrant policy, since the influx of asylum-seekers into the EU began in mid-2015. On current trends, Fidesz is in a strong position to retain power after the next election, due in 2018.

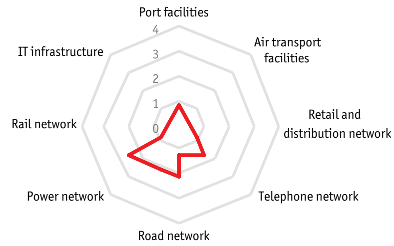
Infrastructure outlook

Hungary has a relatively well-developed motorway network, with a focus on routes that form part of the European transport corridors. However, routes to the less developed north-east of the country have not attracted as much investment as the government had hoped. Road transport has replaced the rail network as the primary form of freight haulage. Hungary has one of the most developed telecommunications systems in the region, with a high density of personal computers and other digital devices. The country's infrastructure risk levels are relatively low.

Transparency & stability assessment

Hungary ranks as a flawed democracy in the Democracy Index 2015. Hungary's ranking has declined in recent years, particularly since the current ruling coalition took office. Fidesz takes a strongly majoritarian, rather than pluralist, view of government. As the ruling party it has curbed the independence of state institutions, such as the Constitutional Court and the central bank. It also has adopted a combative approach to critics, both domestic and foreign (including the European Commission and the US). Given the government's large parliamentary majority and relative popularity, it is not under pressure to change its policy. The greatest uncertainty for businesses operating in the country is macroeconomic risk, which scores 50 on a 0-100 scale, followed by financial risk, which scores 42.

Hungary infrastructure risk radar



Note: 0=negligible risk; 4=high risk..
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	9.9	9.8
Nominal GDP (US$ bn)	118.7	118.4
Real GDP growth (%)	2.9	2.6
Nominal gross fixed investment (US$ bn)	25.2	24.8
Real gross fixed investment growth (%)	-0.1	1.5
Stock of inward foreign direct investment (US$ bn)	102.6	106.8
Consumer price inflation (yearly average; %)	-0.1	1.3
Current-account balance (US$ bn)	5.7	5.1
Total foreign debt (US$ bn)	130.6	130.1

Source: The Economist Intelligence Unit.

Hungary risk measures	Score
Overall assessment	32
Security risk	14
Political stability risk	25
Government effectiveness risk	39
Legal & regulatory risk	28
Macroeconomic risk	50
Foreign trade & payments risk	29
Financial risk	42
Tax policy risk	38
Labour market risk	32
Infrastructure risk	28

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Ukraine

Economic outlook

Ukraine's US dollar GDP peaked at US$183bn in 2013, which is very low for a country of its size and potential (in agriculture and IT, for example). The country's unrealised economic strengths reflect engrained corruption. In the wake of the downfall of the Yanukovych government in early 2014, followed by invasion and military destabilisation by Russia, output contracted sharply. Ukraine's currency, the hryvnya, has plunged, resulting in US dollar GDP roughly halving by 2015, compared with 2013. On January 1st 2016, Ukraine's joined the EU's free-trade area. In response, Russia has intensified trade restrictions; alongside a renewed domestic political crisis, this could prevent economic recovery in Ukraine until 2017.

Political outlook

Political risk in Ukraine remains high. For most of the past two years the main threat to political stability has come from Russia, which annexed Crimea in March 2014 and stoked an armed uprising in the industrialised Donbas. The second Minsk peace plan, signed in February 2015, is likely to lead to a frozen conflict rather than to long-term peace. Since late 2015, however, serious domestic political divisions have developed within Ukraine's pro-Western political elite. Public support for the Yatsenyuk government has plummeted. In early 2016, Ukrainian politics reached an impasse with a strong chance that a pre-term general election will be called in late 2016. Political and economic progress hangs on the extent to which the influence of political-business-criminal networks can be checked.

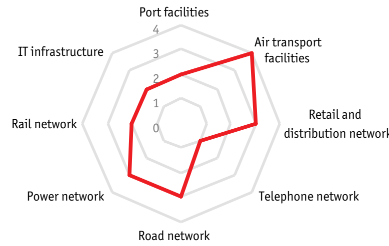
Infrastructure outlook

The destruction of roads, bridges, factories, port facilities and airports during the war with Russia, along with chronic underinvestment before 2014, mean that Ukraine has significant need for infrastructural development across the board. However, this will depend on its ability to reform public institutions sufficiently to support secure private property relations and so attract bilateral, multilateral and private foreign investment. This is a goal that, two years after the fall of the highly corrupt and ineffectual Yanukovych government, still has yet to be achieved.

Transparency & stability assessment

Ukraine's system of government qualifies as a hybrid regime. Despite another tough year, including a shaky peace in the east, Ukraine's ranking in the Democracy Index 2015 rises to 88th (equal with Mali) out of 167 countries, from 92nd in 2014. Improvements have been seen, for example, in political participation and the process of public procurement. Among its risk scores (see below), Ukraine's political stability risk is high, at 70 (on a scale of 0-100). Legal and regulatory risk is very high (78), reflecting the weakness of the rule of law. A security risk score of 64 reflects the failure to resolve the armed conflict in the Donbas.

Ukraine infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	42.8	42.7
Nominal GDP (US$ bn)	88.0	74.0
Real GDP growth (%)	-10.5	0.0
Nominal gross fixed investment (US$ bn)	9.0	8.1
Real gross fixed investment growth (%)	-15.0	2.0
Stock of inward foreign direct investment (US$ bn)	61.9	67.9
Consumer price inflation (yearly average; %)	48.7	13.0
Current-account balance (US$ bn)	-0.4	-2.6
Total foreign debt (US$ bn)	120.2	129.0

Source: The Economist Intelligence Unit.

Ukraine risk measures	Score
Overall assessment	61
Security risk	64
Political stability risk	70
Government effectiveness risk	71
Legal & regulatory risk	78
Macroeconomic risk	65
Foreign trade & payments risk	61
Financial risk	58
Tax policy risk	38
Labour market risk	43
Infrastructure risk	63

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Albania

Economic outlook

Real GDP growth is set to pick up modestly in 2016 as exports expand, particularly in markets outside the euro zone, because the expected weakening of the lek will mirror the depreciation of the euro. However, weak economic growth in Italy and a recession in Greece—two important markets—will limit export growth. Investor confidence will be boosted by disbursements from the IMF's extended fund facility and the completion of the government's programme for clearing its arrears to contractors. The government's planned reduction of the budget deficit to below 3% of GDP will necessitate further fiscal tightening.

Political outlook

The ruling coalition, comprising the Socialist Party of Albania (SPA) and its junior partner, the Socialist Movement for Integration (SMI), has a coherent programme, aimed at meeting the EU's conditions for opening accession talks with the 28-member bloc. The government also has a large majority in parliament. These two factors augur well for political stability and the introduction of reforms required by the EU. However, personality clashes between leaders of the two coalition parties will cause friction from time to time. Apart from delaying legislation, this could pose a risk to stability.

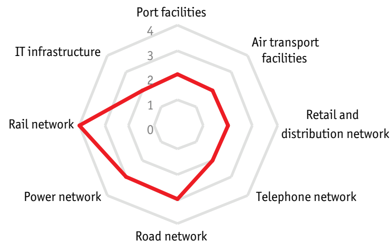
Infrastructure outlook

After decades of neglect, there has been considerable investment in recent years in building new roads, upgrading Mother Teresa airport outside the capital, Tirana, and improving facilities at the country's main port, Durres. Despite the investments, much of the road network remains inadequate; similarly, the electricity distribution network, though no longer disrupted by frequent power cuts, needs to be modernised. The rail network remains in a state of disrepair, with only one line operating. The mobile-communications network is up to date, but the fixed-line system is ageing. Albania's highest infrastructure risks are in the areas of its rail, power and road networks.

Transparency & stability assessment

Albania ranks as a democratically hybrid regime. Governance and transparency have improved following reforms adopted by the current government, including streamlining the state administration, cracking down on the drug trade and, most importantly, enacting legislation to bar convicted criminals from holding public office. Despite the reforms, Albania has a low score in the Index regarding functioning of government. Widespread corruption and organised crime continue to hinder greater transparency. In its operating environment, Albania's highest risk factors are in government effectiveness (64 in a 0-100 scale), infrastructure (63) and legal and regulatory (60).

Albania infrastructure risk radar



Note: 0=negligible risk; 4=high risk..
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	3.2	3.2
Nominal GDP (US$ bn)	11.7	11.7
Real GDP growth (%)	2.8	3.3
Nominal gross fixed investment (US$ bn)	3.1	3.1
Real gross fixed investment growth (%)	5.5	4.6
Stock of inward foreign direct investment (US$ bn)	6.7	8.1
Consumer price inflation (yearly average; %)	1.9	2.2
Current-account balance (US$ bn)	-1.2	-1.2
Total foreign debt (US$ bn)	7.3	7.4

Source: The Economist Intelligence Unit.

Albania risk measures	Score
Overall assessment	50
Security risk	43
Political stability risk	50
Government effectiveness risk	64
Legal & regulatory risk	60
Macroeconomic risk	35
Foreign trade & payments risk	43
Financial risk	58
Tax policy risk	38
Labour market risk	46
Infrastructure risk	63

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Macedonia

Economic outlook

The Economist Intelligence Unit forecasts Macedonia's economy will generate about US$9.8bn in 2016. We expect real GDP growth to remain at 3.3% in 2016, the same rate as in 2015. We forecast a slowdown in private consumption growth in 2016, as a mild recovery in inflation and energy prices hold down real wage gains in the second half of the year. Investment growth will be subdued in the initial part of 2016, owing to uncertainty about the political situation. However, it will pick up in the second half of the year as the government, foreign investors and international institutions back infrastructure and export-oriented projects.

Political outlook

Political instability is high as Macedonia heads to a pre-term parliamentary election in June 2016 following a political crisis in 2015 that only ended following an EU-mediated political agreement. The atmosphere of crisis leaves little room for a policy-oriented electoral campaign, and will mainly feature parties accusing each other of criminal activity and political incompetence. We expect that the governing party, the VMRO-DPMNE, will win the election and stay in power. Demonstrations are likely and the efficient functioning of the legal system will remain a source of political contention.

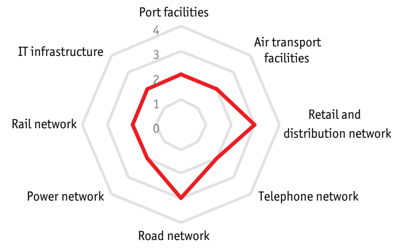
Infrastructure outlook

Macedonia is restructuring its railway and road network, which remains inadequate. The telecommunications sector is dominated by Makedonski Telekom, which is controlled by Magyar Telekom (of Hungary). The company has a monopoly on fixed-line services. The power sector has been unbundled and partly privatised, although the sale of the Negotino thermal-power plant has been aborted on two occasions and the company will stay in state hands for now. A Russian firm, Stroytransgaz, began constructing a 61-km pipeline in March 2015, which will improve Macedonia's energy supply.

Transparency & stability assessment

According to the Democracy Index 2015, Macedonia's system of government qualifies as a flawed democracy. This means that government functions poorly and does not foster an inclusive political arena. Macedonia ranks 78th out of 167 indexed countries, putting it behind Serbia but well above Albania and Bosnia and Hercegovina. Among its risk scores (see below), Macedonia's political stability risk is 55. The 2015 political crisis underpins an even riskier legal and regulatory risk score (60) and corruption contributes to a government effectiveness risk score of 61. A security risk score of 50 is indicative of occasional clashes between security forces and militants, as well as inter-ethnic violence, and the risk of sporadic, low-level skirmishes.

Macedonia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	2.1	2.1
Nominal GDP (US$ bn)	9.8	9.8
Real GDP growth (%)	3.3	3.3
Nominal gross fixed investment (US$ bn)	1.9	1.9
Real gross fixed investment growth (%)	2.6	3.0
Stock of inward foreign direct investment (US$ bn)	6.5	7.1
Consumer price inflation (yearly average; %)	-0.2	1.2
Current-account balance (US$ bn)	0.0	-0.2
Total foreign debt (US$ bn)	6.9	7.3

Source: The Economist Intelligence Unit.

Macedonia risk measures	Score
Overall assessment	46
Security risk	50
Political stability risk	55
Government effectiveness risk	61
Legal & regulatory risk	60
Macroeconomic risk	15
Foreign trade & payments risk	43
Financial risk	50
Tax policy risk	25
Labour market risk	46
Infrastructure risk	56

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Moldova

Economic outlook

Moldova remains one of the poorest countries in Europe. Its nominal GDP peaked at just US$7.7bn in 2013. Since then, economic performance has been badly damaged by a host of factors: an enormous bank fraud, recession in Russia, steep currency depreciation, a surge in inflation, high interest rates and heightened political instability, in part linked to the confrontation between the EU and Russia over Ukraine. We estimate a contraction in real GDP by 1% in 2015, and only a modest recovery in 2016. Modest growth should be aided by another year on low energy import prices. The continuing fall in the leu:US$ exchange rate means that GDP is likely to drop to just US$6.4bn in 2016.

Political outlook

Moldova has been destabilised by the geopolitical clash between the West and Russia, which has been replicated in the country’s domestic politics. In 2015, public trust in Moldova’s political class fell further in the wake of the bank scandal. In late January 2016, the investiture of a new government—the third since the parliamentary election in November 2014—was met with large protests outside parliament. The two main protest groups have joined together to fight corruption, but their political aspirations are incompatible. The current administration does not appear strong enough to tackle the prolonged economic crisis or corruption.

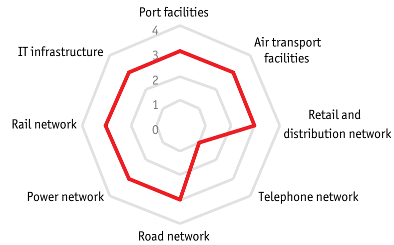
Infrastructure outlook

Most infrastructure in Moldova is in significant need for improvement. For a time under the government of Iurie Leanca from mid-2013, emphasis was placed on infrastructure development. The construction of a gas pipeline from Iasi in Romania to Ungheni in Moldova was inaugurated in August 2014 to help reduce Moldova’s dependence on Russia. A plan for the extension of the pipeline to the capital, Chisinau, is supposed begin in early 2016.

Transparency & stability assessment

The bank scandal—which saw US$1bn in unsecured loans spirited out of the country in late 2014—and slow pace of the investigation that followed are emblematic of Maldova’s deep-seated issues. They reveal not only the inadequacy of existing financial supervision rules but, more fundamentally, an unwillingness to respond for fear of implicating powerful business-political interests. In the Democracy Index 2015, Moldova’s rank has fallen to 70th place. Among the country’s risk scores, political stability risk is high, at 70. Weak institutions hinder push up risks to government effectiveness (which rates 71), while the weakness of the rule of law ensure high legal and regulatory risk (70).

Moldova infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

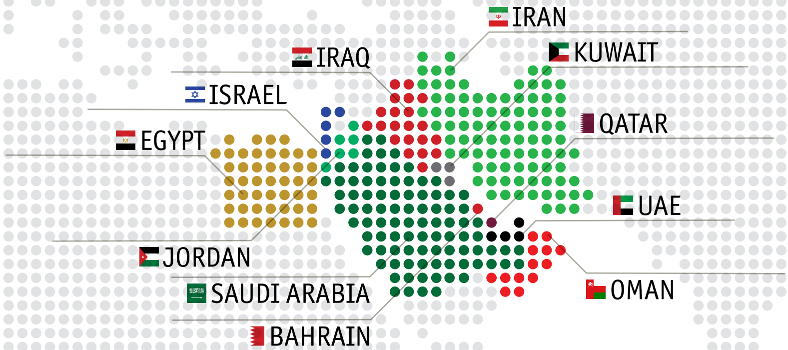
Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	3.5	3.5
Nominal GDP (US$ bn)	6.7	6.4
Real GDP growth (%)	-1.0	0.5
Nominal gross fixed investment (US$ bn)	1.5	1.5
Real gross fixed investment growth (%)	-5.5	-1.0
Stock of inward foreign direct investment (US$ bn)	3.7	4.0
Consumer price inflation (yearly average; %)	9.6	10.3
Current-account balance (US$ bn)	-0.3	-0.2
Total foreign debt (US$ bn)	6.75	7.1

Source: The Economist Intelligence Unit.

Moldova risk measures	Score
Overall assessment	59
Security risk	46
Political stability risk	70
Government effectiveness risk	71
Legal & regulatory risk	70
Macroeconomic risk	55
Foreign trade & payments risk	43
Financial risk	75
Tax policy risk	38
Labour market risk	54
Infrastructure risk	69

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Middle East



OVERVIEW

In this section on the Middle East, we evaluate the countries of Saudi Arabia, Iran, the United Arab Emirates (UAE), Egypt, Israel, Iraq, Qatar, Kuwait, Oman, Jordan and Bahrain. As is often commented on, “Middle East” is a rather arbitrary concept. The term’s lack of a uniquely identifying reference—as found in words like Africa, the Americas, Asia or Europe—can make the region it denotes sound abstract. Getting a grip on what the area represents is further complicated by its myriad cultures, ethnicities, clan affiliations and religious sects; its divergent government structures (which include variations of monarchies, democracies and theocratic systems), differing levels of economic development, and—now tragically prevalent among some states in and around the region—large-scale armed conflict and civil war.

In our sampling of Middle Eastern countries, we focus on those that would be considered most viable for Belt-Road activity. Because of continuing, multilateral efforts to rebuild Iraq even in the midst of that country’s internal strife and battling of the jihadi group Islamic State insurgency, we include the country in our economic roadmap. Another nation with a high level of security risk that we cover is Egypt. The current government in Cairo, although largely preoccupied with stabilising the nation after years of social upheaval and ongoing violent challenges to its rule, likewise has shown itself committed to progressing with infrastructure improvements.

In fact, considering the frequently broadcast images of the Middle East as gripped by strife and instability, it is worth pointing out that the countries discussed in these pages struggle much less with security than such portrayals would imply. With the two notable exceptions of Iraq and Egypt, as illustrated in Middle East figure 1 (next page), all the economies examined in this section actually exhibit security risk below the global average. (The average level of security risk around the world comes to 37.6 on a scale of 0-100, with 100 indicating the greatest risk.) Some Middle Eastern countries—the UAE, Qatar, Kuwait, Oman—have security risk levels that fall in the teens. This puts them on par with or slightly better than highly stable, advanced economies like the US and Germany. Even if including Iraq and Egypt in the calculation, the security risk level for the entire region as we define it here averages less than 36.

Where the region fares less well concerns another important risk category, government effectiveness. The global average in this measure is 59.1 (and is much lower in developed countries). The average for our grouping of Middle Eastern countries is 62. Only Israel, which rates a 32 for its government effectiveness risk, comes close to developed country norms. At the other extreme, Iraq scores 89 and Iran, 79. Such risk levels are worth keeping in mind for the component inputs that make up the government effectiveness risk composite measurement: policy formulation, quality of bureaucracy, excessive bureaucracy/red-tape, vested interests/cronyism, corruption, accountability of public officials and human rights. Such factors can have a direct bearing on the progress and fate of new infrastructure developments. When considering the prospects for One Belt, One Road projects in the Middle East, although security concerns should not be unduly overemphasised, nor should risk measures like government effectiveness be unduly ignored.

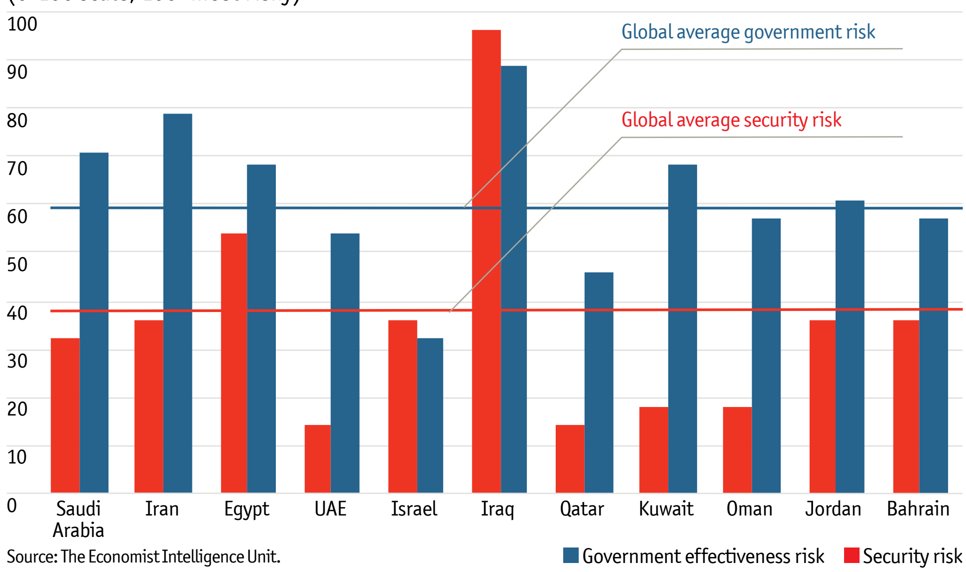
INFRASTRUCTURE NEEDS

Since the discovery of oil in Iran (then known as Persia) in 1908 and later discoveries in Saudi Arabia and throughout the region, the Middle East has been attracting infrastructure development, especially in the energy sector. The area's largest petroleum producer, Saudi Arabia, having already built out a large hydrocarbon production capacity and much of its basic infrastructure, in recent years has been sponsoring high-profile mega-projects costing billions and tens-of-billions of US dollars. These include a new metro rail system for the capital, Riyadh, an expansion of the Grand Mosque at Mecca, medical complexes, master planned urban areas, and the world's tallest building, the Kingdom Tower in Jeddah, whose planned height will stretch 1 km when completed in 2020.

