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Country-risk Rating of Overseas Investment from China

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（CROIC-IWEP）

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Catalogue

Country-Risk Rating of Overseas Investment from China (CROIC-IWEP) 2017: Main Report

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I. Rating Background

China has become the world's second-largest overseas investor, just next to the United States. Its outbound direct investment hit a new high of $145.67 billion in 2015, up by 18.3% year-on-year. Since 2003, when China's Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange started to release authoritative investment data annually, China's outbound direct investment has kept increasing for thirteen consecutive years. From 2002 to 2015, the annual average growth of its outbound direct investment reached 35.9%. In 2015, China's outbound direct investment for the first time exceeded foreign direct investment it received, making it a net capital exporter. Meanwhile, its outbound direct investment stock for the first time exceeded the $1 trillion mark to hit $1.09786 trillion in 2015, the eighth largest in the world. In the future, China is expected to bring out more investment potentials and build a win-win cooperative relationship with other countries following its economic transition and upgrading, rising corporate competitiveness overseas and steady advancement of the "Belt and Road" initiative.

In recent years, Chinese enterprises overseas investment have suffered several setbacks resulted from the political, social and economic risks in the host country. For example, the political situation changes in Myanmar caused the Mimatsu Dam Project and the Leppitang Copper Project was halted, and the Myanmar - Kunming railway project plan was canceled. Mexican government lays up the high-speed rail tender program indefinitely, ordered the closure of the Chinese-capital project in Cancun. The US Foreign Investment Commission's national security review results in the frustration of several Chinese companies' investment such as Huawei and Tsinghua Unisplendour and it also causes that the US West Express Company unilaterally announced the termination of the Sino-US joint high-speed rail. Recently, German Economic Ministry withdrew the acquisition license of Chinese company Fujian Hongchen Fund for German semiconductor equipment manufacturers Aisi Jiang and halted China San`an Optoelectronics company buying the bulb sector of German lighting giant Osram. Venezuela's economic, social and political crisis has led to tens of billions of dollars loans which China Development Bank issued to Venezuela into a significant security risk. So Chinese enterprises should closely monitor the level of risks so that they can promptly figure out how serious the risks are and how to handle them; it is an important prerequisite for Chinese enterprises to ensure their overseas investment activities can proceed smoothly.

II. Summary of Rating Methodologies by Rating Agencies

1. Brief introduction of Country Credit Rating Agencies

The source of country credit rating can be traced back to the United States before the World War I. After about a century of development, the market is mainly dominated by the three rating agencies, including Standard & Poor's, Moody's and Fitch. They account for more than 90% of the global market share.

With a history of more than 150 years, Standard & Poor's is a globally known independent credit rating agency. It has offices in 23 countries and regions and conducts sovereign credit rating of 126 countries and regions, updated once a week. With branches in 29 countries and regions and about 7,000 employees, Moody's conducts rating of more than 100 countries and regions engaged in global capital market activities. Fitch is the only rating agency controlled by European capital and its scale is smaller than that of the other two major agencies. Thanks to several mergers and rapid growth, Fitch has grown into a leading international credit rating agency and established 50 branches and joint ventures globally. It focuses on providing independent and forward-looking rating opinions, research results and data reports for the international credit market.

Meanwhile, there have emerged various types of rating agencies that have diversified business priorities. Led by Economist Intelligence Unit (EIU), International Country Risk Guide (ICRG) and IHS Global Insight (GI), those agencies have survived market competition through differentiated services.

EIU is an independent unit of the Economist Group. It mainly provides economic forecasting and consulting services in 120 countries and regions. The targeted clients of EIU's intelligence service are institutions that face cross-border credit or financial risks for their engagement in lending, trade credit and other commercial activities.

ICRG has started to release the international country risk guide regularly since 1980. Currently, the country risk analysis of the guide covers nearly 140 countries and once a month, it releases a quarterly update of relevant data.

Established in 2001, GI now provides comprehensive country risk analysis for more than 3,800 clients, who are mainly investors that have overseas business. The rating of GI covers more than 200 countries and regions. As a consultancy providing paid services, GI conducts analysis that covers a wide range of risks, including business-doing risk in a country, sovereign credit risk and even the operational risk in a region of a country.