Although Saudi Arabia has some of the best resources for infrastructure development, the countries most in outright need of physical improvements are Iran and Iraq. After suffering (in differing degrees and at different times) from the ravages of war and economic sanctions, the two nations stand to benefit the

Middle East figure 1: country security and government risk levels

(0-100 scale, 100=most risky)



Source: The Economist Intelligence Unit.

most—and offer some of the widest opportunities—to those who can contribute towards enhancing their built environments. The anticipated flood of capital and trade flows to follow the recent lifting of economic sanctions against Iran combined with its relatively stable, if oppressive, security situation makes it particularly appealing for new infrastructure activity.

Middle East table 1 provides a selection of infrastructure projects based on an alphabetical listing of the 11 Middle Eastern countries covered in this report.

A CLOSER ROAD

On a trip that took him first to Saudi Arabia and Egypt, Xi Jinping, China's president, visited Iran in late January 2016. He thereby became the first leader of a major foreign power to travel to that country following the lifting of international sanctions. The diplomatic significance was capped off by the signing of 17 deals and a 25-year co-operation pact for economic, political and military relations. Iran's president, Hassan Rowhani, proclaimed Iran's intention to increase trade with China from around US$50bn to US$600bn over the next 10 years.

China has already been Iran's biggest trading partner since 2009. While the West and most of the world isolated Iran in response to the nation's attempts to develop a nuclear arsenal, China has been Iran's principal economic ally. China helped to build the 10-km Niayesh Tunnel in the capital, Tehran, and provided financing, engineering, and rolling stock for the city's entire metro system. China has been instrumental in laying Iranian roadways, extracting its natural resources, building industrial capacity and purchasing Iranian oil at time when the country lacked access to global investment and markets. Strong pre-existing Sino-Iranian ties put the relationship at an especially advantageous position within the Belt-Road strategy.

As if to underscore the new levels of interaction that China and Iran expect from OBOR, within a few weeks of Mr Xi's visit, the first cargo train from China rolled into Tehran. Dubbed the "Silk Road train", it had journeyed from the Chinese consumer goods manufacturing hub of Yiwu in Zhejiang, travelling 10,399 km in just 14 days. Even with the need to accommodate differing rail gauges, the trek saved about one month from the typical means of shipment by sea from Shanghai to the Iranian port at Bandar Abbas.

KICKING OFF AMBITIOUS PROJECTS

For the region itself, even in the face of depressed oil prices and the prolonged reverberations of civil strife in Iraq and Syria, a wide range of infrastructure projects continue unimpeded. Qatar, the world's richest economy on a per capita basis and one of the fastest-growing economies in the Middle East, is gearing up to host FIFA's 2022 football World Cup. Although (like the FIFA organisation itself), Qatar's preparations for the event have attracted unwanted notoriety, construction is progressing with six of the eight of the World Cup venues. This

Middle East table 1: select projects in the Middle East’s infrastructure pipeline

Country	Project	Sector	Investment (US$ m)	Stage
Bahrain	Liquid natural gas receiving and regasification terminal	Energy	655	Signed
Bahrain	Bahrain Affordable Housing	Social & health	450	Financial close
Bahrain	Asry desalination plant upgrading	Water & waste	9	Signed
Bahrain	Bahrain waste-to-energy project	Energy	-	Tendering
Egypt	Dabaa nuclear power and desalination plant	Energy; Water	11,500	Planning
Egypt	Alexandria-Aswan High-speed Railway (HSR)	Transport	10,000	Feasibility study
Egypt	Cairo Metro, Line 4	Transport	3,600	Tendering
Egypt	Abu Rawash wastewater treatment plant	Water & waste	636	Awarded
Egypt	New Cairo wastewater treatment plant	Water & waste	472	Financial close
Egypt	Helwan wastewater treatment	Water & waste	250	Planning
Egypt	Alexandria hospital	Social & health	224	Financial close
Egypt	Nile River Bus Ferry	Transport	68	Planning
Egypt	Nile Schools Project	Social & health	65	Planning
Egypt	Alexandria and Dekheila ports on the Nile Delta	Transport	-	Operational
Egypt	Abu Tartour mining port	Transport	-	Planning
Egypt	El-Alamein water desalination	Water & waste	-	Planning
Egypt	Cairo Bus Rapid Transit	Transport	-	Planning
Egypt	Safaga sea water desalination plant	Water & waste	-	Planning
Egypt	Nile River freight transport project	Transport	-	Planning
Egypt	El-Tor sea water desalination plant	Water & waste	-	Planning
Egypt	Commercial registry office development	Social & health	-	Tendering
Egypt	Maadi Technology Park	Social & health	-	Tendering
Egypt	Sharm el-Sheikh yacht marina	Transport	-	Tendering
Egypt	Damietta Port, new terminal	Transport	-	Tendering
Egypt	Dekheila Port, dirty bulk terminal	Transport	-	Tendering
Egypt	Dekheila Port, bulk grain terminal	Transport	-	Tendering
Egypt	Alexandria third container terminal	Transport	-	Tendering
Egypt	Safaga Port	Transport	-	Tendering
Egypt	Eltoor Port	Transport	-	Tendering
Egypt	Heliopolis-New Cairo Tramway	Transport	-	Planning
Iran	South Pars gas field, Phases 19-21	Energy	9,000	In construction
Iran	Tehran metro rail, Lines 6 & 7	Transport	8,000	In construction
Iran	South Pars gas field, Phases 17 & 18 (offshore)	Energy	7,000	In construction
Iran	West Ethylene Pipeline	Energy	5,500	Operational
Iran	South Pars gas field, Phases 22–24	Energy	3,500	In construction
Iran	Neka-Jask oil pipeline	Energy	3,300	Planning
Iran	Tehran-Isfahan HSR	Transport	2,700	In construction
Iran	South Pars gas field, Phases 17 & 18 (onshore)	Energy	2,500	In construction
Iran	South Pars gas field, Phases 13 & 14 (onshore)	Energy	2,500	In construction
Iran	Bandar Abbas gas condensate refinery expansion	Energy	2,500	Planning
Iran	Tehran Airport upgrade	Transport	2,200	Planning
Iran	Chabahar-Zahedan-Mashhad railway	Transport	570	Planning
Iran	Chabahar Port	Transport	255	Planning
Iran	Lengeh and Kong wastewater treatment	Water & waste	12	In construction
Iran	Mashhad and Isfahan airports	Transport	-	Planning
Iran	Bandar-E-Imam-to-Tabriz transportation corridor roadway	Transport	-	Feasibility study
Iran	Dez hydropower plant	Energy	-	Planning
Iran, India	Chabahar-Gujarat subsea gas pipeline	Energy	4,500	Planning
Iraq	Faw Peninsula port project	Transport	7,950	Tendering
Iraq	Bismayah New City	Social & health	6,000	In construction
Iraq	Baghdad metro rail expansion	Transport	3,000	Planning
Iraq	North-South water distribution and treatment rehabilitation	Water & waste	1,100	In construction
Iraq	Transport Corridors Project, Phase 1	Transport	1,000	Planning
Iraq	Um-Qasr Port, berth expansion	Transport	500	Planning
Iraq	Khor Al-Zubair, berth expansion	Transport	500	Planning
Iraq	Um-Qasr Port, container project	Transport	130	Signed
Iraq	Erbil, Sulaymaniyah, Duhok and Halabja water and waste treatment	Water & waste	-	In construction
Iraq, Jordan	Iraq-Jordan oil pipeline	Energy	12,000	Planning
Israel	Cross Israel Northern Highway	Transport	800	Tendering
Israel	Motza-Jerusalem, Highway 16	Transport	380	Tendering
Israel	Israeli police force helicopter, purchase and maintenance	Transport	115	Awarded
Israel	Tiberias-Bitanya waste water treatment plant	Water & waste	31	Tendering
Israel	Haifa’s Bayport terminals (HaMifratz) concession	Transport	-	Awarded

Middle East table 1: select projects in the Middle East's infrastructure pipeline (continued)

Country	Project	Sector	Investment (US$ m)	Stage
Israel	Ashdod's Southport terminal (HaDarom) concession	Transport	-	Awarded
Israel, Jordan	Red Sea-Dead Sea water project, Phase 1	Water & waste	800	Tendering
Jordan	North Shouneh, Amman civil and King Hussein airports	Transport	315	Planning
Jordan	As-Samra wastewater treatment plant	Water & waste	225	Financial close
Jordan	Amman street lighting, Phase 1	Energy	-	Tendering
Jordan	Amman Solid waste-to-energy plant	Energy	-	Tendering
Kuwait	Kuwait Airport, expansion	Transport	4,800	Pre-construction
Kuwait	Umm Al Hayman wastewater project	Water & waste	1,800	Tendering
Kuwait	Az-Zour North independent water and power producer (IWPP), Phase 1	Water; Energy	1,800	In construction
Kuwait	Kuwait Schools Development Program	Social & health	-	Tendering
Kuwait	Al-Jahra Labor City	Social & health	-	Tendering
Kuwait	Az-Zour North IWPP, Phase 2	Water; Energy	-	Tendering
Kuwait	Kabd municipal solid waste	Water & waste	-	Tendering
Kuwait	Al-Khairan IWPP	Energy	-	Tendering
Kuwait	Egaila services and entertainment centre	Social & health	-	Tendering
Kuwait	Kuwait hospital project	Social & health	-	Tendering
Kuwait	Southern area wastewater plant	Water & waste	-	Tendering
Kuwait	Kuwait metro rolling stock and systems	Transport	-	Tendering
Oman	Duqm Refinery	Energy	6,000	Procurement
Oman	Diba-Lima-Khasab road project	Transport	1,000	Tendering
Oman	Barka water project	Water & waste	300	Financial close
Oman	Al Ghubrah water project	Water & waste	300	Financial close
Oman	Duqm permanent accommodation for contractors project	Social & health	195	Financial close
Oman	Sharqiyah water project	Water & waste	-	Tendering
Oman	Salalah water project	Water & waste	-	Tendering
Oman	Duqm water project	Water & waste	-	Tendering
Oman	Qurayat water project	Water & waste	-	Signed
Oman	Sohar water project	Water & waste	-	Awarded
Oman	Duqm Port, operations	Transport	-	Signed
Qatar	Lusail City	Mixed	45,000	Planning
Qatar	Doha metro rail	Transport	36,000	In construction
Qatar	Water Security Mega Reservoirs Project	Water & waste	5,000	In construction
Qatar	Natural gas-fired power generation and desalination, Facility D	Energy; Water	3,200	Financial close

Country	Project	Sector	Investment (US$ m)	Stage
Saudi Arabia	Jubail Industrial City, Phase 2	Mixed	80,000	In construction
Saudi Arabia	Rabigh King Abdullah Economic City	Mixed	27,000	In construction
Saudi Arabia	Jazan Economic City	Mixed	27,000	In construction
Saudi Arabia	Mecca Grand Mosque (Masjid al-Haram) expansion	Social & health	24,400	In construction
Saudi Arabia	Riyadh metro rail, Lines 1-6	Transport	22,000	In construction
Saudi Arabia	Jeddah metro rail, Lines 1-3	Transport	8,500	In construction
Saudi Arabia	Jeddah King Abdulaziz International Airport, new terminal and tower	Transport	7,200	Planning
Saudi Arabia	Saudi Land Bridge	Transport	7,000	Planning
Saudi Arabia	Madinah Knowledge Economic City	Mixed	7,000	In construction
Saudi Arabia	Riyadh and Jeddah, Security Forces Medical Complexes	Social & health	6,700	In construction
Saudi Arabia	King Abdullah Port expansion	Transport	2,000	In construction
Saudi Arabia	Jeddah Kingdom Tower	Social & health	1,230	In construction
Saudi Arabia	Mecca King Abdullah Medical City	Social & health	1,200	Completed
Saudi Arabia	Northern Border Security Project	Social & health	1,000	In construction
Saudi Arabia	Al Khafji solar-powered-desalination plant	Water & waste	130	In construction
Saudi Arabia	Riyadh Airport, operations privatisation	Transport	-	Planning
Saudi Arabia	Dammam Airport, operations privatisation	Transport	-	Planning
Saudi Arabia	Taif Airport	Transport	-	Tendering
Saudi Arabia	Duba 1 Independent Power Plant	Energy	-	Tendering
UAE	Mohammed bin Rashid Al Maktoum Solar Park	Energy	3,300	In construction
UAE	Abu Dhabi Airport midfield terminal	Transport	2,900	Financial close
UAE	Mirfa IWPP	Water, Energy	1,500	Financial close
UAE	Fujairah desalination plant expansion	Water & waste	200	Awarded
UAE	Union Oasis mixed-use PPP project	Social & health	-	Tendering
UAE	Dubai Route 2020 metro project	Transport	-	Planning
UAE	Sharjah International Airport expansion	Transport	-	Planning
UAE	Ghantoot highway rest area	Transport	-	Tendering
UAE	Abu Dhabi community centres	Social & health	-	Tendering

Sources: InfraPPP; CG/LA; The Big 5 Hub; The Economist Corporate Network.

includes construction of an 80,000-seater stadium in Lusail, part of a US$45bn urban development mega-project, Lusail City, being built north of the capital, Doha. Chinese state-owned Sinohydro won the US$539m contract for the reclamation and site preparation to construct the city's shoreline islands, access channels and beaches.

All told, Qatari authorities intend to oversee US$225bn in new developments, much of this for projects connected to the football World Cup. Qatar has also been pursuing means to upgrade basic infrastructure capacity and quality. These include the US$5bn Water Security Mega Reservoirs Project, in which Sinohydro along with China Harbour Engineering and China Gezhouba Group have been involved as contractors.

SOLAR'S BRIGHT OPPORTUNITIES

Despite the Middle East's legacy as the largest oil production base in the world, governments in the area have come to recognise the need for economic diversification and the benefits of developing solar energy assets.

Among its many ambitious undertakings, Qatar aims to transform itself into a regional solar hub. The country's first solar power generation facility, occupying 100,000 sq m area in Duhail, is expected to be operational by 2016 with an output capacity of 15 mw. Additional developments will result in solar-powered generation capacity of 200 mw through 60 sites entailing roughly 1m sq m of land by 2020. Longer term plans are to produce 20% of Qatar's domestic energy needs from renewable, mainly solar, sources by 2030.

Another contender to lead the Middle East's solar energy output is the UAE. After its commissioning in 2013 with 13 mw of capacity, Dubai's Mohammed bin Rashid Al Maktoum Solar Park has entered into a second phase of development. The park's ultimate goal is for 1 gigawatt of capacity by 2030. The project site encompasses 48 sq km of land and carries an estimated development cost of US$3.3bn.

These and other advancements with the region's renewable energy sector bode well for China's world-dominating but over-producing photovoltaic (pv) manufacturers. Zhejiang-based ReneSola won its first Middle East contract in 2013 for supply to Saudi Arabia; the company's current project pipeline includes a 60-mw supply contract to Egypt. Jiangsu-based Changzhou Almaden has recently built a US$20m factory in the UAE's Dubai Silicon Oasis to make ultra-thin double-glazed solar panels. Trina Solar, China's biggest pv supplier, has agreed to run as a build-operate-and-maintain project a 10-mw solar farm in Jordan. Hebei's Yingli Solar, another top producer, has entered into supply agreements with Israel, Jordan and Egypt. Underground natural resources originally attracted China and other foreign interests to the Middle East. Yet it is the above-ground solar energy and other more sophisticated projects that offer some of the most intriguing, not to mention more sustainable, opportunities going forward.

Saudi Arabia

Economic outlook

Economic growth will slow sharply in 2016, as the pace of expansion is restrained by fiscal austerity, declining investment and flattish oil production. What growth there is will be driven by progress on a number of infrastructure projects, which will provide a host of knock-on opportunities for the private sector, as well as several industrial projects, including the enormous Sadara integrated petrochemicals complex. However, business investment will be depressed by big rises in fuel and natural gas prices, which will dampen profitability in the cement, metals and petrochemicals sectors. As a result, we expect economic growth to fall from 3.3% in 2015 to just 1.1% in 2016.

Political outlook

The king, Salman bin Abdel-Aziz al-Saud, is facing a challenging set of circumstances, with the kingdom threatened by rising regional insecurity and political uncertainty and with the government’s primary source of income depressed by the oil price slump. Ruling family dynamics will be dominated by the process of shifting power to the next generation, with King Salman likely to be the last son of the kingdom’s founder, Ibn Saud, to sit on the throne. However, the continued advancement of his young son and deputy crown prince, Mohammed bin Salman al-Saud, risks internal family friction.

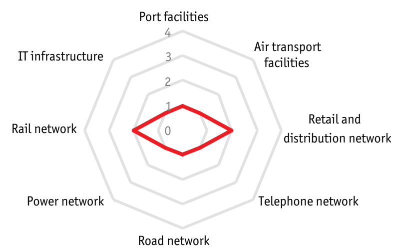
Infrastructure outlook

Saudi Arabia has good ports, airports and roads. Infrastructure quality varies considerably between regions, although there are some efforts to even this out. The rail network is undergoing a major expansion, with foreign companies closely involved. Quality and accessibility have improved in the telecommunications sector as a result of greater competition and new investment by recent market entrants. The power and water networks need significant new investment, some of which is already under way. However, for the time being, there will be sporadic water shortages in some areas.

Transparency & stability assessment

Saudi Arabia is the second-lowest-ranked Middle East and North African country (after war-torn Syria) in the Democracy Index 2015. Despite being two-thirds elected (including by women), local councils still have extremely limited powers and elections are not permitted for the Majlis al-Shura (akin to a parliament but with no legislative power). With political parties banned, the country scores zero in the electoral process category. Its score for civil liberties also is exceptionally low. More positively, the nation’s political stability risk (at 55 on a 0-100 scale) measures better than that of other major geopolitical influencers in the region, notably the kingdom’s principal rival, Iran.

Saudi Arabia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	30.4	31.1
Nominal GDP (US$ bn)	681.2	701.4
Real GDP growth (%)	3.3	1.1
Nominal gross fixed investment (US$ bn)	203.2	217.0
Real gross fixed investment growth (%)	4.5	2.1
Stock of inward foreign direct investment (US$ bn)	250.3	257.9
Consumer price inflation (yearly average; %)	2.2	4.7
Current-account balance (US$ bn)	-32.6	-51.7
Total foreign debt (US$ bn)	170.6	177.2

Source: The Economist Intelligence Unit.

Saudi Arabia risk measures	Score
Overall assessment	40
Security risk	32
Political stability risk	55
Government effectiveness risk	71
Legal & regulatory risk	42
Macroeconomic risk	30
Foreign trade & payments risk	21
Financial risk	29
Tax policy risk	31
Labour market risk	57
Infrastructure risk	31

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Iran

Economic outlook

Following January’s implementation of the Joint Comprehensive Plan of Action (JCPOA)—the international nuclear deal signed in July 2015—we expect Iran to record growth of 4.5% in 2016/17 (starting March 21st), the fastest rate in the Middle East and North Africa. In the near term, the primary driver of growth will be higher crude oil exports, which, having been roughly halved by sanctions, are expected to make significant gains of around 700,000 barrels/day by the end of 2016. In addition, the lifting of sanctions on the financial sector will help to ease general trading and investment conditions and will therefore provide a big boost to Iran’s sizeable non-oil sectors.