Since the building of a rating system is based on a highly scientific, comprehensive and diversified methodology and the collection and handling of data are quite complicated, now the rating market is still dominated by rating agencies of the developed countries. Rating agencies of the developing countries, including China's Dagong Global Credit Rating Co Ltd, have mostly been at the early stage of development.

Dagong Global Credit Rating Co Ltd, established in 1994, has its own sovereign credit rating standards and methodology and regularly releases sovereign credit rating reports. So far, Dagong has conducted credit rating for 90 countries and regions, mainly from Asia, Oceania and Europe, with seven of them given a triple A rating.

2. Rating Targets

From both quantitative and qualitative perspectives, the three rating agencies of Standard and Poor's, Moody's and Fitch rate the capacity and willingness of sovereign governments in paying back the full amount of their debts in a timely manner. They target the comprehensive risks of sovereign debts. Rating sovereign debt risks, Dagong and ICRG also stick to a similar principle. In the financial market, such risks are often reflected by a country's treasury bond default probability, expected losses and recovery rate.

Apart from sovereign risks, EIU also rates monetary and banking sector risks. Unlike other agencies, ICRG targets direct investment risks; therefore, apart from financial market factors, it also takes into consideration factors that are related to local business operation, such as public security environment.

The Country-Risk Rating of Overseas Investment from China (CROIC) system of the Chinese Academy of Social Sciences takes into consideration risks of both indirect investment and direct investment, a rating method that is well in line with China's diversified forms of overseas investment.

3. Components of Rating System

Although the seven rating agencies—the three major agencies of Standard & Poor's, Moody's and Fitch, and Dagong, EIU, ICRG and GI—have different rating targets, their rating system can be largely divided into three parts, namely, economic, political and social modules.

From an economic perspective, some economic indicators of a country, such as per capita income and gross national products, can reflect its economic fundamentals while such indicators as foreign debt to foreign trade (export plus import) ratio and fiscal deficit to GDP ratio can reflect its short-term debt repayment ability. A country's economic fundamentals and short-term debt repayment ability combine to constitute its overall debt repayment capacity.

From a political perspective, all major institutions monitor and assess such indicators as political stability, participation, and governance effectiveness. Political risk, in nature, is an indicator measuring a country's willingness to repay its debt. A country's debt repayment risk can increase due to political turmoil even if it has ample fiscal and other resources.

From a social perspective, the rating agencies have different methodologies to process the data they have collected. Most agencies focus on monitoring the elasticity of a society, or a society's ability to cope with crises, which can often be reflected by such indicators as harmony among different groups of people and soundness of the legal system. Social elasticity is an important indicator and component of the direct risk-measuring GI rating system.

The CROIC takes into account all the above factors, including economic, political and social elements; moreover, it introduces a module measuring the targeted country's relationship with China in an attempt to comprehensively measure risks facing China's investment in a targeted country.

4. Rating methodology

Regarding systematic preference, Standard & Poor's, Moody's and Fitch as well as ICRG all take political factors as the core of their credit rating standards. They take political liberalization, democratic and political concept and system as the standards for judging a country's political health. Meanwhile, they emphasize the positive role of a country's economic liberalization in conducting credit rating. However, such a methodology, to an extent, ignores the diversified conditions of different countries. In its credit rating system, Dagong highlights the index of a country's governance capacity in an attempt to avoid using a rating model that is entirely based on Western political ecology. However, since there lack universally accepted judging criteria, it becomes a challenge for Dagong to objectively and fairly assess a country's governance capacity. EIU treats the developed, developing and euro-zone countries differently and adopts different rating criteria in assessing a country's economic strength, making it less biased in terms of systematic preference. GI puts more emphasis on the effectiveness of a system and since political system accounts for a relatively small proportion of its rating system, GI is quite neutral in terms of systematic preference.

In terms of objectivity, qualitative indicators are imperative since objectively quantitative indicators cannot fully assess a country's risks. It is especially important for assessing political and social risks, which cannot be measured by quantitative methods. Therefore, the seven major rating agencies have all adopted rating methodologies that combine qualitative and quantitative analysis. In their rating systems, the quantization of the qualitative indicators is normally based on scores by experts and the final rating results are adjusted subjectively by rating commission members. Such a methodology inevitably contains the subjective judgment of rating analysts. Moreover, almost all rating agencies are for-profit institutions and the rating charges and annual fees are their main source of income. The rated targets are willing to pay more rating fees to get high ratings. Therefore, the independence and objectivity of the rating results could be affected by interest considerations of both parties.

In terms of the comprehensiveness of the index system, the index systems of all the three largest rating agencies cover political, economic and external risks. However, seen from each subdivision index that reflects those factors, the index system of Fitch is more concrete than those of Standard & Poor's and Moody's. Dagong attaches special importance to the effect of factors of governance capacity of the government and financial capacity on sovereign risks. To eliminate the system preference of the three major rating agencies, Dagong lists a country's governance capacity as an independent factor for analysis. Moreover, it also separates the factor of finance from the factor of economy for more thorough analysis.

The index systems of EIU and GI are also quite comprehensive. The EIU system includes 60 subdivision indexes that cover a wide range of topics. For example, in the financing and liquidity module, the EIU system contains some subdivision indexes, such as non-performing loan ratio of banks, short-term interest rate of OECD countries, and credit management capacity of the banking sector. Such an arrangement is very effective in assessing the risks of the banking sector. The index system of GI also covers most aspects of direct investment and business operation. Comparatively, most of the indicators in ICRG's rating system are political indexes and there are relatively fewer economic and financial indexes; it only selects some typical economic and financial indexes, thus tilting toward political risk assessment.

In terms of foresight, those major rating agencies have all failed to foresee monetary and banking crises; what they can do is to make adjustments afterwards. It is mainly because the rating agencies rely too much on historical data when assigning ratings and are incapable of judging the long-term development trend of the targeted country, thus affecting the reliability of their ratings. However, if they try to predict future trends, it will become inevitable for them to make subjective judgments. Therefore, it is a challenge facing all rating agencies, no matter what methods they adopt, to update data in a timelier manner to objectively predict future trends.

In terms of transparency, a complete credit rating system should be composed of five elements, namely, rating target, index system, scoring methodology, weight distribution, and rating result. However, almost all rating agencies only release their rating results and part of their methodology; they never reveal their index data or final scores. Therefore, they need to improve in transparency, although such lack of transparency is related to the business nature of those agencies and the fact that those data are deemed as core secrets.

Regarding whether their rating methods fit China’s unique conditions, most rating agencies do not take that into consideration. China’s outbound investment activities have increased rapidly and China has adopted a differentiated approach in investing in different countries. For example, it carries out both direct and indirect investment overseas and in the developed markets, it mainly invests in treasury bonds while in the emerging markets, it mainly makes direct investment. Therefore, in assessing country risks, it is worthy of conducting thorough analysis of those factors. Moreover, as the current international situation changes constantly and China’s national strength rises, the closeness of relations of targeted countries with China and even the depth and width of non-official exchanges will influence China-led investment activities. Both Dagong's rating system and our Country-Risk Rating of Overseas Investment from China (CROIC) have taken that factor into consideration to overcome the defect of the rating methodology used by traditional rating agencies.

III. Methodology of CROIC-IWEP

1. Index Selection

To comprehensively and quantitatively assess the main risks facing Chinese enterprises investing abroad, the CROIC rating system designs five major indexes that comprise 41 sub-indexes. The five indexes include economic foundation, debt repayment capacity, social elasticity, political risk, and relations with China.

(1) Economic Foundation

The economic foundation index provides a long-term basis for a country's investment environment. China's relatively sound economic conditions are the fundamental guarantee for overseas investment returns and security of its enterprises.