Political outlook

Internal Iranian politics will become increasingly polarised. The president, Hassan Rowhani, will seek to build on the strong showing of reformists and pragmatists in February’s elections to build a consensus in favour of social and economic reform. In response, however, hardliners, fearful that Iran’s reintegration into the global community might precede political and civil change in Iran, will crack down on moderates and undermine the president’s reform drive. Amid this in-fighting, the position of the supreme leader, Ayatollah Ali Khamenei, will be crucial in maintaining stability.

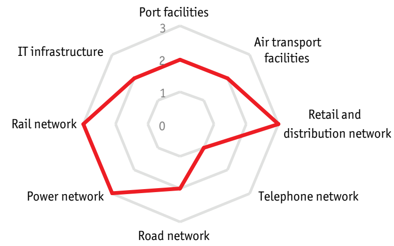
Infrastructure outlook

Iran’s infrastructure is broadly adequate to meet current needs, but requires substantial investment. The telecoms network has been expanded, but the Internet is slow and censored. Iran has no deepwater port, so relies heavily on the transshipment of goods via Dubai, and in some places the country has experienced an acute water shortage. However, the near-term focus of the government will be garnering foreign investment in its dilapidated rail network and airports, as well as updating the fleet of the state-owned Iran Air.

Transparency & stability assessment

The Democracy Index 2015 places Iran 156th out of 167 countries, putting it among the countries considered to be authoritarian. Iran scores particularly poorly in its electoral process and civil liberties. The nation repeatedly faces accusations of holding “flawed” and “neither free nor fair” elections, particularly in response to its complex political structure, which gives almost limitless power to the Guardian Council, a vetting body. Charges of human rights violations have similarly been laid against the state. Despite its authoritarian theocratic structure, the state has not achieved a strong civic base. At 70, Iran’s political stability risk scores higher than its overall risk score of 65.

Iran infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	79.1	80.0
Nominal GDP (US$ bn)	411.3	441.2
Real GDP growth (%)	0.9%	4.5%
Nominal gross fixed investment (US$ bn)	112.3	125.0
Real gross fixed investment growth (%)	6.3	10.1
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	13.7	12.5
Current-account balance (US$ bn)	2.2	2.8
Total foreign debt (US$ bn)	5.4	6.3

Source: The Economist Intelligence Unit.

Iran risk measures	Score
Overall assessment	65
Security risk	36
Political stability risk	70
Government effectiveness risk	79
Legal & regulatory risk	80
Macroeconomic risk	65
Foreign trade & payments risk	82
Financial risk	71
Tax policy risk	56
Labour market risk	54
Infrastructure risk	56

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Egypt

Economic outlook

Egypt is among the largest three economies in the Middle East. We forecast that real GDP growth will moderate in 2016 to 3.1%, after a recent peak of 4.2% growth in the previous year. The slowdown is owing to a dampened outlook for exports, foreign direct investment and the critical tourism sector. Against this backdrop of sluggish growth and a combustible political scene, a large fiscal deficit will remain in double-digit territory at 11.4% for 2015/16 fiscal year (July-June). Despite Egypt's long-term market potential, business sentiment will remain depressed in the near term owing to excessive red tape and trade control measures.

Political outlook

The former defence minister, Abdel Fattah el-Sisi, came to power in a landslide election victory in 2014 amid heightened expectations that he would achieve a swift economic recovery. His failure to deliver on this front, coupled with political repression, means that another bout of social unrest cannot be ruled out in the medium term. A parliament was elected in 2015 to complete the post-Muslim Brotherhood political transition but the lack of legislative experience, coupled with the presence of powerful interest groups inside the assembly, means that much-needed market-oriented reforms are still some way off.

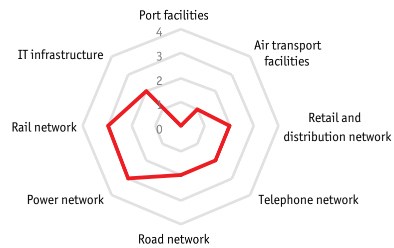
Infrastructure outlook

Decades of neglect under the former Mubarak regime means that the state of infrastructure in Egypt is poorly maintained compared to many of the country's regional peers. Weak institutional capacity has persisted under the Sisi administration, although the latter has achieved remarkable progress in expanding the domestic electricity-generation capacity and ending chronic power outages. The government's limited capital expenditure budget is largely geared towards infrastructure development, and will be supported in this by external financing. Priority sectors include power, transportation and sanitation. One of the higher profile projects is an envisioned high-speed railway connecting Alexandria and Aswan, for which the government has signed an initial agreement with the China Harbor Engineering Company.

Transparency & stability assessment

Egypt is placed 134th in the Democracy Index 2015, a low ranking that reflects the authoritarianism of the current regime. Out of the five categories that constitute this index, Egypt's highest score is in the political culture category, underpinned by the election of a parliament in 2015. Although corruption has become less rampant under the current president, the administration also has become more bureaucratic. Among operating risk factors, after government effectiveness (rated 68 on a scale of 0-100) other highly rated risks include the macroeconomic environment (65) and labour market (57).

Egypt infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	85.5	86.4
Nominal GDP (US$ bn)	315.0	332.0
Real GDP growth (%)	4.2	3.1
Nominal gross fixed investment (US$ bn)	43.0	40.0
Real gross fixed investment growth (%)	16.2	-7.0
Stock of inward foreign direct investment (US$ bn)	5.3	5.9
Consumer price inflation (yearly average; %)	10.4	8.3
Current-account balance (US$ bn)	-4.1	-3.6
Total foreign debt (US$ bn)	45.6	53.7

Source: The Economist Intelligence Unit.

Egypt risk measures	Score
Overall assessment	54
Security risk	54
Political stability risk	45
Government effectiveness risk	68
Legal & regulatory risk	45
Macroeconomic risk	65
Foreign trade & payments risk	54
Financial risk	46
Tax policy risk	56
Labour market risk	57
Infrastructure risk	47

Note: 100=most risky.
Source: The Economist Intelligence Unit.

United Arab Emirates

Economic outlook

Low oil prices will weigh on growth owing to stagnation in oil output and weaker fiscal revenue, banking liquidity and business confidence with real GDP growth slowing significantly, to 1.2% in 2016. The pace of production capacity expansion in the oil sector will slow. Non-oil growth, which still depends heavily on regional liquidity, will be weak as the private sector also suffers from fiscal tightening. Government support for construction and manufacturing will be less generous and dynamics in trade, transport and tourism will be affected by volatile global demand growth. The UAE will, however, continue to benefit from its safe-haven status in a turbulent region and from the lifting of sanctions on Iran.

Political outlook

The UAE will remain stable politically in 2016 with only limited domestic criticism of the government. The authorities will continue to clamp down on perceived challenges to the status quo, instead introducing limited measures aimed at creating the illusion of popular engagement. Given the poor health of the emir of Abu Dhabi and UAE president, Sheikh Khalifa bin Zayed al-Nahyan, there might be a (smooth) succession, but this would not have an impact on policy. The government will remain particularly wary of Islamist groups and the UAE's increasingly assertive foreign policy increases the risk of reprisal terrorist attacks.

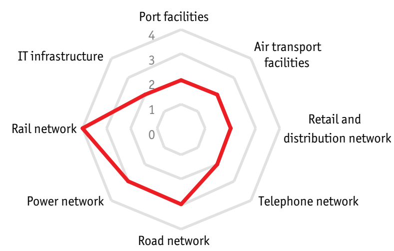
Infrastructure outlook

Air and maritime transport will remain reliable, speedy and competitive. Dubai International Airport is the world's busiest. However, the slump in oil prices is leading to government cuts and reduced interest from the private sector. In early 2016, Etihad Rail announced it was suspending tendering for the second phase of its planned US$40bn, 1,200-km railway network expansion. A shortage of gas for electricity generation has led to power outages, but the cancellation by the Anglo-Dutch oil company, Royal Dutch Shell, of its participation in the Bab Sour gas project will delay improvements in domestic provision. A civil nuclear energy programme is well under way and interest in renewables continues.

Transparency & stability assessment

The UAE sits firmly in the authoritarian category of government systems. The regional political turmoil and fears of increased Iranian interference have provided a backdrop for continued clampdown on dissent. The authorities continue to focus on distributing oil wealth as an alternative to political liberalisation. Policymakers do, however, take account of the public interest as they attempt to build an effective state to deliver security, health, education and infrastructure. The wealth of the country means that social strains are limited. The country's highest operational risk is government effectiveness, which scores 54 .

United Arab Emirates infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	8.7	8.9
Nominal GDP (US$ bn)	298.6	282.6
Real GDP growth (%)	3.3	1.2
Nominal gross fixed investment (US$ bn)	100.2	105.5
Real gross fixed investment growth (%)	1.7	1.3
Stock of inward foreign direct investment (US$ bn)	125.9	132.4
Consumer price inflation (yearly average; %)	4.1	4.0
Current-account balance (US$ bn)	2.5	-12.6
Total foreign debt (US$ bn)	205.1	221.4

Source: The Economist Intelligence Unit.

United Arab Emirates risk measures	Score
Overall assessment	31
Security risk	14
Political stability risk	45
Government effectiveness risk	54
Legal & regulatory risk	48
Macroeconomic risk	20
Foreign trade & payments risk	14
Financial risk	33
Tax policy risk	12
Labour market risk	46
Infrastructure risk	19

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Israel

Economic outlook

Economic growth will reflect a combination of continued robust private consumption growth (helped by low unemployment), further increases in gas output and rising exports, although export growth could be jeopardised by renewed shekel appreciation. Israel’s high-technology sector will also be a key long-term driver of investment and of both industrial goods and services exports. Residential construction will increase, helped by government initiatives to expand the housing stock. Export performance will, however, be held back from its full potential initially by a pause in the pace of global recovery in 2016. We expect the economy to expand by a modest 2.5% in 2016.

Political outlook

The political outlook will remain unstable, given the fractious nature of Israeli politics, which will lead to policy setbacks. The five-party coalition government formed in May 2015, headed by the prime minister, Binyamin Netanyahu, will be vulnerable to early collapse given its slim majority and splits over policy. Regional turmoil means many of Israel’s traditional enemies are focused on other fronts. Yet the risk of a relatively minor incident, particularly against Hamas or Hizbullah, escalating into broader conflict remains high. Israel will remain concerned about the strategic threat from Iran. There is almost no prospect of an Israeli-Palestinian peace deal being reached.

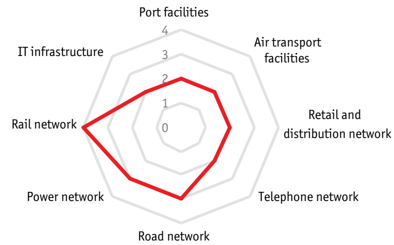
Infrastructure outlook

Greater use of the private sector has become the norm. Major projects are under way in gas, transport and distribution. Highway upgrades are proceeding. The railway system has seen major investment in the past decade but remains below potential. Among the projects currently under way are the much-delayed Tel Aviv light rail system. Other projects include the development of new army bases in the Negev and the relocation of Eilat Airport. Investment in gas infrastructure has been held up by an anti-trust investigation and may be further impaired by low global energy prices. Construction of water-desalination plants will continue including developing an export capacity and cooperating regionally on projects.

Transparency & stability assessment

Israel rates as a flawed democracy in the Democracy Index 2015. Its position owes much to high scores in the categories of electoral process and political participation. Nevertheless, Israel has a fragmented parliament and a reliance on unstable coalitions in order to govern, which can hinder government effectiveness. Among the country’s operating environment risks, the highest is macroeconomic risk, at 40. With an overall risk assessment of 29, Israel offers the most favourable business climate in the region.

Israel infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	8.4	8.5
Nominal GDP (US$ bn)	296.1	306.4
Real GDP growth (%)	2.6	2.5
Nominal gross fixed investment (US$ bn)	54.7	56.6
Real gross fixed investment growth (%)	-1.5	1.7
Stock of inward foreign direct investment (US$ bn)	109.9	120.9
Consumer price inflation (yearly average; %)	-0.6	0.1
Current-account balance (US$ bn)	13.0	14.6
Total foreign debt (US$ bn)	94.0	97.5

Source: The Economist Intelligence Unit.

Israel risk measures	Score
Overall assessment	29
Security risk	36
Political stability risk	35
Government effectiveness risk	32
Legal & regulatory risk	28
Macroeconomic risk	40
Foreign trade & payments risk	29
Financial risk	17
Tax policy risk	19
Labour market risk	36
Infrastructure risk	22

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Iraq

Economic outlook

We expect real GDP growth to be boosted by a continued uptick in average oil production compared with 2015. The recent proposal to freeze output at January levels will have little impact, as Iraqi oil production reached record highs in January. Government spending is a major driver of the non-oil economy, and as such domestic demand will be dampened by government spending cutbacks. Areas under the control of the jihadi Islamic State (IS), which encompasses about 10% of Iraq's population and where most government spending is suspended, will suffer a more marked downturn. However, with IS gradually losing territory, we expect real GDP growth to rise to from 2.6% in 2015 to 4.5% in 2016.

Political outlook

Iraq is likely to remain riven by sectarian violence. Although IS has been dislodged in places, it will still control territory in Anbar and Nineveh provinces throughout 2016 and will retain influence well beyond this as it returns to insurgent tactics in some areas. The mainly Shia south, the source of most oil exports, will remain largely secure, as will the core Kurdistan Region. With the government beset by corruption and dysfunction, the prime minister, Haider al-Abadi, will seek to promote technocrats in his cabinet. His reform push will probably fail in the face of vested interests and security issues will continue to plague the administration.

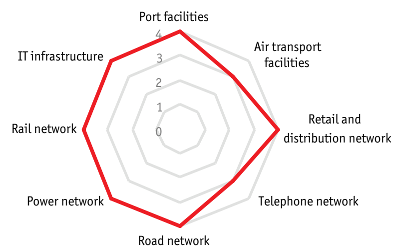
Infrastructure outlook

Infrastructure will face major problems over the forecast period, amid continued financial and security difficulties. The government has failed to divest the majority of its capital expenditure budget in recent years, a situation now exacerbated by the slump in state oil income. Foreign investment is likely to remain below potential as investors are reluctant to commit as long as the security situation remains unsettled. This impediment is compounded by bureaucratic weaknesses and pervasive corruption. Despite the country's large and growing needs for infrastructure improvements, we anticipate limited progress.

Transparency & stability assessment

The Democracy Index 2015 ranks Iraq 115th out of 167 countries, placing it in the range of hybrid regimes. Although its ranking is comparatively low on a global basis, Iraq in fact occupies the sixth-highest position in the Middle East and North Africa, reflecting a decade's track record of holding relatively free and fair elections—a rarity for the region. As a result, Iraq scores moderately highly in the electoral process and political participation categories, although the civil liberties score is hampered by a politically partial judicial system and use of arbitrary detention. Political risk, rated at 80, is high. Higher still are risks in the categories of security (96), infrastructure (94) and government effectiveness (89).

Iraq infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	35.6	36.6
Nominal GDP (US$ bn)	168.7	164.9
Real GDP growth (%)	2.6	4.5
Nominal gross fixed investment (US$ bn)	-	-
Real gross fixed investment growth (%)	-	-
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	1.3	2.4
Current-account balance (US$ bn)	-0.1	-7.2
Total foreign debt (US$ bn)	60.3	67.2

Source: The Economist Intelligence Unit.

Iraq risk measures	Score
Overall assessment	74
Security risk	96
Political stability risk	80
Government effectiveness risk	89
Legal & regulatory risk	80
Macroeconomic risk	45
Foreign trade & payments risk	57
Financial risk	79
Tax policy risk	50
Labour market risk	64
Infrastructure risk	94

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Qatar

Economic outlook

Qatar is vulnerable to movements in energy prices as it depends heavily on oil and gas sales for both export revenue and government income. As a result, economic growth will be constrained in the short-term by the impact of low state revenue on government spending and domestic demand. However, the country's huge stock of external assets will help to cushion against the drop in hydrocarbons prices should this fall. The Qatar National Vision 2030 development plan—designed to diversify the economy away from hydrocarbons—envisages heavy investments in infrastructure, estimated by regional sources at US$285bn. One-half of this could be spent on accelerated investments in the lead-up to the 2022 football World Cup.

Political outlook

The scope for political instability in Qatar is minimal, despite some government attempts to curb socially-sensitive current spending. The young emir, Sheikh Tamim bin Hamad al-Thani, assumed the reins of power from his father, Sheikh Hamad bin Khalifa al-Thani, in 2013. Constitutional reforms in the pipeline would devolve some power. Yet even the most far-reaching element, the formation of a partly-elected legislature, is limited by various safeguards that ensure that the emir retains overall control over the policymaking process.

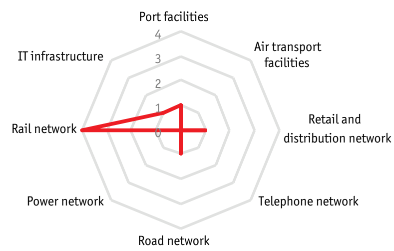
Infrastructure outlook

Public works will continue to benefit from the high priority attached to the National Vision 2030 development plan and Qatar's hosting of the 2022 football World Cup. Both have been accelerating capital investments. Of notable significance, transport infrastructure—roads, ports and airports—is adequate and well maintained, but capacity is struggling to keep up with demand. Similarly, power shortages have been largely addressed by capacity expansion and the building of new independent water and power projects. The demands of the industrialisation programme and population growth mean that occasional power outages still occur during the emirate's extraordinarily hot summer months.

Transparency & stability assessment

Qatar ranks 134th out of 167 reviewed countries in the Democracy Index 2015, a low ranking in line with the emirate's long-established autocratic policies of governance. The country is categorised as an authoritarian regime, and the absence of general elections means that it scores zero in the electoral process category. For business operations Qatar offers a basically attractive risk environment. Its overall risk measure score is 30, a relatively low level bested in the region only by Israel. The country's highest risk levels relate to government effectiveness (46), labour market (43), and political stability as well as legal and regulatory risk (the latter two both score 40).

Qatar infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	2.2	2.3
Nominal GDP (US$ bn)	164.6	159.6
Real GDP growth (%)	2.8	3.2
Nominal gross fixed investment (US$ bn)	76.0	81.6
Real gross fixed investment growth (%)	6.7	7.3
Stock of inward foreign direct investment (US$ bn)	1.2	1.9
Consumer price inflation (yearly average; %)	1.7	3.5
Current-account balance (US$ bn)	-0.8	-6.8
Total foreign debt (US$ bn)	154.4	154.3

Source: The Economist Intelligence Unit.

Qatar risk measures	Score
Overall assessment	30
Security risk	14
Political stability risk	40
Government effectiveness risk	46
Legal & regulatory risk	40
Macroeconomic risk	25
Foreign trade & payments risk	11
Financial risk	33
Tax policy risk	19
Labour market risk	43
Infrastructure risk	25

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Kuwait

Economic outlook

Following an estimated 1.3% contraction in 2015 because of lower oil output, we expect the Kuwaiti economy to expand by 1.2% in 2016. The recovery in economic growth will reflect an improving performance in the oil sector, which contributes nearly two-thirds of the country's GDP. Although oil prices will remain weak in 2016, we expect output to increase owing to greater production efficiency. Government spending is likely to decline in 2016, inhibiting growth in the short term, yet we expect spending on capital projects to remain intact, supported by the Kuwait Investment Authority. Gross fixed investment will increase slightly.

Political outlook

Barring unforeseen circumstances, the emir, Sheikh Sabah al-Ahmed al-Jabr al-Sabah, will remain the ultimate executive authority in 2016-20. However, pressure for political reform from domestic critics, coupled with continuing disagreements between the legislature and the executive, will constrain policymaking. The scope for disruption both from the extra-parliamentary political opposition and from parliamentary in-fighting is high, potentially leading to political instability. The government has adopted an increasingly hardline response to political dissent—revoking the citizenship of some of its most outspoken critics, closing newspapers that are hostile to the regime and introducing anti-terrorism cyber-crime laws. Yet these efforts are unlikely to quell Kuwait's fractious parliamentary politics.

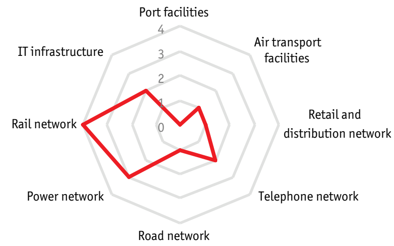
Infrastructure outlook

Kuwait's infrastructure lags behind that of its GCC peers. The infrastructural shortcomings are reflected in periodic blackouts, as a result of aging and insufficient generation capacity. A new US$116bn development plan, spanning fiscal years 2015/16-2019/20 (April-March), was approved by the National Assembly in March 2015 and appears to have a stronger political tailwind behind it than the previous plan. Lower oil prices will pose a fiscal challenge in the near term, resulting in an increase in the use of PPP to push through some infrastructure projects.