Table 1. Economic foundation index

Economic foundation index	**What it means**	**Source**
1.Market scale	GDP scale	WEO,CEIC
2.Development level	Per capita GDP	WEO,CEIC
3.Economic growth	GDP growth	CEIC,WDI
4.Economic fluctuation	GDP growth volatility (5-year volatility rate)	CEIC,WDI
5.Trade openness	(Import + Export)/GDP	CEIC,WDI
6.Investment openness	(FDI + ODI)/GDP	CEIC,WDI
7.Capital account openness	Chin-Ito Index (reflecting capital account management capacity)	Bloomberg
8.Inflation	CPI	WEO,CEIC
9.Unemployment	Ratio of unemployed people to working population	WEO,CEIC
10.Income distribution	Gini coefficient	CEIC,WDI

Note: WEO refers to World Economic Outlook Databases of IMF; CEIC refers to the CEIC Data; WDI refers to World Development Indicators of World Bank; and Bloomberg is a world-leading financial data provider.

The index of economic foundation includes ten sub-indexes (See Table 1). Among them, GDP, per capita GDP and Gini coefficient measure a country's economic scale and development level; economic growth, inflation and unemployment measure a country's economic performance; fluctuation rate of GDP growth measures whether a country's economic growth is stable; and the system also measures a country's openness from the perspectives of trade, investment and capital account.

Unlike in the last year, this year, the sub-indexes of GDP scale, per capita GDP, inflation and unemployment are from the IMF forecasts in its World Economic Outlook Databases, which are updated in a timelier manner. CEIC data (real value) are used where WEO data are not available.

(2). Debt repayment capacity

The index of debt repayment measures the debt conditions and repayment capacity of a country's public and private sectors. If debt crisis erupts in a country, investment security, which involves all types of investment activities, including both direct investment and financial investment, will be affected.

Table 2. Debt repayment capacity index

Debt repayment index	What it means	Source
1.Public debt/GDP	Public debt is total debts by all levels of governments	WEO
2.Foreign debt/GDP	Foreign debt is yearend outstanding foreign debt	WDI, QEDS
3.Short-term foreign debt/aggregate foreign debt	Short-term debt is debt with a maturity of one year or less	WDI, QEDS
4.Fiscal surplus/GDP	Fiscal surplus is fiscal income minus fiscal expenditure	WEO
5.Foreign debt/Forex reserve	Foreign debt is yearend outstanding foreign debt	WDI
6.Current account surplus/GDP	Current account surplus is net export of goods and services plus net income and net current transfer	WDI

7.Trade condition	Export price index/import price index	WDI
8.Banking non-performing loan ratio	Ratio of banks' non-performing loans to total lending	WDI
9.Reserve currency issuing country or not	Acceptability as an international reserve currency	Delphi

Note: WEO refers to the IMF's World Economic Outlook Databases; WDI refers to the World Bank's World Development Indicators; QEDS refers to the Quarterly External Debt Statistics, co-compiled by the IMF and the World Bank.

The debt repayment capacity index comprises nine sub-indexes (See Table 2). Among them, the public debt to GDP ratio and the ratio of banking non-performing loans mainly measure the debt level of a country's public and private sectors; the foreign debt to GDP ratio and the ratio of short-term foreign debt to total debt measure a country's foreign debt scale and the risks of debt repayment crisis eruption in the short term; the fiscal surplus to GDP ratio measures a country's fiscal strength; the foreign debt to foreign exchange reserve ratio measures a country's foreign exchange ampleness; and the current account surplus to GDP ratio, together with trade conditions, reflects a country's debt repayment capacity.

(3) Social elasticity

Social elasticity reflects the social risk factors that affect overseas investment by Chinese enterprises. Good social order can ensure the orderly operation of enterprises.

The social elasticity index includes eight sub-indexes (See Table 3). Among them, the educational level measures a country's basic labor quality; the seriousness of social, racial and religious conflicts and crime rate measure country's internal conflict and public safety conditions; and the environmental policy, capital and human flow restriction, labor market regulation and commercial regulation reflect a country's business-doing environment. Enterprises would face fewer risks in doing business with higher labor quality, less serious internal conflict and higher-level public safety and more favorable business-doing environment.