Transparency & stability assessment

The Democracy Index 2015 ranks Kuwait 121st out of 167 countries, a fall of one place from the previous year despite a marginal improvement in the score. Kuwait is ranked as an authoritarian country, along with its GCC neighbours, Bahrain, Oman, Qatar, Saudi Arabia and the UAE. Nevertheless, Kuwait has a more open polity than most of these countries, and ranks the highest among them as a result. The greatest risk to the operating environment is in the area of government effectiveness, which rates 68 on a scale of 0-100. Its lowest risks are in security (18) and foreign trade and payments (21).

Kuwait infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	4.2	4.4
Nominal GDP (US$ bn)	116.7	108.7
Real GDP growth (%)	-1.3	1.2
Nominal gross fixed investment (US$ bn)	26.2	27.8
Real gross fixed investment growth (%)	3.6	1.8
Stock of inward foreign direct investment (US$ bn)	0.2	0.1
Consumer price inflation (yearly average; %)	3.3	4.3
Current-account balance (US$ bn)	4.9	-5.3
Total foreign debt (US$ bn)	36.8	39.4

Source: The Economist Intelligence Unit.

Kuwait risk measures	Score
Overall assessment	42
Security risk	18
Political stability risk	60
Government effectiveness risk	68
Legal & regulatory risk	55
Macroeconomic risk	30
Foreign trade & payments risk	21
Financial risk	33
Tax policy risk	31
Labour market risk	57
Infrastructure risk	44

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Oman

Economic outlook

In light of the austerity plan laid out by the government in the 2016 budget, we expect a significant slowdown for the year. Government plans to reduce spending by 11% in nominal terms will have a direct impact on real GDP growth and an indirect impact also, as private consumption is affected by slowing public-sector wage growth and investment decelerates on the back of a less appealing macroeconomic environment. On top of this, oil production is likely to fall as the record levels produced in 2015 become unsustainable at current prices. We forecast that real GDP growth will slow to 1.3% in 2016 as a result.

Political outlook

The 74-year-old sultan, Qaboos bin Said al-Said, remains a popular figure. His return to the sultanate in March 2015 after eight months of medical treatment in Germany was greeted by widespread public celebrations. Provided his health does not deteriorate, his position will remain secure over the forecast period, shored up by the loyalty of the security forces. Despite the sultan’s popularity, criticism of the government has increased in recent years. The risk of further demonstrations will persist and may increase in 2016 as oil companies lay people off while they scale back their activities because of low oil prices, causing unemployment to rise.

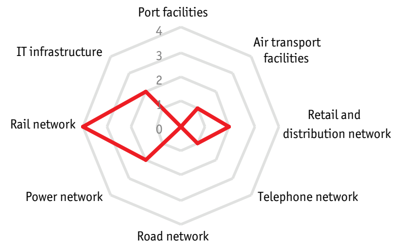
Infrastructure outlook

Oman has a national development plan, dubbed “Vision 2020”, that entails a massive infrastructure spending programme to aid economic diversification away from hydrocarbons; the development of a new airport and industrial and economic zones; a 2,244-km railway line connecting to the GCC railnetwork; and new hospitals. The implementation of this plan is likely to suffer delays owing to the ongoing weakness of oil prices and the consequent reduction in government revenue. However, despite cutbacks, the government is likely, with the help of funding from the GCC, to continue to prioritise investment in infrastructure, particularly focusing on logistics and tourism. This is likely to become an important driver of economic growth in the medium term.

Transparency & stability assessment

Oman’s aggregate score in the Democracy Index 2015 has worsened, with its overall ranking deteriorating by three places to 142nd out of 167 countries. The key changes to Oman’s score for 2015 come in response to the recent Majlis al-Shura (Consultative Council) election, held in October. The 2015 elections saw a 25% fall in the number of votes cast from the last election in 2011, suggesting a growing disengagement with politics. Oman’s highest risk factor is political stability, which scores 60. Its next highest risk measures are for government effectiveness (57) and labour market (50).

Oman infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	4.3	4.6
Nominal GDP (US$ bn)	69.3	68.3
Real GDP growth (%)	3.5	1.3
Nominal gross fixed investment (US$ bn)	23.8	24.8
Real gross fixed investment growth (%)	3.9	1.8
Stock of inward foreign direct investment (US$ bn)	0.7	0.5
Consumer price inflation (yearly average; %)	0.1	2.3
Current-account balance (US$ bn)	-9.1	-9.5
Total foreign debt (US$ bn)	12.9	19.6

Source: The Economist Intelligence Unit.

Oman risk measures	Score
Overall assessment	35
Security risk	18
Political stability risk	60
Government effectiveness risk	57
Legal & regulatory risk	45
Macroeconomic risk	15
Foreign trade & payments risk	11
Financial risk	46
Tax policy risk	12
Labour market risk	50
Infrastructure risk	38

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Jordan

Economic outlook

Consumer and business confidence will remain constrained in the near term by the impact of regional instability—Syria and Iraq traditionally represent Jordan's main export markets and the Gulf a key source of tourists—and the effect of lower oil prices on regional liquidity. Although high unemployment will continue to drag on private consumption growth, work on large infrastructure and tourism projects should help to boost employment as long as private-sector participation is forthcoming. However, private-sector investment growth will weaken in 2016 as Jordan feels the impact of low oil prices on inward investment from traditional Gulf investors. Overall, we expect real GDP growth to be modest at 1.6% in 2016.

Political outlook

Power will remain firmly in the hands of King Abdullah II, who will maintain control over key appointments and retain the support of the army and the security services. The government will allow mild dissent, drawing moderate Islamist opposition into the political process before the next election in January 2017—but will continue to crack down on radicals. Jordan will retain its anti-Islamist stance amid the challenges presented by regional conflicts and their impact on domestic security, political stability and the economy. Jordan's strategic position will see it continue to attract support from the West, and (on a reduced footing financially because of lower oil prices) from the Gulf Arab states.

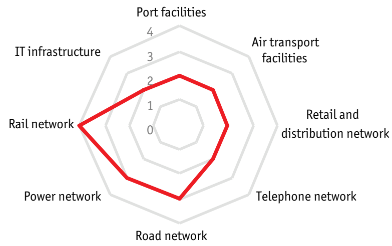
Infrastructure outlook

Jordan has a generally sound road network, decent telecommunications, good international air connections and widespread provision of electricity and water—although supplies have been strained by the influx of Syrian refugees. The government does not have the financial resources to undertake the major improvements needed to keep up with population growth and economic development, however, and it is looking to the private sector to take up the slack. Jordan would like to become a regional logistics hub and is promoting a series of projects to boost rail, sea and air links. An affordable housing programme has been launched. Independent power projects are also advancing, particularly renewables.

Transparency & stability assessment

Jordan qualifies as an authoritarian regime. Modest electoral and other political reforms have done little to move the centre of power away from the king, who remains responsible for foreign policy and sets the country's strategic direction. However, a new draft electoral law suggests that the electoral system will be more inclusive by the time of the next parliamentary election. The country's two highest risk factors are for political stability (70) and government effectiveness (61). Its lowest score is for macroeconomic risk (20).

Jordan infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	8.1	8.4
Nominal GDP (US$ bn)	38.4	39.5
Real GDP growth (%)	1.3	1.6
Nominal gross fixed investment (US$ bn)	8.4	8.6
Real gross fixed investment growth (%)	2.5	2.0
Stock of inward foreign direct investment (US$ bn)	30.0	31.1
Consumer price inflation (yearly average; %)	-0.9	0.5
Current-account balance (US$ bn)	-2.0	-1.7
Total foreign debt (US$ bn)	24.5	25.2

Source: The Economist Intelligence Unit.

Jordan risk measures	Score
Overall assessment	42
Security risk	36
Political stability risk	70
Government effectiveness risk	61
Legal & regulatory risk	45
Macroeconomic risk	20
Foreign trade & payments risk	39
Financial risk	29
Tax policy risk	25
Labour market risk	50
Infrastructure risk	50

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Bahrain

Economic outlook

Owing to the negative effects of falling oil prices on government revenue, government spending will be significantly impaired in 2016, with knock on effects on private consumption and investor confidence. As a result, a marked slowing of the economy is likely; we expect economic growth to slow to 1% in 2016. Bahrain will rely heavily on the non-oil sector to sustain growth, with infrastructure and construction projects targeted as key drivers. Low oil prices are likely to put some projects on hold and to limit the government's capital spending plans. However, increased investment from the GCC Development Fund will help to sustain the economy.

Political outlook

Bahrain will experience persistent unrest caused by social and political grievances in 2016. The combination of increased regional sectarianism—exacerbated by the hostility between Saudi Arabia and Iran—and the need to bring in unpopular austerity measures is likely to stoke tensions in Bahrain. As a result, political instability will increase in 2016. Yet tight security and the tacit support of Saudi Arabia (which will continue to provide financial back-up) will ensure that the government retains control. We thus expect violent incidents to occur sporadically; extremist groups, allegedly backed by Iran, will continue to pose a threat throughout the forecast period.

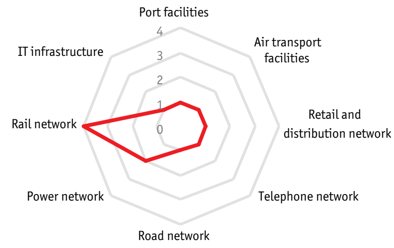
Infrastructure outlook

Projects delays are likely due to the oil-induced squeeze on the fiscal account. However, funding from the GCC Development Fund will allow continued investment in the oil and manufacturing sectors, including construction of the new potline at Alba starting in 2016. Other major planned infrastructural projects include the larger oil pipeline to Saudi Arabia, the expansion of Bahrain International Airport and the construction of at least six new towns and a number of tourism developments. These could be scaled back or delayed if the fiscal squeeze continues.

Transparency & stability assessment

Bahrain ranks 146th out of 167 countries in the Democracy Index 2015. This represents a one-place improvement compared with 12 months ago. Despite this small rise, Bahrain's overall score fell from 2.87 to 2.79 out of ten and the country continues to rate having an authoritarian system: 2015 saw a crackdown on members of the opposition. The government's increasingly hard line on dissent in suggests that the outlook is further deteriorating in the short term. On a scale of 0-100, the country rates a 70 in terms of political stability risk. Its two next-highest categories are in government effectiveness (57) and the labour market (54). The country does remarkably well in the area of tax policy, where its risk score is 12. Its next-best risk level is in foreign trade and payments risk, at 32.

Bahrain infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	1.3	1.3
Nominal GDP (US$ bn)	31.1	30.4
Real GDP growth (%)	2.9	1.0
Nominal gross fixed investment (US$ bn)	5.4	5.5
Real gross fixed investment growth (%)	4.2	2.4
Stock of inward foreign direct investment (US$ bn)	0.9	0.6
Consumer price inflation (yearly average; %)	1.8	4.3
Current-account balance (US$ bn)	-1.0	-1.7
Total foreign debt (US$ bn)	20.9	23.2

Source: The Economist Intelligence Unit.

Bahrain risk measures	Score
Overall assessment	43
Security risk	36
Political stability risk	70
Government effectiveness risk	57
Legal & regulatory risk	48
Macroeconomic risk	40
Foreign trade & payments risk	32
Financial risk	46
Tax policy risk	12
Labour market risk	54
Infrastructure risk	38

Note: 100=most risky.
Source: The Economist Intelligence Unit.

RUSSIA

OVERVIEW

Since the founding of the People’s Republic in 1949, China has seen its relations with Russia undergo a kaleidoscopic range of changes as the two nation’s political and economic policies changed and reoriented within the world system. Currently, Beijing and Moscow are closely aligned in their global outlooks. Both are eager to prevail with economic systems that depart from standard Western models. An abundance of Russian natural resources and (until recently) enormous Chinese demand for resource inputs has been serving to further entwine the interests of the two countries.

Through One Belt, One Road, China should be able to assume an ever larger role in the Sino-Russian relationship. In the wake of losing access to Western markets for goods and capital, Russia’s desire to work more closely with China as a key trading partner greatly increased. Russia would also benefit immensely from the infrastructure development and transportation linkage improvements that OBOR represents.

Even with such fundamental elements favouring Belt-Road activities, the best-known Russia-China infrastructure collaboration, the massive Power of Siberia gas pipeline project, has been enduring a surprising amount of setbacks. We expect that the project will ultimately be completed, at least in its phase one form. Moreover, Russia still offers a substantial deal pipeline that is likely to produce additional joint developments involving Chinese and Russian interests. Nevertheless, the Power of Siberia project offers important lessons about the need for proper deal structuring and transparency and so is explored in detail in the second half of this section.

INFRASTRUCTURE DEVELOPMENT

Russia has awarded 18 PPP infrastructure projects since 2011 based on data accumulated by the World Bank’s Private Participation in Infrastructure Projects Database, InfraPPP and The Economist Corporate Network. These represent investments of nearly US$80bn (see Russia table 1).

The highest-value project—exceeding next-most-expensive by a factor of more than 10—is the Power of Siberia natural gas pipeline. With enormous strategic importance attached to it as well, the pipeline is the showpiece of Russia’s “pivot to the east” in the nation's economic and geopolitical relations. The project entails a 30-year framework agreement between Russia's government-controlled natural gas giant, Gazprom, and the China National Petroleum Corporation (CNPC). The contract provides for supply of 38bn cu metres of gas annually from eastern Siberia to China.

On the basis of number of projects, Russia has awarded the largest volume of infrastructure deals for transportation (11), especially highway development. Water and waste treatment and social and healthcare segments have been attracting significant development too.

At least US$50bn worth of new development is in Russia's planned infrastructure pipeline (see Russia table 2, next page). Transportation again ranks as the principal beneficiary in terms of number of projects, representing 13 out of 17 slated developments. Energy, water and medical facilities projects provide the remainder of identified new developments. There is also an intended phase two extension of the Power of Siberia pipeline, but its fate—as well as that of the original project—is now subject to intense speculation, as reviewed in greater detail below.

Russia table 1: awarded PPP infrastructure projects by value

Country	Project	Sector	Segment	Investment (US$ m)	Year awarded
Russia	Power of Siberia	Energy	Gas pipeline	55,000	2014
Russia	OJSC Tomsk Distribution Company	Energy	Electricity distribution	4,400	2011
Russia	Freight One	Transport	Railroad	4,271	2011
Russia	Western high-speed diameter highway	Transport	Highway	3,900	2012
Russia	Lena River bridge	Transport	Bridge	1,700	2014
Russia	Bovanenkovo-Sabetta railway	Transport	Railroad	1,510	2016
Russia	Vyshny Volochek Bypass M11	Transport	Highway	1,421	2014
Russia	Moscow Central ring road concession, first section	Transport	Highway	1,390	2014
Russia	Volgograd water communal infrastructure concession	Water & waste	Water	1,200	2015
Russia	Moscow Central ring road, fifth section	Transport	Highway	925	2014
Russia	Kutuzovsky Northern bypass	Transport	Highway	848	2015
Russia	Kutuzovsky Northern bypass toll road	Transport	Highway	775	2015
Russia	M3 highway: section km 124–194	Transport	Highway	375	2014
Russia	Kurumoch International Airport Development Project	Transport	Airport	348	2012
Russia	St. Petersburg: Municipal Hospital No. 40	Social & health	Healthcare facility	247	2016
Russia	Levashovo waste treatment plant	Water & waste	Waste	240	2014
Russia	Voronezh Water Utility	Water & waste	Water & waste	100	2012
Russia	AltEnergo Belgorod Biogas Plant 1	Energy	Electricity generation	13	2012

Sources: World Bank; InfraPPP; The Economist Corporate Network.

One Belt, two pipelines

In May 2014, CNPC and Gazprom concluded basic terms for the Power of Siberia project, providing for three decades of natural gas supply from Russia's far east into north-east China. This was quickly followed up by a high-level signing ceremony in November 2014, wherein presidents Xi Jinping and Vladimir Putin agreed to the construction of the Power of Siberia 2. They thereby added to the original project a second westerly located natural gas pipeline route from Russia's Altai region into China's westernmost province of Xinjiang.

Despite top leadership backing and compelling strategic rationale, within nine months of the official signing to launch the Altai extension, the project was postponed indefinitely. Construction on the original Power of Siberia project began in June 2015. Yet it too has run into difficulties and its viability has been put into question.

Rapidly changing economic realities and poor deal structuring lie at the root of the issues. The two sides entered into their agreements without having set a contract delivery price. Enthusiasm was running high for the first accord, at a time when US$300 per cu metres of gas would make the Power of Siberia project profitable. As of the publication of this report, international gas prices have been running in the range of US$200-240 per cu metres. Gazprom has insisted on linking the gas price to a basket of oil prices. CNPC, which enjoys monopsonistic purchasing power, is not inclined to do much accommodating. The Chinese side's bargaining position is augmented by having alternative supply options from Central Asia and during a time when oil and liquefied natural gas are in global supply gluts.

Russia table 2: infrastructure projects in progress by value

Country	Project	Sector	Investment (US$ m)	Stage
Russia	Moscow-Kazan high-speed rail	Transport	16,400	Planning
Russia	Power of Siberia 2	Energy	12,000	Tendering
Russia	Belkomur railway line	Transport	6,000	Planning
Russia	St Petersburg Western High-Speed Diameter toll road: central section	Transport	4,056	Financial close
Russia	Small Ring of the Moscow Railway (MRR)	Transport	3,200	Planning
Russia	Moscow Central Ring Road concession: third section	Transport	1,713	Tendering
Russia	M-11 Moscow-St Petersburg highway: km 543-684 km	Transport	1,710	Financial close
Russia	Moscow Central Ring Road concession: fourth section	Transport	1,700	Tendering
Russia	M-11 Moscow-St Petersburg highway: km 208-km 258	Transport	755	Tendering
Russia	River Kama bridge concession (Udmurtia Republic)	Transport	427	Financial close
Russia	Eastern bypass for Khabarovsk	Transport	419	Tendering
Russia	St Petersburg Neva water project	Water & waste	400	Tendering
Russia	Orsk Oncology Centre	Social & health	30	Financial close
Russia	Leningrad Regional Medical Rehabilitation Centre	Social & health	-	Planning
Russia	M-11 Moscow–St Petersburg highway: km 58– km 149	Transport	-	Planning
Russia	Taman port dry cargo district	Transport	-	Planning
Russia	Sheremetyevo International Airport Northern Terminal	Transport	-	Planning

Sources: CG/LA, InfraPPP.

Mismatched expectations about project execution appear to be creating other issues. China's foreign infrastructure development model typically runs on Chinese debt financing that pays for Chinese contracting work. Especially as regards Power of Siberia 2, CNPC felt confident that the pipeline could be constructed more cheaply by a Chinese firm. It recommended an open tender for the contract to prove this very point. Rejecting CNPC's proposal, the deputy director of Gazprom, Aleksandr Medvedev, indelicately argued "we do not need Chinese men and equipment here, we never did and we never will."[1] CNPC, not surprisingly, then decided to walk away from the project extension, at least for the time being.

OBOR to the rescue?

Although the original pipeline project has not yet been directly affected by the cessation of the Altai-Xinjiang route development, it undeniably represents a setback. The friction generated has exposed underlying rifts that had not been considered previously. Coupled with other developments and worsening global market conditions for energy suppliers, risks that the Power of Siberia project might be delayed or even cancelled have increased.

Curiously, Gazprom's biggest difficulty with proceeding as intended on this project is lack of financing for US$55bn in capital costs. Standard OBOR-based financing (Chinese loans that pay for Chinese contractors) could address this funding gap if the Russian

[1] The Economist Intelligence Unit, "Russia-China pipeline plans in crisis," February 4th 2016.

side could find the investment terms politically acceptable. Gazprom in fact applied to CNPC for a US$25bn advance to finance construction of the pipeline. The Chinese side refused, which should have come as no shock to Gazprom's leadership had they been versed in the ways that Chinese infrastructure financing works.

Gazprom has since approached privately owned Siberian gas companies to supplement its supply obligations to China. Reports indicate that Gazprom is considering a strategic alliance with a domestic energy competitor, Rosneft, whose resources are better positioned in eastern Siberia. If Gazprom cannot arrange a supply assistance agreement, then it will have to rely on its greenfield gas deposit in Chayanda. Yet because the Chayanda field suffers from high helium content and low output capacity, taking this tack will only add to the project's mounting challenges.

As a Russian state-owned enterprise, Gazprom's range of options is constrained by overriding political considerations. Gazprom's intransigence in refusing to accept Chinese contractors almost certainly complies with a directive from the Kremlin (ie, Mr Putin himself). But even without the complexity of an authoritarian, nationalistic Russian political apparatus that simultaneously courts Chinese economic ties but is leery of perceived Chinese economic incursion, prevailing market economics present the greatest of all challenges for the project. The Economist Intelligence Unit forecasts oil prices (Brent), whose levels can act as a rough indicator of gas price movements, will average just over US$40/barrel in 2016, rise to US$60/b in 2017, and then average above US$70/b in 2018-20. These are all well below the prevailing price of oil when the Power of Siberia project was announced in May 2014.

Old metrics in a new light

Whatever the complexities of its contradictory views towards China, Russia has ample strategic motivation—more of an outright necessity considering its strained relations with the West—to advance farther in its pivot to Asia. As a key component of that effort, the original Power of Siberia pipeline will likely enjoy a special status that helps to keep the project alive in some fashion. If energy prices recover enough in the medium term to restore project profitability or other factors emerge to incentivise development, something of the initial attractive lustre of this unique Sino-Russian collaboration might return as well.

Regardless of the final outcome, in the brief but highly eventful course of affairs with the Power of Siberia project, at least two main areas relating to OBOR deserve reflection.

The first is how the Chinese side, CNPC, lobbied for a fair and transparent contractor bidding process when the phase two Altai section of the project came to an impasse. This market-based approach, however self-serving, indicates a recognition from Chinese interests of the compelling power of fair and transparent mechanisms in complex infrastructure deals. Although CNPC's appeal was unsuccessful, it was a constructive move nonetheless. Such an approach can deliver better results when negotiating with a counter-party that places a greater priority on a project's financial viability.

Stability and accountability

The second relates to how the metrics of political transparency and stability, a key feature of this report's country profile assessments, can interrelate in important but sometimes non-obvious ways.

According to the measures in the Democracy Index, Russia slipped from having a hybrid political structure into functioning as an authoritarian regime in 2011. The nation now ranks 132 out of 167 countries overall (it stood at 107 in 2010). Mr Putin's consolidation of power has involved in part fixating public opinion on perceived external threats, which in turn generates support for his regime as a defender of national interests. Mr Putin's anti-Western bravado and strongman style has also earned him admirers outside of Russia (notably in China) among those who advocate the benefits of illiberal, autocratic governance. Russia also has indisputably achieved tangible—though tenuous—political stability through the elimination of checks on executive power. Yet as the experience of CNPC illustrates, even strategic partners crucial to Russia's global economic re-alignment can run afoul of Moscow's obsession with blocking foreign influences. In considering countries for OBOR projects, however appealing a target nation's political stability might be, a foreign government should also demonstrate sufficient impartiality and accountability for bilateral co-operation to work well.

OBOR ONWARD

For all the telltale lessons surrounding the Power of Siberia project, other OBOR-themed initiatives continue to link China and Russia more closely together. During a visit to Beijing in September 2015, Mr Putin secured a commitment to help finance the Moscow-Kazan high-speed rail link (costing US$16.4bn, it is the biggest of all projects in Russia's new deal pipeline). Kremlin officials aggressively aim to complete the new line in time for Russia's hosting of football's World Cup in 2018. This bodes well for the project proceeding rapidly without undue complications. The line eventually could be extended to Beijing, bringing greater physical and commercial interconnectivity between the two countries.

There are other encouraging signs. Russia enjoys founding-member status in the China-led Asia Infrastructure Investment Bank (AIIB). Russian representatives have voiced intentions to play a major role in the bank's operations. China and Russia obviously expect to continue economically engaging in important ways. Nevertheless, the once high expectations and later sobering re-assessments of the showcase Russia-to-China oil pipeline provide reminders that fully realizing the potential of OBOR in Russia will require careful treading along this portion of the Belt and Road.

Russia

Economic outlook

Russia's economy contracted by slightly less than 4% in 2015. The short-term outlook is poor owing to low commodity prices, weak consumer confidence, and high interest rates linked to high political risk and international sanctions. We expect a further contraction in real GDP of 1.3% this year. In the medium term, outdated capital stock, a declining workforce, dependence on natural-resource sectors, institutional weaknesses, low investment and statist policies will limit real GDP growth. High political risk and the poor business environment will continue to depress investment below the level needed to develop a higher trend growth rate.

Political outlook

The political environment is expected to remain authoritarian and anti-Western. With economic growth likely to remain weak, the Kremlin will continue to mobilise support through an assertive foreign-policy stance. This means that confrontation with external powers will be a regular occurrence. Support for Vladimir Putin, the president, appears to be strong and we expect him to be comfortably win re-election in 2018. However support for other parts of the government is considerably weaker. In the longer term, institutional weakness and the personalised, opaque system of governance around Mr Putin are likely to lead to instability, exacerbated by the country's low economic growth trajectory. The regime thus faces the prospect of a long-term legitimacy crisis.

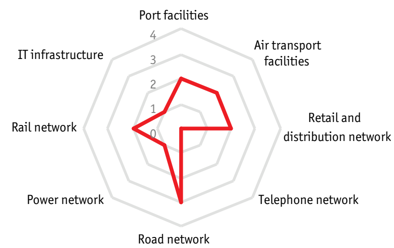
Infrastructure outlook

The weak currency and high interest rates (as a result of international sanctions) limit the government's room for fiscal stimulus and infrastructure spending will be low in the coming years. Much of the public spending on infrastructure will be directed to facilities for the football World Cup in 2018 and the integration of Crimea into Russia. High interest rates and low demand have pushed the corporate sector into a deleveraging cycle, and private investment will also be weak. Development of the Russian Far East will remain a government priority and Chinese investment will be welcomed. However, tight financing conditions and low energy prices have put key projects in doubt, such as the Power of Siberia gas pipeline to China.

Transparency & stability assessment

Mr Putin's third presidential term, which began in 2012, has brought a shift towards conservative values and overt anti-Westernism. Russia's stand-off with the West has consolidated pre-existing trends in Russia, giving increased licence to hardliners to attack influential liberals and to crack down on independent media and non-governmental organisations on the pretext of limiting foreign interference. Fiscal consolidation will lead to cuts in public services and transfers, which could provoke small-scale protests. The country scores especially poorly in the area of government effectiveness risk (86) but relatively well in regards to infrastructure risk (41).

Russia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

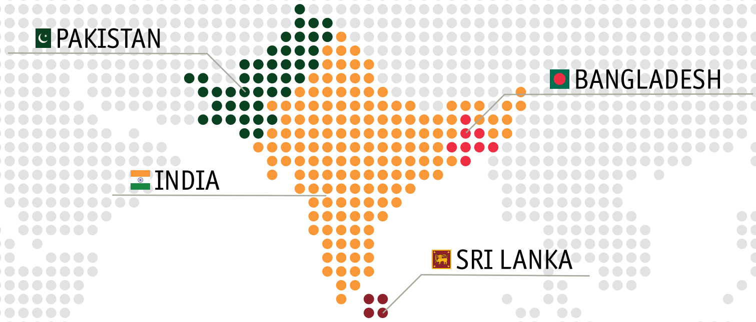
Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	143.5	143.4
Nominal GDP (US$ bn)	1,233.3	1,059.2
Real GDP growth (%)	-3.7	-1.3
Nominal gross fixed investment (US$ bn)	236.8	209.0
Real gross fixed investment growth (%)	-8.1	-0.4
Stock of inward foreign direct investment (US$ bn)	356.9	363.7
Consumer price inflation (yearly average; %)	15.5	7.5
Current-account balance (US$ bn)	66.7	42.5
Total foreign debt (US$ bn)	515.1	474.0

Source: The Economist Intelligence Unit.

Russia risk measures	Score
Overall assessment	59
Security risk	57
Political stability risk	65
Government effectiveness risk	86
Legal & regulatory risk	70
Macroeconomic risk	65
Foreign trade & payments risk	61
Financial risk	50
Tax policy risk	50
Labour market risk	46
Infrastructure risk	41

Note: 100=most risky.
Source: The Economist Intelligence Unit.

South Asia



OVERVIEW

Not that long ago, India, South Asia's largest economy—and indeed, after China, the largest emerging market in the world—was frequently mentioned in combination with the economic giant to its north. The idea of "India-China", sometimes simply abbreviated "IC" (further implying that the two were somehow conjoined), often made the rounds in business, economic and academic circles. Much speculation concerned which of these two densely populated, high-potential rising nations would be the first to distinctly influence world affairs or, perhaps, share influence together.

Today, India's forecast US$2.2trn nominal GDP for 2016 amounts to about one-fifth of China's US$10.9trn-sized economy. In its favour, India stands out for having the sort of fast-charging real GDP growth that China used to enjoy: we predict the Indian economy will grow by 7.4% this year, vs 6.5% for China. But the sheer mass and momentum of China's economy moves global markets in ways that India's is a long way away from achieving. OBOR itself provides ample demonstration for how China's huge economy and industries are exerting global influence on a scale not yet available to the world's fastest-growing major economy.

Taking a page from China's playbook for economic development, Narendra Modi, India's reformist prime minister, is now spending heavily on infrastructure improvements. Although India and China tend more towards rivalry than collaboration in the areas of security and geopolitics, India has joined in establishing the Chinese-led multilateral lending institutions, the New Development Bank (NDB) and the Asia Infrastructure Investment Bank (AIIB). In the latter, India in fact holds the second-highest percentage of shares. On a visit to China by Mr Modi in mid-2015, he and China's president, Xi Jinping, signed more than US$22bn in trade and economic agreements. Despite the underlying tensions, OBOR is making inroads into India.

Among the four South Asian economies profiled in this section, China's geopolitical interests most closely align with Pakistan, yet extremely high security and infrastructure risks add to the challenge of project work in that country. An economy like Bangladesh's lacks the high security risks that apply to Pakistan's, but has its own issues in areas like government effectiveness and existing infrastructure.

China found an eager recipient for OBOR-related infrastructure development under the government of Sri Lanka's former president, Mahinda Rajapaksa. After Mr Rajapaksa's surprise election defeat in January 2015, however, the new administration of Maithripala Sirisena froze major projects already awarded to Chinese firms. India appears to have had a hand in the change of government and the halting of Chinese projects owing to New Dehli's concerns for Chinese encroachment. Although later restarted, the stalled projects generated losses for their Chinese backers. The dramatic turn of events also illustrates the precariousness of Chinese dealings with India and neighbouring countries where it holds sway.

South Asia table 1: recent transportation infrastructure projects of US$250m and above, India

Country	Project	Sector	Investment (US$ m)	Stage
India	Ahmedabad-Mumbai high-speed rail	Transport	15,000	Awarded
India	Pune-Mumbai-Ahmedabad high-speed rail	Transport	10,000	Planning
India	Churchgate – Virar corridor of Mumbai elevated suburban rail	Transport	3,700	Tendering
India	Hyderabad metro rail	Transport	2,600	Financial close
India	Patna Metro	Transport	2,600	Planning
India	Navi Mumbai International Airport	Transport	2,280	Tendering
India	Jaipur Metro	Transport	1,850	Tendering
India	Mumbai Trans Harbour Link	Transport	1,580	Tendering
India	Jaipur Metro phase II	Transport	1,567	Planning
India	Fourth container terminal at Mundra Port	Transport	1,300	Signed
India	Jawaharlal Nehru Port fourth terminal	Transport	1,300	Signed
India	Six laning of Kishangarh-Udaipur-Ahmedabad Section of National Highway (NH) 76, 79, 79A and 8	Transport	1,236	Financial close
India	Vizhinjam Port container terminal	Transport	1,183	Awarded
India	Versova-Bandra Sea Link	Transport	979	Tendering
India	Multi-Cargo Terminal at Chennai Port	Transport	814	Tendering
India	Mopa Airport in Goa	Transport	732	Tendering
India	Development of Tatadi Port	Transport	704	Tendering
India	Four laning of the Shivpuri-Dewas section of NH-3	Transport	659	Planning
India	Western dedicated freight corridor	Transport	635	Tendering
India	4/6 laning of Bhavnagar-Veraval section of NH-8E	Transport	623	Tendering
India	Zozila Tunnel	Transport	542	Financial close
India	Four Laning of Baharagora -Sambalpur Section of NH-6	Transport	530	Tendering
India	Chennai monorail	Transport	520	Tendering
India	Four laning of Yedeshi -Aurangabad section of NH-211	Transport	505	Financial close
India	Six laning of Gurgaon-Kotputli-Jaipur section of NH-8	Transport	468	Financial close
India	Four laning of Parwanoo- Shimla section of NH-22	Transport	445	Tendering
India	Four/Six laning of Goa-Kundapur section of NH-17	Transport	430	Financial close
India	Six Laning of Agra-Etawah Bypass section of NH-2	Transport	418	Signed
India	Four laning of Ghoshpukur-Falakata-Salsalabari section of NH-31D	Transport	417	Tendering
India	Four laning of Hyderabad-Vijayawada section of NH-9	Transport	396	Operational

INFRASTRUCTURE DEVELOPMENT

India's elephantine needs

Along with India's disproportionately large landmass, population and GDP size compared to the rest of South Asia, the country also has outsized infrastructure needs. In our sampling of new projects, India has 213 developments with a total identified value of US$83.6bn. The nation's long-suffering road network and other transportation projects covering rail and sea and airports are the main beneficiaries of the new spending on infrastructure.

Table 1 lists some of India's recent transportation projects valued US$250m and above. These represent combined investments of over US$65bn.

South Asia table 1: recent transportation infrastructure projects of US$250m and above, India (continued)

Country	Project	Sector	Investment (US$ m)	Stage
India	Six laning of Barwa Adda-Panagarh Section of NH-2	Transport	391	Financial close
India	Gurgaon Rapid Metrorail south extension	Transport	391	Financial close
India	Beawar-Pali-Pindwara road	Transport	389	Operational
India	Chikhli-Fagne road	Transport	386	Planning
India	Chiplun-Karad railway	Transport	380	Tendering
India	Navi Mumbai New Airport	Transport	370	Tendering
India	Baleshwar-Chandikhole section of NH-5	Transport	367	Planning
India	Four laning of the Kaithal-Rajasthan section of NH-152/65	Transport	359	Financial close
India	Eight laning of Mukarba Chowk-Panipat section of NH-1	Transport	348	Planning
India	Jaipur-Deoli road	Transport	345	Operational
India	Amravati-Chikhli road	Transport	344	Signed
India	Four laning of Khed-Sinnar section of NH-50	Transport	324	Financial close
India	Kempegowda International Airport	Transport	323	Operational
India	Delhi-Panipat Expressway	Transport	323	Tendering
India	Chakeri-Allahabad section of NH-2	Transport	322	Planning
India	Raipur-Bilaspur section of NH-30/NH-130	Transport	315	Planning
India	Four laning of Hungund-Hospet section of NH-13	Transport	308	Operational
India	6/8 laning of Jawaharlal Nehru Port road	Transport	308	Tendering
India	Six laning of Vijayawada-Gundugolanu of NH-5	Transport	303	Financial close
India	Four laning of the Gujarat -Surat-Hazira Port section of NH-6	Transport	303	Operational
India	Fagne-Gujarat / Maharashtra border road	Transport	284	Signed
India	New link on NH-133B and Manihari Bypass	Transport	284	Tendering
India	Indore-Ichapur to Maharashtra State Highway (SH) No. 27	Transport	283	Tendering
India	SH-10 (Sambalpur-Rourkela)	Transport	280	Signed
India	Four laning of Cuttack-Angul section of NH – 42	Transport	268	Planning
India	2/4 laning of Gadu-Dwarka section of NH-8E ; Dwarka-Okha section of SH-25	Transport	258	Tendering
India	Pukhrayan-Ghatampur-Bindaki section of SH-46	Transport	256	Tendering
India	Four laning of Lukcnow-Sultanpur section of NH-56	Transport	254	Financial close
India	Kolkata Port Diamond Harbour container terminal	Transport	251	Tendering
India	Four laning of Hubli-Hospet section of NH 63	Transport	250	Tendering

Sources: CG/LA; InfraPPP.

South Asia table 2: recent water and waste infrastructure projects, India

Country	Project	Sector	Investment (US$ m)	Stage
India	Water supply and distribution of Nangloi water treatment plant	Water & waste	120	Awarded
India	24x7 drinking water supply project in Pune	Water & waste	88	Planning
India	Municipal waste-to-energy plant and transportation system in Bhopal	Water & waste	57	Tendering
India	Bhubaneswar and Cuttack waste project	Water & waste	34	Signed
India	Bulk water supply project for IIT Bhubaneswar	Water & waste	31	Signed
India	E-waste processing facility in Mumbai	Water & waste	29	Tendering
India	Integrated solid waste management project in Patna	Water & waste	20	Tendering
India	Solid waste management project in Berhampur	Water & waste	7	Signed

Source: InfraPPP.

South Asia table 3: recent infrastructure projects in Pakistan, Bangladesh, Sri Lanka

Country	Project	Sector	Investment (US$ m)	Stage
Pakistan	Peshawar-Lahore-Karachi railway	Transport	3,700	CPEC
Pakistan	Tharparkar coal-fired power plants	Energy	2,800	CPEC
Bangladesh	Dhaka Mass Transit Development Project	Transport	2,200	Planning
Pakistan	Tharparkar coal mining blocks	Energy	2,200	CPEC
Pakistan	Gwadar-Nawabshah natural gas pipeline	Energy	2,000	CPEC
Pakistan	Port Qasim power plants	Energy	2,000	CPEC
Pakistan	Karot hydropower project	Energy	1,650	CPEC
Pakistan	Lahore Metro	Transport	1,610	Planning
Bangladesh	Dhaka elevated expressway	Transport	1,250	Financial close
Bangladesh	Dhaka-Ashulia elevated expressway	Transport	1,150	Planning
Sri Lanka	Colombo Port City	Transport	1,400	Re-awarded
Pakistan	Bahawalpu solar park	Energy	930	CPEC
Sri Lanka	Hambantota Port phase 2	Transport	601	Signed
Pakistan	M-9 Hyderabad-Karachi motorway	Transport	350	Signed
Bangladesh	Shantinagar – Dhaka/Mawa expressway	Transport	338	Planning
Pakistan	Jhimpir wind farm	Energy	260	CPEC
Pakistan	Gwadar Airport	Transport	230	CPEC
Pakistan	Karachi-Thatta expressway	Transport	73	Signed
Bangladesh	Mongla Port	Transport	53	Awarded
Bangladesh	Dhaka Hemodialysis centres	Social & health	3	Signed

Sources: CG/LA; InfraPPP; Pakistan State Engineering Corporation.

Another, narrower sampling of projects involving water and waste treatment projects in India (South Asia table 2) shows smaller values but still a wide range of project types and geographic locations.

CPEC and other projects

Benefiting from its close alignment with China, Pakistan has become a chosen beneficiary of US$45bn in OBOR-related spending towards infrastructure development to support the China-Pakistan Economic Corridor (CPEC).

Like the Silk Road Economic Belt announced for Central Asia in 2013, Chinese authorities view CPEC as a principal strategic component of OBOR. In various regards CPEC has in fact garnered greater direct support than projects in Central Asia. A CPEC project for a hydropower generation plant in Karot, for example, was the first of any project to receive equity funding from China's US$40bn Silk Road Fund.

A sampling of leading CPEC projects, other Pakistan projects and Bangladesh and Sri Lanka projects are listed in table 3. CPEC projects are separately labelled.

DEAL NOTES

The done

Although not an especially large investment, the US$1.7bn going into the Karot hydropower dam in Pakistan represents a well-executed "done deal". The Silk Road Fund has as an upper-tier equity co-investor the International Finance Corporation, a subsidiary of the World Bank. Both have structured their capital infusions through share purchases in China Three Gorges South Asia Investment Ltd (CSAIL), part of China's state-owned power company, Three Gorges Corporation. Through its ownership of the Karot Power Company, CSAIL will construct and manage the Kerot hydropower station.

In addition to equity capital, debt funding is being organised by China Exim Bank in a consortium that includes the Silk Road Fund and China Development Bank. CSAIL, it is worth noting, already has an operating energy facility in Pakistan, a 50-mw wind farm. The company has committed US$7bn worth of projects to the country, which it claims represent the largest combined investments in the history of Pakistan's power sector.

The undone and redone

On the other side of the OBOR deal ledger in South Asia is a high-profile construction project that has progressed far less smoothly, the US$1.4bn Colombo Port City in Sri Lanka. Led by China Harbour Engineering Company (CHEC), this large reclamation project was celebrated with great fanfare during a state visit in September 2014 by the Chinese president, Xi Jinping. However, an abrupt change in Sri Lanka's national administration only a few months later put this and other formerly approved Chinese-backed projects on hold.