Table 3. Social elasticity index

Social elasticity index	What it means	Source

1.Internal conflict	Seriousness of social, racial and religious conflict; scores ranging from 1 to 10; the higher the score, the more serious internal conflict	BTI
2.Environment policy	Importance attached on environment issues; scores ranging from 1 to 10; the higher the score, the stricter the environment policy	BTI
3.Capital and human flow restriction	Restrictions on capital and human flow; scores ranging from 0 to10; the higher the score, the freer the capital and human flow	EFW
4.Labor market regulation	Labor market regulation includes rules on employment, lay-off, minimum wage and working time; scores ranging from 0 to 10; the higher the score, the lower the level of labor market regulation	EFW
5.Commercial regulation	Administrative and bureaucratic costs, easiness of starting a business, and license restriction; scores ranging from 0 to 10; the higher the score is, the lower the level of commercial regulation	EFW
6.Educational level	Average years of schooling	UNESCO
7.Public safety	Deaths as a result of murder for every 100,000people a year	UNODC
8.Other investment risks	Investment risks not covered by political, economic and financial risk elements; scores ranging from 0 to12; the higher the score, the more the other investment risks	ICRG

Note: BTI refers to Transformation Index of the Bertelsmann Stiftung; EFW refers to Economic Freedom of the World annual report by Fraser Institute; ICRG refers to International Country Risk Guide by PRS Group; UNESCO is the United Nations Educational, Scientific, and Cultural Organization; UNODC is United Nations Office on Drugs and Crime.

(4). Political risk

The political risk index examines the stability and quality of a country's government as well as its legal environment and external conflict. Relatively lower political risk is one of the prerequisites for enterprises to make safe investment.

Political risk index includes eight sub-indexes (See Table 4). Among them, the sub-indexes of "years left in a term", "government's capacity of carrying out policies and keeping power", and "intervention of military power in politics" reflect the stability of a country's government; corruption of political system, responsiveness of government to public demand, and public service and quality of administrative departments reflect the governance quality of a country's government; the legal system is an important guarantee for contract and property right protection. Chinese enterprises face fewer risks if the stability and quality of governance of a country's government is higher, its legal environmental is sounder and there are fewer external conflicts.

Table 4. Political risk index

Policy risk index	What it means	Source
1.Time of governance	Years left in a term	DPI
2.Government stability	government's capacity of carrying out policies and keeping power; scores ranging from 0 to12; the higher the score, the less stable the government	ICRG
3.Intervention of military power in politics	The military's participation in a country's government; scores ranging from0 to6; the higher the score, the more serious the military intervention	ICRG
4.Corruption	Corruption of political system; scores ranging from 0 to6; the higher the score, the more corrupt it is	ICRG
5.Democracy and accountability	Government's responsiveness to public demand; scores ranging from 0 to6; the higher the score, the less effective the accountability system	ICRG
6.Efficacy of government	Quality of public service, government departments and level of freedom from political pressure, quality of policy formation and implementation; scores ranging from -2.5 to 2.5; the higher the score, the more effective the government	WGI
7.Legal system	Quality of contract implementation, property right protection; scores ranging from -2.5 to 2.5; the higher the score, the more effective the legal system	WGI
8.External conflict	Risks facing incumbent government from foreign behavior, which includes non-violent external pressure, such as diplomatic pressure, cancellation of assistance, trade block, territorial dispute and sanctions, and violent external pressure, such as cross-border conflict and even	ICRG

	war; scores ranging from 0 to 12; the higher the score, the more serious the external conflict

Note: DPI refers to Database of Political Institutions; ICRG refers to the International Country Risk Guide by PRS Group; WGI refers to the Worldwide Governance Indicators by the World Bank.

(5). China Relations

The index of China relations measures important bilateral investment policies, investment mood and political relations that influence the local investment risks facing Chinese enterprises. Good relations with China are an important cushion for lowering investment risks facing Chinese enterprises.

The index of China relations includes six sub-indexes. The first one is whether the two parties have signed bilateral investment treaty and whether the treaty has come into force. If China has signed such a treaty with the targeted country, risks facing Chinese enterprises investing in the country would be lowered. The second and third sub-indexes, which are based on scores given by experts using the Delphi method, measure the level of investment block and bilateral political relations, respectively. Lower level of trade block and better bilateral political relations are conducive to lowering the risks of investment in a targeted country by Chinese enterprises.