In this case, there was a happy ending for the Chinese development group. In March 2016, CHEC Port City Colombo was finally able to announce that it had received approval to resume work on the mixed-use, 233-ha project. Yet this result required restructuring certain aspects of the deal in ways less favourable to the Chinese side, such as re-designation of land previously issued as freehold to 99-year lease terms. The project is once again on solid footing, but its setbacks and haphazard progress offer a reminder about political risks and India's competing objectives for influence in the region.

The to-be-done

For projects in India, beyond the financial support that New Dehli can tap into via its participation in the NDB and AIIB, the China Development Bank and Industrial and Commercial Bank of China have signed memorandums to support a variety of projects in energy and other areas of infrastructure. China was especially keen to be the first supplier of high-speed rail to India and offered project funding to support this. Yet it was Japan's proposal of debt financed at an interest rate of less than 1% to cover 81% of the US$15bn, 505-km corridor connecting Mumbai and Ahmedabad that swung India's first high-speed rail project to Japanese interests.

Even with this lost deal, China is still well positioned to get involved with India's plans for high-speed rail. Towards the end of 2015, China Railway won contracts to review the feasibility of two longer and presumably more costly high-speed routes: a 1,200-km Mumbai-New Delhi line and an almost 2,200-km Chennai-Delhi line. The results of these feasibility exercises and how the Modi government decides to proceed will determine how soon and to what extent OBOR will merge with India's high-speed rail ambitions.

India

Economic outlook

India's GDP is expected to grow by 7.4% year on year in fiscal year 2016/17 (April-March), reaching US$2.2trn. The Economist Intelligence Unit forecasts real GDP growth to accelerate from an estimated 7.3% in the previous year on the back of stronger domestic consumption, supported by higher wages and pensions for government workers. Support from the government to rural sectors and robust public investment in infrastructure will provide another stimulus. Nevertheless, overcapacity in some industrial sectors, infrastructure bottlenecks as well as the operational, legal and bureaucratic difficulties involved in shifting resources to higher-productivity manufacturing will weigh on the outlook.

Political outlook

The outlook for political stability is favourable as the National Democratic Alliance coalition, led by the Bharatiya Janata Party, will remain in power until next parliamentary elections. These polls are set to be held in 2019, but parties have already begun to adapt their policy platforms. The government will provide political stability while pursuing some pro-business policies. However, assembly elections are set to be held each year in various states and will contribute to some political instability as opposition parties will seek to undermine the government to raise their profile.

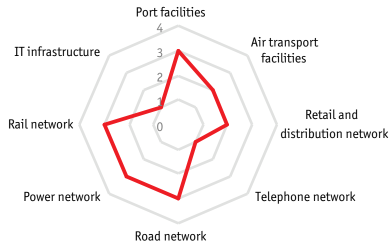
Infrastructure outlook

The government has made robust progress in addressing certain key infrastructure challenges in sectors such as road construction, railways and power. Increased public investment will result in further upgrades and contribute to an improved business environment. Other major projects include the Delhi Mumbai Industrial Corridor and the development of Smart Cities (with an emphasis on sustainability and modern technology). China has agreed to fund infrastructure projects in India, but, owing to difficulties in the local business environment, these investments pledges will be difficult to realise in full. India is also a major investor in the China-led Asian Infrastructure Investment Bank.

Transparency & stability assessment

India's system of government qualifies as a flawed democracy in the Democracy Index 2015, ranking 35th out of 167 countries. Its relatively strong position for an Asian nation owes much to the judiciary's protection of pluralism and civil liberties. India's political risk score is 20 (on a scale of 0-100). Legal and regulatory risk is much higher (58), and government effectiveness risk scores 64. The tax system is highly complex and a major risk with a score of 88. The nation's dispute with Pakistan over Kashmir and threats from Islamist and left-wing militant groups pose security risks.

India infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	1,311.0	1,326.8
Nominal GDP (US$ bn)	2,087.3	2,154.9
Real GDP growth (%)	7.3	7.4
Nominal gross fixed investment (US$ bn)	630.0	648.5
Real gross fixed investment growth (%)	5.6	6.6
Stock of inward foreign direct investment (US$ bn)	295.8	345.8
Consumer price inflation (yearly average; %)	4.9	5.1
Current-account balance (US$ bn)	-21.2	-19.0
Total foreign debt (US$ bn)	494.3	532.5

Source: The Economist Intelligence Unit.

India risk measures	Score
Overall assessment	50
Security risk	43
Political stability risk	20
Government effectiveness risk	64
Legal & regulatory risk	58
Macroeconomic risk	30
Foreign trade & payments risk	50
Financial risk	38
Tax policy risk	88
Labour market risk	57
Infrastructure risk	56

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Pakistan

Economic outlook

The size of Pakistan’s economy is set to approach US$290bn in 2016, the second largest in South Asia. Economic expansion will be underpinned by private consumption and investment. However, growth of 5.1% means that the economy is expanding below potential,reflecting ongoing volativle security situation, and water and electricity shortages will weigh on economic activity. Structural growth impediments, such as low investment in human capital, will further act as impediments to a faster economic expansion.

Political outlook

The outlook for political stability improved after the country witnessed the first transfer of power between elected civilian governments in its history at the May 2013 parliamentary election. The incumbent Pakistan Muslim League (Nawaz), or PML (N), government is set to see out its term, and we expect the next National Assembly election to be held by mid-2018. Still, in the improbable case of large-scale public protests, leading to military intervention, elections could be delayed. Political instability will remain a key feature of Pakistan’s political system, as opposition parties will expand efforts to undermine the credibility of the government.

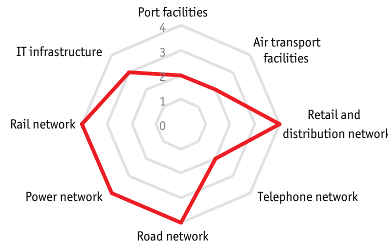
Infrastructure outlook

Reducing electricity shortfalls ranks among the government’s priorities and it has repeatedly vowed to address the country’s energy crisis before the next parliamentary election in 2018. To meet its goals, the administration is investing heavily in energy infrastructure, but rapidly rising electricity demand will soak up capacity additions. The ambitious programme is backed up by investments worth US$46bn under the China-Pakistan Economic Corridor (CPEC). This will benefit growth through improved road, port and energy infrastructure. However, owing to operational, political and regulatory challenges, realising the investment in full will prove challenging.

Transparency & stability assessment

According to the Democracy Index 2015, Pakistan’s system of government qualifies as a hybrid regime. This is driven in large part by a relatively low literacy rate, the low participation rate of women in politics and the government’s failure to make a concerted effort to promote broader political participation. Pakistan ranks 112th out of 167 indexed countries, putting it slightly behind Nepal but well above China. Among its risk scores, Pakistan’s political stability risk score is 60 (on a scale of 0-100). A security risk score of 86 is the result of ongoing threats posed by various militant groups.

Pakistan infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	188.9	192.8
Nominal GDP (US$ bn)	270.0	290.2
Real GDP growth (%)	5.5	5.1
Nominal gross fixed investment (US$ bn)	36.5	38.8
Real gross fixed investment growth (%)	8.3	5.0
Stock of inward foreign direct investment (US$ bn)	32.6	36.1
Consumer price inflation (yearly average; %)	2.5	3.7
Current-account balance (US$ bn)	-1.6	-1.1
Total foreign debt (US$ bn)	60.7	60.7

Source: The Economist Intelligence Unit.

Pakistan risk measures	Score
Overall assessment	64
Security risk	86
Political stability risk	60
Government effectiveness risk	79
Legal & regulatory risk	58
Macroeconomic risk	40
Foreign trade & payments risk	75
Financial risk	62
Tax policy risk	50
Labour market risk	50
Infrastructure risk	78

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Bangladesh

Economic outlook

Bangladesh's real GDP has annually grown at a rate of 6% or more since 2011, a trend that will continue over the next five years. Agricultural output is rising, supporting income growth and facilitating the transfer of labour to industry, bolstering Bangladesh's mainstay garment manufacturing sector. The latter is also aided by government efforts to incentivise foreign investment and lobby for better international market access, which has been hindered in the past by concerns over working conditions. The government is also promoting sectoral diversification. Real GDP will grow by 6.5% in 2016, unchanged from 2015.

Political outlook

Led by a mainstay of national politics, Sheikh Hasina Wajed, the Awami League (AL) has been in office since 2009. The main opposition party, the Bangladesh National Party (BNP), presents little imminent challenge to the AL's political agenda, having boycotted the previous election and therefore currently lacking parliamentary representation. The BNP still exerts some power outside the formal political system via its use of mass strikes to protest issues, but policy and decision-making will continue to be dominated by the AL at least until the next general election in 2019. International relations remain stable: favourable relations are maintained with India, which is eager to continue to exert greater influence than China on Bangladesh.

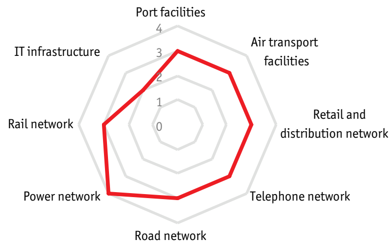
Infrastructure outlook

Rapid economic growth continues to outpace infrastructure development, with the resulting bottlenecks in power generation and transport capacities impeding the country's industrial potential. Despite several major private and public projects in the pipeline, power generation capacity will remain an issue in the medium term, representing a disincentive to capital-intensive industries that rely on consistent electricity supply. The weaknesses of transport infrastructure will also act as an impediment to market integration and economic growth in inland areas of the country and limit access to international seaports.

Transparency & stability assessment

The political system remains relatively stable in a large part owing to the ability of the governing AL to retain the support of the security forces. However, political pluralism and checks and balances on government decision making are less than optimal owing to an effective lack of an opposition in parliament. Although there is a thriving press, self-censorship is common and reporting restrictions have been imposed during periods of political unrest, undermining transparency. Bangladesh ranks 86th in the Democracy Index 2015. The nation's government effectiveness risk scores 79, the worst among all its risk measures, and infrastructure risk scores almost as high at 75.

Bangladesh infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	161.0	163.6
Nominal GDP (US$ bn)	194.9	223.1
Real GDP growth (%)	6.5	6.5
Nominal gross fixed investment (US$ bn)	56.4	63.2
Real gross fixed investment growth (%)	6.8	7.2
Stock of inward foreign direct investment (US$ bn)	8.9	9.2
Consumer price inflation (yearly average; %)	6.2	6.1
Current-account balance (US$ bn)	0.8	0.6
Total foreign debt (US$ bn)	32.6	35.3

Source: The Economist Intelligence Unit.

Bangladesh risk measures	Score
Overall assessment	53
Security risk	43
Political stability risk	60
Government effectiveness risk	79
Legal & regulatory risk	68
Macroeconomic risk	20
Foreign trade & payments risk	57
Financial risk	42
Tax policy risk	38
Labour market risk	54
Infrastructure risk	75

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Sri Lanka

Economic outlook

Sri Lanka's economy is forecast to expand by 6% and generate about U$80bn in 2016. Supported by robust wage growth and inflows of remittances, private consumption will remain the main engine of economic activity. Fixed investment will also expand at a healthy pace as the government makes some progress in improving the business environment. The government will also seek to expand trade ties with key commercial partners such as India, bolstering the outlook for exports. The large fiscal deficit—forecast at the equivalent of 6.1% of GDP in 2016—represents a major downside risk as it adds to macroeconomic imbalances.

Political outlook

The incumbent "national unity" government, led by the president, Maithripala Sirisena, and the prime minister, Ranil Wickremesinghe, will provide political stability. Following the parliamentary election in August 2015, the country's two largest parties, the United National Party and the Sri Lanka Freedom Party, joined forces. We expect the coalition to maintain at least a simple majority until the next parliamentary election is held. This is not due until mid-2020 but could be brought forward once a new constitution is passed. Owing to its need for foreign investment inflows, the government will seek to maintain amicable ties with China.

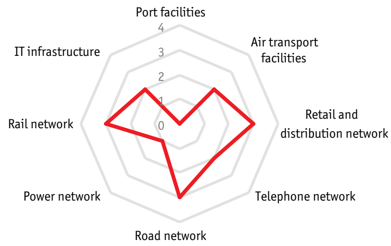
Infrastructure outlook

The overall quality of infrastructure is poor but is beginning to show some improvements. In particular the construction of an expressway between the two major cities of Colombo (the capital) and Kandy will bode well for national connectivity as the motorway also has links to economic zones. The proposed "Megapolis" project to upgrade logistics links of the region around Colombo will further bolster the infrastructure outlook. Shortly after coming to office, the government briefly put some Chinese infrastructure projects on hold but these have now resumed as the administration has realised the importance of Chinese funding and technical assistance.

Transparency & stability assessment

According to the Democracy Index 2015, Sri Lanka's system of government qualifies as a flawed democracy. The country's standing has improved significantly since 2014 when it ranked 87th out of 167 countries. It is now ranked 69th. In 2015 the country held peaceful presidential and parliamentary elections that were widely considered to be free and fair. Sri Lanka's measure for political stability risk scores a 40, second-best for the region after India (which scores 20). Legal and regulatory risk registers higher (45) and government effectiveness risk scores 61 (the country's worst score). Currently, the security risk is a relatively low 29 (much better than India's 43) but future isolated attacks by Tamil separatists remain a possibility.

Sri Lanka infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

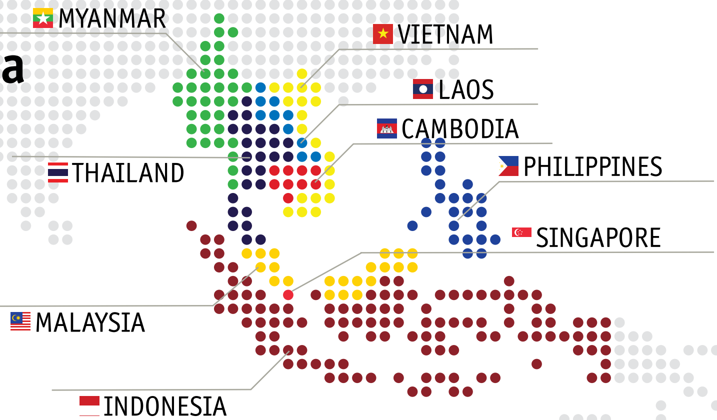
Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	20.7	20.8
Nominal GDP (US$ bn)	80.3	80.9
Real GDP growth (%)	5.1	6.0
Nominal gross fixed investment (US$ bn)	23.0	23.0
Real gross fixed investment growth (%)	7.0	5.2
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	0.9	2.6
Current-account balance (US$ bn)	-1.6	-1.5
Total foreign debt (US$ bn)	47.4	53.4

Source: The Economist Intelligence Unit.

Sri Lanka risk measures	Score
Overall assessment	46
Security risk	29
Political stability risk	40
Government effectiveness risk	61
Legal & regulatory risk	45
Macroeconomic risk	40
Foreign trade & payments risk	36
Financial risk	54
Tax policy risk	56
Labour market risk	54
Infrastructure risk	50

Note: 100=most risky.
Source: The Economist Intelligence Unit.

South-east Asia



OVERVIEW

This section on South-east Asia and OBOR covers nine regional states: Indonesia, Thailand, the Philippines, Malaysia, Singapore, Vietnam, Myanmar, Cambodia and Laos. This represents all the countries in the Association of South-East Asian Nations (ASEAN) minus the small and lightly populated (420,000 inhabitants) Brunei. In combination, the nine economies are home to nearly 640m people and expected to grow at average real rate of 5.5% in 2016, generating US$2.5trn in combined GDP in the process.

As with the nations of Central Asia, China has ample historical precedent, geographic proximity and cultural ties to draw on in its dealings with ASEAN. The region is home to the largest presence of China's far-flung diaspora. The most advanced and, per capita, the richest economy of South-east Asia, Singapore, is majority ethnic Chinese and essentially ruled as a modern Confucian state. China shares borders with Vietnam, Laos and Myanmar where people on both sides of the national boundaries have been intermingling for centuries. For most of its recorded history, Vietnam was ruled by or a vassal state of China. The ancestry of Straits-born "Peranakan" Chinese in Malaysia and Indonesia traces back to immigrants who arrived during the early 15th century voyages of the Ming era admiral, Zheng He. Zheng He's tribute fleet expeditions successfully established pre-modern trade and diplomatic relations for China. They in fact provide the historical inspiration for the 21st Century Maritime Silk Road component of the Belt-Road initiative.

This background also comes with certain amount of baggage not always conducive to China's present-day objectives with OBOR. In Vietnam, cultural commonalities with China mix with Vietnamese sensitivities to past Chinese overlording and not-so-distant memories of a briefly fought 1979 border war. In the 20th century, Indonesia engaged in an anti-Chinese pogrom among its citizens. Separately, both Indonesia and Malaysia have experienced racial strife between

South-east Asia table 1: selected 2016 forecasted key indicators

	Population (m)	Nominal GDP (US$ bn)	Real GDP growth (%)
Indonesia	258.2	888.0	5.3
Thailand	67.5	389.8	2.5
Philippines	102.3	312.2	6.1
Malaysia	30.8	287.8	4.3
Singapore	5.7	289.4	1.9
Vietnam	94.4	206.8	6.8
Myanmar	54.4	59.7	7.7
Cambodia	15.9	20.1	7.3
Laos	7.14	13.6	7.9
Totals/Average %	**636.34**	**2,467.4**	**5.5**

Source: The Economist Intelligence Unit.

South-east Asia table 2: select projects in South-east Asia's infrastructure pipeline

Country	Project	Sector	Investment (US$ m)	Stage
Indonesia	Trans-Sumatra Toll Road	Transport	27,700	Pre-Construction
Indonesia	Sunda Strait Bridge	Transport	24,000	Planning
Vietnam	Ho Chi Minh City Metro System Master Plan	Transport	23,000	Feasibility Study
Singapore	Cross Island Line	Transport	21,000	Planning
Vietnam	Long Thanh Airport	Transport	15,800	Feasibility Study
Indonesia	Bontang oil refinery	Energy	14,500	Planning
Malaysia/Singapore	Kuala Lumpur-Singapore high-speed rail (HSR)	Transport	11,000	Planning
Philippines	Manila-Makati-Pasay-Parañaque Mass Transit System	Transport	8,370	Planning
Thailand	Bangkok-Chiang Mai HSR	Transport	8,275	Planning
Malaysia	Kuala Lumpur Mass Rapid Transit (MRT), Line 2	Transport	6,500	Tendering
Laos/China	Lao-China HSR	Transport	6,000	Awarded
Indonesia	Jakarta-Bandung HSR	Transport	5,100	Awarded
Philippines	Bulacan-Laguna rail	Transport	4,500	Planning
Philippines	North-South Commuter Railway	Transport	3,720	Tendering
Philippines	North-South Commuter Railway, South Line	Transport	3,610	Tendering
Philippines	Laguna Lakeshore expressway and dike	Transport	2,620	Tendering
Myanmar	Yangon Central rail station upgrade	Transport	2,500	Tendering
Vietnam	Hon Khai island deepwater port	Transport	2,500	Planning
Thailand	Bangpa- Nakhon Rachasrima motorway	Transport	2,350	Planning
Indonesia	Central Kalimantan Coal Railway Network	Transport	2,300	Tendering
Thailand	Blue Line extension	Transport	2,290	Planning
Indonesia	West Coast Expressway	Transport	2,000	Project signed
Malaysia	Penang underground tunnel link	Transport	2,000	Project signed
Indonesia	Kertajati Airport	Transport	1,800	Tendering
Indonesia	Soekarno-Hatta Airport Train Express Line	Transport	1,800	Design
Singapore	Tuas Terminal, Phase 1	Transport	1,800	Procurement
Indonesia	Soekarno-Hatta Airport Train express line	Transport	1,797	Planning
Indonesia	East-West MRT	Transport	1,700	Planning
Thailand	Development of Bangkok's MRT Pink Line elevated train	Transport	1,584	Planning
Philippines	Redevelopment of Ninoy Aquino International Aiport	Transport	1,583	Planning
Philippines	Manila Light Rail Transit (LRT), Line 7	Transport	1,540	Financial close
Thailand	Bangyai-Kanchanaburi motorway	Transport	1,540	Planning
Thailand	Development of Bangkok's MRT Yellow Line elevated train	Transport	1,528	Planning
Myanmar	Hanthawaddy International Airport	Transport	1,500	Awarded
Singapore	Singapore Sport Hub	Social & health	1,400	Operational
Philippines	Manila LRT, Line 6	Transport	1,390	Tendering
Philippines	Manila LRT, Line 1 extension	Transport	1,365	Financial close
Philippines	Philippine airport package B	Transport	1,300	Tendering
Philippines	Cavite and Laguna Expressway	Transport	1,228	Project signed
Philippines	Mindoro-Batangas floating bridge	Transport	1,125	Unsolicited proposal
Philippines	Regional Prison Facilities	Social & health	1,073	Tendering
Philippines	Philippine airport package A	Transport	1,070	Tendering
Philippines	Light Rail Transit, Line 4	Transport	1,065	Planning
Cambodia	Phnom Penh-Sihanoukville Highway Corridor Improvements	Transport	1,000	Feasibility Study
Laos	Xe-Pian Xe-Namnoy hydropower plant	Energy	966	Financial close
Indonesia	Balikpapan-Samarinda Toll Road	Transport	875	Planning
Philippines	Davao Light Railway Transit	Transport	842	Planning
Philippines	Davao port reclamation	Transport	837	Awarded
Thailand/Myanmar	Kanchanaburi-Dawei Railway	Transport	740	Planning
Indonesia	Kulon Progo (New Yogyakarta) International Airport	Transport	700	Awarded
Philippines	NLEX-SLEX connector road	Transport	578	Planning
Myanmar	National Electrification Development Program	Energy	567	Planning
Indonesia	Sarabaya monorail	Transport	558	Planning
Singapore	Tuas waste-to-energy plant	Energy	535	Project signed
Philippines	Bulacan bulk water supply	Water & waste	509	Project signed
Philippines	Motor Vehicle Inspection System	Transport	431	Planning
Philippines	Philippines School Infrastructure Project (PSIP), Phase II	Social & health	425	Awarded
Malaysia	Senai-Desaru Expressway	Transport	423	Operational
Philippines	New Centennial Water Source Project	Water & waste	405	Tendering
Laos	North-South 500 kV Transmission Line	Energy	400	Design
Philippines	Development of Davao Sasa Port	Transport	397	Tendering
Indonesia	Kalibaru Port, first container terminal	Transport	393	Project signed
Philippines	Mactan-Cebu International Airport, new passenger terminal	Transport	367	Financial close
Philippines	NAIA Expressway	Transport	360	Project signed
Indonesia	Manado-Bitung toll road	Transport	330	Planning
Philippines	Batman1 gas pipeline project	Energy	319	Planning

South-east Asia table 2: select projects in South-east Asia’s infrastructure pipeline (continued)

Country	Project	Sector	Investment (US$ m)	Stage
Malaysia	Taman Beringin waste-to-energy incinerator project	Water & waste	313	Planning
Indonesia	Perbarakan-Tebing Tinggi toll road	Transport	303	Financial close
Vietnam	Tan Hoa-Lo Gom canal basin wastewater treatment plant	Water & waste	300	Tendering
Vietnam	Thuan-Can Tho expressway	Transport	283	Tendering
Indonesia	Nusa Dua-Ngurah Rai-Benoa toll road	Transport	253	Financial close
Philippines	Philippines School Infrastructure Project (PSIP)	Social & health	243	Project signed
Indonesia	Southern Bali Water Supply	Water & waste	219	Planning
Philippines	LRT Line 2, operations and maintenance	Transport	219	Tendering
Indonesia	Sarabaya tram line	Transport	210	Planning
Philippines	Plaridel Bypass Toll Road	Transport	203	Planning
Indonesia	Umbulan drinking water supply system	Water & waste	151	Awarded
Indonesia	Batam waste-to-energy plant	Energy	133	Tendering
Singapore	Changi Newater II	Water & waste	132	Awarded
Indonesia	Tangerang City water supply project	Water & waste	120	Project signed
Philippines	Puerto Princesa Airport	Transport	116	Planning
Thailand	Nonthaburi waste-to-energy project	Energy	114	Planning
Indonesia	Bandar Lampung water supply	Water & waste	100	Tendering
Myanmar	Mandalay International Airport	Transport	100	Project signed
Philippines	Manila ITS, south terminal	Transport	84	Project signed
Vietnam	West Saigon wastewater treatment plant	Water & waste	80	Unsolicited proposal
Vietnam	Phu Quoc Island Port	Transport	75	Awarded
Philippines	Subic-Clark-Tarlac Expressway, operations and maintenance	Transport	74	Project signed
Philippines	Integrated Transport System (ITS), Cavite southwest terminal	Transport	74	Project signed
Cambodia	Sihanoukville submarine cables and landing station	Telecom	70	Awarded
Indonesia	Bandung waste-to-energy plant	Energy	68	Tendering
Indonesia	Bandung solid waste management improvement	Water & waste	65	Tendering
Thailand	Nakhon Ratchasima waste-to-energy plant	Energy	62	Planning
Philippines	Iloilo bulk water supply	Water & waste	59	Awarded
Philippines	Calamba Regional Government Centre	Social & health	57	Operational
Indonesia	West Semarang water supply	Water & waste	56	Planning
Vietnam	Phu Quoc island tourist port	Transport	56	Planning
Philippines	Daang Hari-SLEX link road	Transport	46	Project signed
Cambodia	Phnom Penh-Sihanoukville road	Transport	40	Awarded
Indonesia	Bogor & Depok Solid waste management	Water & waste	40	Planning
Philippines	Manila’s Automatic Fare Collection System	Transport	40	Project signed
Indonesia	Way Rilau Water Supply System	Water & waste	38	Tendering
Philippines	Philippine Travel Centre Complex	Social & health	38	Planning
Philippines	Civil Registry System-IT, Phase II	Social & health	34	Tendering
Indonesia	Palu water supply	Water & waste	30	Planning
Thailand	Nong Khaem waste-to-energy project	Energy	28	Project signed
Indonesia	Medan water project	Water & waste	25	Awarded
Indonesia	Tanah Ampo Cruise Terminal	Transport	25	Tendering
Vietnam	Suoi Nhum wastewater treatment plant	Water & waste	24	Unsolicited proposal
Indonesia	Lamongan water supply	Water & waste	17	Planning
Indonesia	Maros water supply	Water & waste	13	Planning
Vietnam	e-Government Procurement	Telecom	12	Planning
Malaysia	Negeri Sembilan waste water project	Water & waste	5	Awarded
Philippines	Talisay City real estate	Social & health	3	Tendering
Philippines	Baggao water supply	Water & waste	2	Tendering
Indonesia	Jakarta MRT, Line 2	Transport	-	Planning
Laos	Road 13, Vientiane-Pakxan	Transport	-	Planning
Laos	Road 13, Vientiane-Vangvieng	Transport	-	Planning
Malaysia	Kepong Solid Waste Transfer Station	Water & waste	-	Tendering
Malaysia	Jabor-Kg Gemuruh highway	Transport	-	Awarded
Malaysia	Hospital Umum Sarawak	Social & health	-	Tendering
Myanmar	Rangoon-Mandalay highway upgrade	Transport	-	Tendering
Philippines	Road Transport IT Infrastructure Project, Phase II	Transport	-	Tendering
Philippines	Tacloban municipal north bulk water supply	Water & waste	-	Planning
Philippines	Batangas multi-purpose transport terminal	Transport	-	Tendering
Philippines	Tanauan City Public Market redevelopment	Social & health	-	Tendering
Philippines	LRT Line 1, Dasmariñas extension	Transport	-	Planning
Philippines	Poro Point San Fernando Airport	Transport	-	Planning
Philippines	El Nido water supply system and sanitation project	Water & waste	-	Planning
Thailand	Bangkok Airport link privatisation	Transport	-	Planning
Vietnam	Dau Giay-Phan Thiet Expressway	Transport	-	Tendering
Vietnam	Hanoi monorail system	Transport	-	Planning

Sources: InfraPPP; CG/LA; The Economist Corporate Network.

ethnic Chinese and their majority populations. Violent border skirmishes have recently occurred between Myanmar's army and armed ethnic Chinese groups. Rising military tensions in the South China Sea add to the precariousness of China's relations with the Philippines, Vietnam and other ASEAN countries that hold competing claims to parts of that ocean territory.

INFRASTRUCTURE NEEDS

Fortunately for China's Belt-Road goals, with the exception of Singapore (which has a highly developed infrastructure base) and to a lesser extent Malaysia, by and large the nations of South-east Asia are confronting major infrastructure deficits. These deficiencies need to be addressed if the ASEAN sphere aims to sustain its vibrant economic growth over the long term. Even Singapore's highly regarded physical asset base is being upgraded by a government focused on maintaining the city-state's competitive advantages. As shown above in South-east Asia table 2, China's opportunities among a long roster of infrastructure projects in the region are substantial.

The above lists contains some 130 projects representing nearly US$250bn in value. Transportation sector developments predominate. Three projects—the Kuala Lumpur-Singapore High-speed Rail, phase one in Singapore's Tuas Terminal, and the Kuala Lumpur Mass Rapid Transit, Line 2—all rank among the top 10 of CG/LA's "Strategic 100" listing of leading global infrastructure projects for 2016.

The planned high-speed rail connecting Kuala Lumpur and Singapore is so esteemed as to rate as the number-one project on the list. The line's non-stop service, covering 350 km in as little as 90 minutes, will make a trip between two major regional cities shorter than typical door-to-door time involved when travelling by plane. Although a project whose genesis predates OBOR, the railway—with construction expected to commence in 2017 and complete by 2022—highlights the potential in the region for advanced infrastructure.

MOVING TOWARDS FAST TRACKS

Rail systems that interconnect China and the economies of mainland South-east Asia have envisioned for more than a century. The rolling stock infrastructure currently coming through the region's project pipeline offers, if linked together, a means to China to plug directly into the economies of Myanmar, Thailand, Laos, Vietnam, Cambodia and Malaysia all the way down to Singapore.

One of the latest OBOR rail projects to be launched is a high-speed railroad connecting the Lao capital of Vientiane to China. With a total estimated cost of US$6bn (representing more than 40% of Laos' entire GDP), project financing had presented a sticking point that delayed the railway's start. Indications are that Laotian officials had balked at China's originally quoted loan size and interest rate. Eventually both sides agreed to terms for a 20-year, US$480m loan with Laos pledging five of its potash mines as collateral and receiving a grace period on principal repayments for the first five years. After the line's groundbreaking ceremony in January 2016, the project has continued attracting both celebration and controversy inside Laos. Yet as the landlocked, impoverished nation severely wants for transportation linkages with the world outside, the high-speed railway provides a potential conduit to stimulate and support Laos' economic development.

January 2016 also saw groundbreaking in Indonesia for a US$5.1bn, 150-km high-speed rail project connecting the capital of Jakarta to Bandung, Indonesia's third-largest city. A Chinese-Indonesian consortium led by China Railway International won the contract over a competing bid from Japanese interests. Three-quarters of the funding is being organised by the China Development Bank. A key reason for China's success with its bid allegedly was to not require funding guarantees from the Indonesian government as the Japanese had. The consortium has exclusive rights to operate the railway for 50 years, starting from the time of the line's expected completion in mid-2019.

Almost immediately after project commencement, the Jakarta-Bandung high-speed rail encountered the sort of bureaucratic interference that notoriously taints Indonesia's business climate. Within days of the groundbreaking ceremony, work had to be suspended because the project only received a permit for 5 km of track and been unable to acquire further approvals. The necessary paperwork was processed soon thereafter and as of the writing of this report, construction has resumed—for now. However, potentially still unearthed issues concerning matters like land acquisition, resident relocation and environmental protection could yet create delays. As the Indonesian government expects the project to be completed per schedule by 2019, both sides will need to proactively work together to keep this and other major infrastructure projects steadily on-track.

Indonesia

Economic outlook

We expect real GDP growth in Indonesia to rise from 4.8% in 2015 to 5.3% in 2016. Strong private consumption will remain the main driver of growth. Public expenditure will also support growth especially as the government boosts efforts to improve infrastructure. The government also hopes to see credit growth pick up on the back of monetary policy easing, which will lift private investment. The external sector will remain sluggish in 2016 as it faces lower global demand, particularly from China, and weak commodity prices. The government will continue efforts to improve the business environment in 2016.

Political outlook

Even though the president, Joko Widodo (known as Jokowi), does not have natural political allies in the People's Representative Council (the parliament), he enjoys significant public support and is thereby likely to complete his tenure unchallenged. In 2016, the dynamics in the parliament might also support Jokowi as the largest party in the opposition coalition, Golkar, may throw its weight on his side. Indeed, it would appear that his own party, the Indonesia Democratic Party-Struggle (PDI-P) is beginning to become more of an offensive force towards his government. This is not expected to severely hamper his reform agenda, which mostly involves deregulation and does not require parliamentary backing.

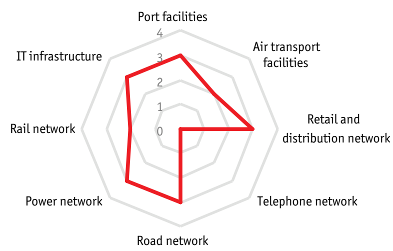
Infrastructure outlook

Indonesia suffers from a large infrastructure deficit. The government has prioritised infrastructure development, but budgetary constraints mean that it has only a limited ability to invest. Private investment in infrastructure will pick up gradually but red tape and bureaucracy will mean that progress will be slow. Port facilities, which are inadequate to accommodate major vessels, are expected to improve. Major investment is being undertaken at the country's largest port, Tanjung Priok, in the capital, Jakarta. The lack of investment in power projects poses a major threat to reliable supply in some parts of the country in coming years. Jokowi has cut fuel subsidies in order to divert funds to catalyse infrastructure development.

Transparency & stability assessment

Indonesia ranks 49th in the Democracy Index 2015. Although characterised as a flawed democracy, it has fairly robust democratic institutions especially considering its transition from dictatorship to democracy only 16 years ago. On a 0-100 scale, Indonesia's political risk score is a 40, its second-lowest operating risk measure. Deep-rooted corruption, especially at the local government level, raises its government effectiveness risk to a much higher level, 64. Infrastructure risk ranks among the higher risk measures at 59. Security risk is a more moderate 50 but the threat sporadic terror attacks in large cities remains.

Indonesia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	255.8	258.2
Nominal GDP (US$ bn)	861.9	888.0
Real GDP growth (%)	4.8	5.3
Nominal gross fixed investment (US$ bn)	286.0	296.0
Real gross fixed investment growth (%)	5.1	5.8
Stock of inward foreign direct investment (US$ bn)	272.1	293.1
Consumer price inflation (yearly average; %)	6.4	4.8
Current-account balance (US$ bn)	-17.8	-22.5
Total foreign debt (US$ bn)	316.0	343.5

Source: The Economist Intelligence Unit.

Indonesia risk measures	Score
Overall assessment	50
Security risk	50
Political stability risk	40
Government effectiveness risk	64
Legal & regulatory risk	62
Macroeconomic risk	35
Foreign trade & payments risk	43
Financial risk	46
Tax policy risk	44
Labour market risk	61
Infrastructure risk	59

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Thailand

Economic outlook

Thailand's economy saw a recovery from near stagnation to real GDP growth of 2.8% in 2015 following a military coup in 2014, but will struggle to sustain momentum in the medium term. Current growth is largely propped up by tourism exports, and merchandise exports and consumer demand are yet to show signs of strengthening. The latter has been hobbled by stagnant real incomes, falling employment opportunities, and high levels of household debt. Moreover, the ongoing drought resulting from the El Niño weather pattern is exacerbating these effects on rural households involved in agriculture.

Political outlook

Thailand's current military government, or junta, will remain in firm control of government until at least 2017, when a general election is scheduled, having staged a coup against the previous democratically-elected government in 2014. If elections proceed as scheduled, the military's efforts to maintain influence within any subsequently-elected government could stoke political tensions and fan public unrest. International relations are relatively stable, but those with Western countries will deteriorate markedly if the junta fails to deliver on the free and fair elections that it has promised.

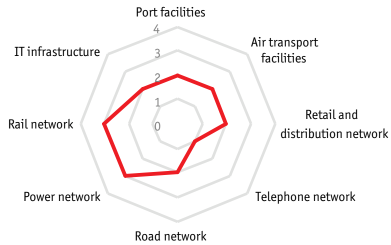
Infrastructure outlook

The outlook for infrastructure development is good largely because of public investment in large-scale projects, including new rail lines and power plants. Infrastructure spending is increasingly becoming a lynchpin for economic growth. Nonetheless, project delays can easily occur so the benefits of new developments cannot be expected with certainty before 2019. Telecommunications networks and transport infrastructure are increasingly inadequate, particularly in rural areas, and may raise commercial production and distribution costs.

Transparency & stability assessment

The political system is temporarily stable owing to the military dominance of all major arms of central government and the enforcement of a strict national public security order public. By the same token, political pluralism and checks and balances on government decision making have been severely eroded since the junta took power in 2014 and deep-seated political tensions simmer. The country's two highest risk scores are in government effectiveness (68) and political stability (65). There is still an independent national press, but *lese-majeste* laws have been enforced with increasing frequency to discourage criticism. In consequence, Thailand ranks 98th in the Democracy Index 2015, placing just after 97th-ranked Turkey as a hybrid democracy.

India infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	67.4	67.5
Nominal GDP (US$ bn)	395.3	389.8
Real GDP growth (%)	2.8	2.5
Nominal gross fixed investment (US$ bn)	98.6	91.3
Real gross fixed investment growth (%)	4.7	3.9
Stock of inward foreign direct investment (US$ bn)	212.7	218.2
Consumer price inflation (yearly average; %)	-0.9	0.3
Current-account balance (US$ bn)	25.8	20.8
Total foreign debt (US$ bn)	134.7	137.4

Source: The Economist Intelligence Unit.

Thailand risk measures	Score
Overall assessment	48
Security risk	50
Political stability risk	65
Government effectiveness risk	68
Legal & regulatory risk	52
Macroeconomic risk	35
Foreign trade & payments risk	43
Financial risk	38
Tax policy risk	25
Labour market risk	54
Infrastructure risk	53

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Philippines

Economic outlook

The Filipino economy is expected to grow by 6.1% in 2016. Steady increases in employment and healthy inflows of workers' remittances will continue to underpin private consumption growth. However, owing to the impending executive and legislative elections (May 2016) and the change in administration that will follow, significant down-side risks to investment and government expenditure exist. Successive governments in the Philippines have failed to improve their budget disbursement and a new administration is likely to reassess commitments before spending. Even if the transition in government is smooth, private investment will likely slow down in 2016 as businesses gauge the new administration's policy stance.

Political outlook

The presidential election on May 9th is shaping up to be one of the closest races in the Philippines' history. Given that none of the presidential candidates has a clear lead in recent opinion polls, the Philippines' next leader is unlikely to secure a strong public mandate equal to that of the outgoing president, Benigno Aquino, who remains popular even into the final months of his term. The tight contest also risks creating a messy government transition should the runners-up challenge the election outcome. Although the political climate is set to be more polarised in 2016-20, precedent shows that party allegiances in the Philippines tend to be fluid.

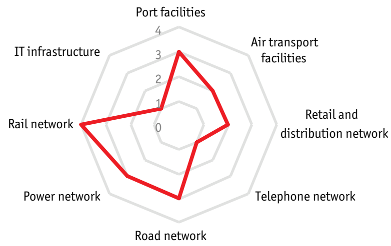
Infrastructure outlook

Transport infrastructure is underdeveloped, although there are vast differences between the growth poles (the national capital region; the economic zones at the former US bases at Subic and Clark; and the Calabarzon region south of the capital, Manila) and the poorer regions in Mindanao and parts of the Visayas. Businesses located in and around the major commercial centres will find transport to be functional, although delays and traffic jams are a big problem. Road quality varies by region; less than one-half of the road networks are all-weather. The railway system is very limited. Port services are adequate at major locations, although congestion has caused major delays at the Port of Manila, and air services have generally been improving.

Transparency & stability assessment

The Philippines rank 54th in the Democracy Index 2015 and count as a flawed democracy. Its high scores in the electoral process and civil liberties categories have meant that the Philippines ranks above Malaysia, Singapore and Hong Kong but continues to lag India and Indonesia. Security risk, at 79, is very high especially in the Southern parts of the country where Muslim insurgency is a major threat. Kidnapping of businessmen for ransom is also a common phenomenon in some parts. After security, the highest risk measure is infrastructure, at 59.

Philippines infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	100.7	102.3
Nominal GDP (US$ bn)	292.0	312.2
Real GDP growth (%)	5.8	6.1
Nominal gross fixed investment (US$ bn)	63.5	67.4
Real gross fixed investment growth (%)	14.0	6.1
Stock of inward foreign direct investment (US$ bn)	64.1	68.1
Consumer price inflation (yearly average; %)	1.4	2.0
Current-account balance (US$ bn)	8.8	11.3
Total foreign debt (US$ bn)	77.2	78.3

Source: The Economist Intelligence Unit.

Philippines risk measures	Score
Overall assessment	49
Security risk	79
Political stability risk	55
Government effectiveness risk	61
Legal & regulatory risk	55
Macroeconomic risk	30
Foreign trade & payments risk	32
Financial risk	50
Tax policy risk	38
Labour market risk	29
Infrastructure risk	59

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Malaysia

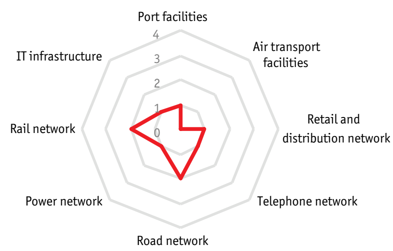
Economic outlook
The Economist Intelligence Unit expects real GDP growth in Malaysia to slow to 4.3%, from 5% in 2015. This will be the weakest pace of growth since the 2008-09 global financial crisis, and reflects the negative effects of sluggish world trade and low global energy prices. Malaysia is one of the largest oil and gas producers in the Asia region and will continue to see a drop in the value of these exports as global energy prices stay below their 2012 peak in 2016. Demand for its most popular exports, electronic and electrical goods, also likely will be weak amid a slowdown in its largest export market, China.

Political outlook
The ruling Barisan Nasional (BN) coalition is expected to serve a full term until the next general election, due in 2018. However, the future of Najib Razak, the prime minister and leader of the United Malays National Organisation, the dominant party in the BN, is less assured. Mr Najib will continue to face intense scrutiny over his role in the management of a debt-ridden state-owned investment firm, 1 Malaysia Development Berhad, and may ultimately decide to step down this year. However, we expect any future change in Malaysia's leadership to be smooth.

Infrastructure outlook
Malaysia's infrastructure is of high quality compared with those of its peers in the ASEAN, with the notable exception of Singapore. Increasing broadband penetration will be a key priority in 2016, along with improving transport connectivity in the capital, Kuala Lumpur, and ensuring the sourcing and delivery of energy. Discussions over a high-speed rail service between Kuala Lumpur and Singapore, estimated to cost in excess of US$10bn, will continue but construction is unlikely to start until end-2016 at the earliest.

Transparency & stability assessment
Based on the Democracy Index 2015, Malaysia's system of government qualifies as a flawed democracy. In its latest ranking it has slipped to 68th place out of 167 countries, from 65th in 2014. The drop in placement reflects ongoing problems relating to the media, particularly the Internet. The expansion of the Sedition Act in April 2015 is a primary source of concern for online freedom. The scope of what could be considered seditious was broadened to include electronic content and the maximum jail sentence was extended from three to 20 years despite government promises to repeal the act entirely in 2012. The country's highest operational risk is in its labour market, which scores 50, followed by government effectiveness, 46.

Malaysia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	30.3	30.8
Nominal GDP (US$ bn)	296.2	287.8
Real GDP growth (%)	5.0	4.3
Nominal gross fixed investment (US$ bn)	77.6	74.2
Real gross fixed investment growth (%)	3.7	4.0
Stock of inward foreign direct investment (US$ bn)	144.3	154.3
Consumer price inflation (yearly average; %)	2.1	2.3
Current-account balance (US$ bn)	6.1	2.6
Total foreign debt (US$ bn)	191.8	198.3

Source: The Economist Intelligence Unit.

Malaysia risk measures	Score
Overall assessment	30
Security risk	32
Political stability risk	35
Government effectiveness risk	46
Legal & regulatory risk	40
Macroeconomic risk	10
Foreign trade & payments risk	21
Financial risk	17
Tax policy risk	25
Labour market risk	50
Infrastructure risk	28

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Singapore

Economic outlook

Singapore is one of the most trade-dependent economies in Asia. Although it has no energy reserves of its own, it is a major petroleum refining centre in the Asia region. The tough external economic climate, lacklustre growth in the global energy sector and subdued levels of housing construction will continue to put a cap on levels of gross fixed investment in 2016. Growth in trade will also be lacklustre. As a result, we believe that the economy will experience a technical recession (two successive quarters of falling output) in 2016, with economic growth for the year as a whole slowing to 1.9% from 2% in 2015.

Political outlook

Singapore will continue to enjoy an enviable level of political stability in 2016, even if at the expense of social and cultural freedoms. The People's Action Party (PAP) won a strong mandate in the September 2015 parliamentary election, securing 69.9% of the total vote, up from 60.1% in 2011. The next election must be held by 2021. Factional politics within the PAP will remain discreet and will have little impact on the government's effectiveness. Given that the PAP's political opponents remain weak and the general population largely content with the status quo, the ruling party is expected to keep its stranglehold on power for the foreseeable future.

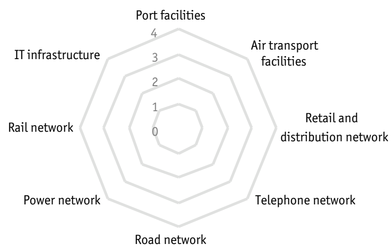
Infrastructure outlook

Work to further upgrade transport infrastructure will continue in 2016, but the benefits of this will not be felt before the end of the decade. The government will keep investing in transport, energy, water and telecoms systems to retain the city state's competitive edge. Major projects in the pipeline include an extension to the mass rapid transit system, which by 2030 will double in size and include a 50-km cross-island line. In February 2015 ambitious plans for a fifth terminal at Changi Airport were unveiled. The project will eventually boost the airport's overall capacity to 135m passengers annually, making Changi one of the largest airports in the Asia-Pacific region.

Transparency & stability assessment

Singapore ranks 74th out of 167 countries in the Democracy Index 2015. Its marginally higher score compared with 2014 was largely on the back of yet another strong turnout in the country's general election in September 2015. This raised the country's score for the political participation subcomponent of our index. For a second consecutive year, the country is classified as a flawed democracy, having previously been under the category of hybrid regime. Singapore scores the lowest possible risk level, 0, for infrastructure. This ranks it the best location for infrastructure in all of Asia and, indeed, one of the best locations in the world. The country's highest operation risk is for its labour market, where it scores 29.

Singapore infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	5.5	5.7
Nominal GDP (US$ bn)	291.7	289.4
Real GDP growth (%)	2.1	1.9
Nominal gross fixed investment (US$ bn)	85.0	86.8
Real gross fixed investment growth (%)	1.0	2.0
Stock of inward foreign direct investment (US$ bn)	981.9	1,048.2
Consumer price inflation (yearly average; %)	-0.5	0.2
Current-account balance (US$ bn)	67.9	70.2
Total foreign debt (US$ bn)	488.2	467.4

Source: The Economist Intelligence Unit.

Singapore risk measures	Score
Overall assessment	11
Security risk	7
Political stability risk	25
Government effectiveness risk	7
Legal & regulatory risk	8
Macroeconomic risk	25
Foreign trade & payments risk	4
Financial risk	4
Tax policy risk	6
Labour market risk	29
Infrastructure risk	0

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Vietnam

Economic outlook

Vietnam’s economy is projected to expand by a slightly stronger 6.8% in 2016, up from 6.7% in 2015. Increases in government spending will slow as the authorities progress with reforming state-owned enterprises and trimming the size of government. Overall government investment activity will be spurred by its policies to liberalise regulations and deepen integration with the global economy. The latter will be driven by Vietnam’s preparation for key trade and investment deals, such as the Trans-Pacific Partnership agreement and a bilateral free-trade agreement with the EU.

Political outlook

The 12th National Congress of the Communist Party of Vietnam (CPV), held in January, reaffirmed the country’s status as a one-party socialist state. The CPV’s decision to reappoint Nguyen Phu Trong as its general secretary said as much, given his proclivity towards consensus-based decision-making. Differences of opinion over policy will persist within the CPV, but an outright breakdown of the one-party system remains unlikely as the CPV’s continued rule faces no credible challenge. Nevertheless, the government will continue to face public pressure over its handling of territorial disputes with China in the South China Sea. The CPV faces a difficult balancing act, with anti-China sentiment on one side and heavy economic dependence on the country on the other.

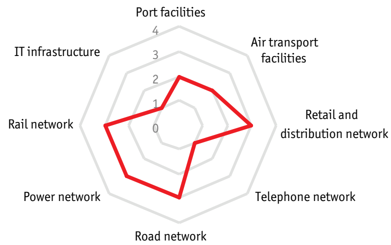
Infrastructure outlook

Although conditions will continue to improve, Vietnam’s infrastructure will remain generally poor, posing persistent limitations to businesses. This partly reflects decades of malinvestment during the era of more widespread central planning by the CPV. The government will continue to pursue ambitious infrastructure development plans, but its still-wide fiscal shortfall means that progress on projects that are primarily publicly funded is likely to remain slow. Work is urgently needed on the energy transmission and distribution system, including extending the network to remote areas where many communities are still without electricity. Vietnam is particularly vulnerable to electricity shortages owing to its heavy reliance on hydropower, which in turn depends on increasingly unpredictable rainfall.

Transparency & stability assessment

Vietnam ranks 128th in the Democracy Index 2015, putting it among those nations considered authoritarian. With a slightly higher overall score last year, however, Vietnam has moved closer to the standard needed to be categorised as a hybrid regime. This improved score partly reflects modest gains on the civil liberties front. Macro risks are pronounced in the area of government effectiveness—its highest risk score, at 68—and the labour market—scoring at 61—owing to long-standing issues such as widespread corruption and shortages in skilled labour.

Vietnam infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	93.4	94.4
Nominal GDP (US$ bn)	191.4	206.8
Real GDP growth (%)	6.7	6.8
Nominal gross fixed investment (US$ bn)	47.5	51.8
Real gross fixed investment growth (%)	9.6	9.8
Stock of inward foreign direct investment (US$ bn)	100.7	111.3
Consumer price inflation (yearly average; %)	0.9	1.5
Current-account balance (US$ bn)	2.0	1.2
Total foreign debt (US$ bn)	72.0	76.7

Source: The Economist Intelligence Unit.

Vietnam risk measures	Score
Overall assessment	49
Security risk	29
Political stability risk	50
Government effectiveness risk	68
Legal & regulatory risk	53
Macroeconomic risk	30
Foreign trade & payments risk	43
Financial risk	50
Tax policy risk	50
Labour market risk	61
Infrastructure risk	56

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Myanmar

Economic outlook

Real GDP growth in Myanmar is projected to rebound in 2016, to 7.7%, from a relative slowdown of 6.8% in 2015. Despite the pre- and post-election blip, foreign investment should revive once the new administration is formed and the political risks associated with the government transition recede. The brisk pace of economic growth in Myanmar will continue to be underpinned by large projects funded by foreign investors—notably in the hydrocarbon and infrastructure sectors—as regulatory and legal reforms are introduced. There is a risk, however, that the economy will overheat in the near term.

Political outlook

The prospects for genuine democratic reform have improved following the landslide victory of the more reform-minded National League for Democracy (NLD) in the November 2015 parliamentary election. Nevertheless, this process will continue to experience bouts of stagnation as the military remains politically powerful owing to its capacity to steer constitutional reform. Expect to see some teething issues in terms of policy formulation and implementation as the NLD has never taken the reins of government. A multiparty ceasefire agreement with some ethnic armed organisations (EAOs) was secured late last year. Yet many EAOs remain outside the formal peace process, thereby complicating the security situation in parts of Myanmar’s border regions.

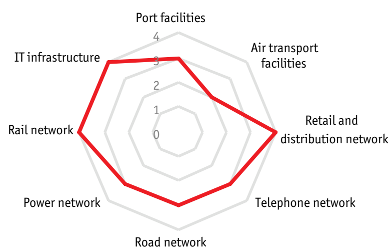
Infrastructure outlook

Myanmar’s underdeveloped infrastructure, the results of decades of mismanagement under the previous ruling military junta, will remain a major constraint on businesses for the foreseeable future. Despite the significant strides made over the past few years, major investment is still needed in roads, power and water supplies. That said, a handful of special economic zones (SEZs)—such as the Thilawa SEZ, which opened in September 2015 near the commercial hub of Yangon—will help to address the poor business environment in pockets of the country. Crucially, the new NLD government is likely to keep Myanmar open to foreign investors as it explicitly wants the support of overseas capital to finance its infrastructure development goals.

Transparency & stability assessment

Myanmar made significant progress on political liberalisation in 2015, with the result that its ranking in the Democracy Index 2015 rose sharply to 114th, from 141st in 2014. The country is no longer classified as authoritarian and is now considered hybrid. Most of the improvement in Myanmar’s score reflects the historic general election in November 2015. Legal and regulatory risk (which rates an 85) and infrastructure (81) pose the greatest risks to business. Regarding the former, the NLD’s relatively free hand at economic policymaking should see a continuation in the drive to replace outdated laws and fill gaps in existing legislation.

Myanmar infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	53.9	54.4
Nominal GDP (US$ bn)	59.1	59.7
Real GDP growth (%)	6.8	7.7
Nominal gross fixed investment (US$ bn)	21.1	22.9
Real gross fixed investment growth (%)	14.0	14.2
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	11.0	7.4
Current-account balance (US$ bn)	-1.2	-2.0
Total foreign debt (US$ bn)	6.9	8.5

Source: The Economist Intelligence Unit.

Myanmar risk measures	Score
Overall assessment	61
Security risk	50
Political stability risk	45
Government effectiveness risk	71
Legal & regulatory risk	85
Macroeconomic risk	30
Foreign trade & payments risk	61
Financial risk	71
Tax policy risk	56
Labour market risk	61
Infrastructure risk	81

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Cambodia

Economic outlook

We see real GDP growth in Cambodia recovering to 7.3% in 2016, after having cooled over the past two years. Stronger industrial output resulting from more stable labour relations in the key garment industry will help to underpin this acceleration in headline growth. Meanwhile, fiscal policy is expected to remain accommodative and low global oil prices will continue to provide a tailwind (Cambodia imports all of its oil needs). The economy will remain driven by private consumption, which accounts for around three-quarters of GDP. Incomes will continue to rise rapidly from a low base as productivity rises.

Political outlook

Political tensions will rise in the run-up to the election cycle in 2017-18. The rapprochement between the ruling Cambodian People's Party (CPP) and the opposition Cambodia National Rescue Party (CNRP) ended in late-2015 following the assault by pro-CPP protesters on CNRP lawmakers and the arrest warrants slapped on the CNRP's leader, Sam Rainsy. A return to the mass opposition protests that forced the CPP into a rapprochement after the disputed 2013 election is, however, unlikely. The CNRP will aim to keep the political climate relatively calm out of a desire to avoid an even more aggressive response from the government and to ensure that bipartisan electoral reforms, passed during the rapprochement, stick.

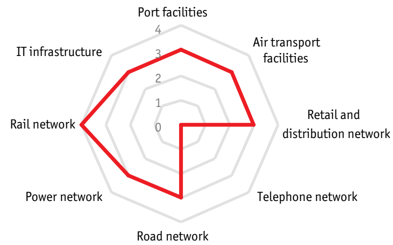
Infrastructure outlook

Cambodia's overall infrastructure will continue to be plagued by large gaps, despite the government's efforts to address these to help move the economy up the value chain. The ports and airport transport facilities have undergone some upgrading but remain inadequate for most business needs, and the limited road and rail transportation networks continue to suffer from insufficient investment. Electricity supply is woefully inadequate outside the main cities, and even in these urban areas, power shortages are still a high risk. That said, Cambodia's growing relations with China suggest that it should be in a strong position to access the capital that China is making available for overseas infrastructure projects.

Transparency & stability assessment

In the Democracy Index 2015, Cambodia places 113th, putting it among those considered hybrid regimes—one step up from an authoritarian regime. Cambodia's score and ranking deteriorated last year as the CPP's persecution of the CNRP in late-2015 in effect transformed the country back to a *de facto* one-party state. The country fares poorly in terms of the overall effectiveness of its government (where it measures a risk level of 86). Alongside the authorities' poor human rights record, corruption remains pervasive and there is little prospect of legislation alone effectively tackling the problem.

Cambodia infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	15.7	15.9
Nominal GDP (US$ bn)	18.5	20.1
Real GDP growth (%)	6.9	7.3
Nominal gross fixed investment (US$ bn)	4.0	4.3
Real gross fixed investment growth (%)	12.5	5.8
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	1.2	1.8
Current-account balance (US$ bn)	-1.0	-1.0
Total foreign debt (US$ bn)	7.3	8.2

Source: The Economist Intelligence Unit.

Cambodia risk measures	Score
Overall assessment	58
Security risk	61
Political stability risk	70
Government effectiveness risk	86
Legal & regulatory risk	65
Macroeconomic risk	15
Foreign trade & payments risk	57
Financial risk	58
Tax policy risk	25
Labour market risk	75
Infrastructure risk	69

Note: 100=most risky.
Source: The Economist Intelligence Unit.

Laos

Economic outlook

Large hydropower construction projects as well as work on a railway to China over the forecast period will underpin rapid GDP growth, which will accelerate to 7.9% in both 2016 and 2017 from an estimated 7.6% in 2015. In GDP by expenditure terms, investment spending will accelerate on the back of work on these large construction projects. We forecast that private consumption will pick up as inflation remains low and exports of copper and power continue to expand. However, net exports overall will remain a drag on headline GDP growth, owing to the equally brisk pace of import growth.

Political outlook

Laos held national and provincial legislative elections on March 20th 2016. This was not a genuine test of public opinion as opposition parties remain banned. The Lao People’s Revolutionary Party (LPRP) won nearly all of the seats in the legislature, but a small number of independent non-party candidates approved by the Lao Front for National Reconstruction (a mass organisation of pro-LPRP groups) were elected. The new National Assembly will elect a new president and prime minister, who are likely to be 78-year-old vice-president of LPRP, Bounnhang Vorachithand, and 70-year-old foreign minister Thongloun Sisoulith respectively.

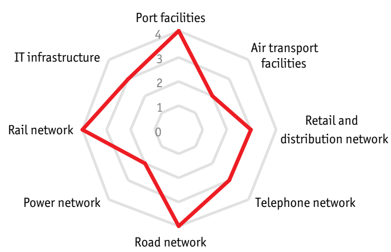
Infrastructure outlook

A number of key transport infrastructure projects are under way. The construction of a high-speed railway from the capital, Vientiane, to the Chinese border began in December 2015. Work started in January on the expansion of the passenger terminal at Vientiane’s Wattay International Airport, financed by a US$77m loan from the Japanese government, and is expected to complete by May 2018. Construction began in November on the 480-mw Nam Ngum 3 hydropower project. The final phase of the Xayaburi hydropower dam in Northern Laos is also under way and building the 260-mw Don Sahong hydropower project in southern Laos has begun, with completion scheduled for 2019.

Transparency & stability assessment

The Democracy Index 2015 ranks Laos 155th out of 167 countries, an improvement of two places compared with its ranking in 2014. This nevertheless keeps it solidly in the category of countries considered authoritarian regimes. Laos scores poorly in all areas of the index with its low political and government transparency reflected by its low scores for functioning of government and civil liberties. There remains little likelihood that Laos will contemplate an opening up of the one-party political system in the medium term as the current septuagenarian leadership is replaced by younger members of the LPRP. Government effectiveness risk in the country scores a high 82 followed by a nearly-as-high infrastructure risk, 78.

Laos infrastructure risk radar



Note: 0=negligible risk; 4=high risk.
Source: The Economist Intelligence Unit.

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	7.01	7.14
Nominal GDP (US$ bn)	12.6	13.6
Real GDP growth (%)	7.6	7.9
Nominal gross fixed investment (US$ bn)	4.0	4.5
.0Real gross fixed investment growth (%)	12.0	14.0
Stock of inward foreign direct investment (US$ bn)	-	-
Consumer price inflation (yearly average; %)	1.3	0.6
Current-account balance (US$ bn)	-1.0	-1.1
Total foreign debt (US$ bn)	10.8	11.9

Source: The Economist Intelligence Unit.

Laos risk measures	Score
Overall assessment	58
Security risk	32
Political stability risk	50
Government effectiveness risk	82
Legal & regulatory risk	72
Macroeconomic risk	20
Foreign trade & payments risk	68
Financial risk	71
Tax policy risk	50
Labour market risk	57
Infrastructure risk	78

Note: 100=most risky.
Source: The Economist Intelligence Unit.

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