Table5. China relations

China relations index	What is means	Source
1.Whether a BIT is signed	1 means a BIT has been signed and come into force; 0.5 means a BIT has been signed but not come into force; 0 means a BIT has not been signed	China Ministry of Commerce
2.Level of investment block	The higher the score, the lower the level of investment block	Delphi method
3.Bilateral political relations	The higher the score, the better bilateral political relations	Delphi method
4.Trade dependency	The higher the score, the higher the trade dependency of a targeted country on China	CEIC,WDI
5.Investment dependency	The higher the score, the higher the direct investment dependency of a targeted country on China	CEIC,WDI

6.Visa exemption	The high the score, the more convenient the issuance of visa for Chinese citizens	China Ministry of Commerce

Note: BIT refers to bilateral investment treaty; the Delphi method is questionnaire-based method used to collect opinions of expert panel members through face-to-face communication process.

We added three new sub-indexes starting from 2015. Among them, trade (investment) dependency measures the ratio of bilateral trade (investment) between China and a targeted country to total trade (investment) of that country. The sub-index of visa exemption measures convenience of visa issuance by a targeted country for Chinese citizens.

2. Standardization, weighting and grading

After selecting indicators and acquiring original data, we use the standardization approach to handle the quantitative indicators (economic foundation and debt repayment capacity) in our rating system while adopting two methods to handle the qualitative indicators (political risk, social elasticity and China relations): One is using the quantified results by other institutions; the other is using the scores by the expert panel for standardization.

Our rating system adopts the 0-1 standardization method, which is also called deviation standardization, i.e., the original data are made to fall within the [0, 1] range through linear transformation; the higher the score is, the lower the risks are. The transformation function goes as follows:

$$x^* = 1 - \left|\frac{x - x_{\text{benchmark}}}{max - min}\right|$$

In the function* means the value of x after standardization; the suitable value of x is the benchmark value that indicates the lowest level of risk; max is the maximum value of the sample data; and min is the minimum value of the sample data.

The key to standardize the quantitative indicators and transform them into risk scores is to find the suitable value x; within the scope of samples, the closer the value is to the suitable value, the higher the score.

There are two ways to get the suitable value. One is to set an absolute suitable value, i.e., the suitable value has nothing to do with the selection of samples. For example, in our rating system, the suitable value of CPI is set at 2% and the unemployment rate is set at 5%. The other is to find a relative suitable value in the samples. For example, in our rating system, the suitable value of GDP is set as the maximum value of GDP in the samples and the suitable value of the fluctuation of GDP growth is set as the minimum value of GDP fluctuation in the samples. Moreover, the suitable values of some indicators should be different for developed and developing countries and they have been differentiated in our rating system. For example, the public debt to GDP ratio and the foreign debt to GDP ratio, which are sub-index of the debt repayment index, reflect both a country's debt scale and its capacity to borrow. Therefore, the two sub-indexes are divided into two groups (one for developed countries and the other for developing countries) and the minimum value is the suitable value of each group.

In the above standardization process, we have stuck to four principles. First, standardization must be a logical process. Second, the handling of abnormal values must be taken into consideration in the process of standardization. Third, standardization must be objective and the influence of subjective judgments must be reduced to the minimum level. Last but not least, scores after the standardization process should be capable of differentiation.

After the sub-indexes of the five indicators (economic foundation, debt repayment capacity, political risk, social elasticity, and China relations) are standardized, scores of the five risk factors are got after calculating their weighted means, and the range is 0-1. The higher the score is, the lower the risk is. Then we calculate the weighted means of the five factors. Since they are all important factors for measuring the risk ratings of Chinese enterprises investing abroad, we have given the same weight to them (each 0.2) (See Table 6). Finally, we transform the scores into corresponding ratings. In our rating system, country risks are divided into nine categories—AAA, AA, A, BBB, BB, B, CCC, CC and C, with AAA and AA indicating low risks, A and BBB indicating mid-level risks and BB and below indicating high risks.

Table 6. Weighting of indexes of country risk rating

Index	Weight
Economic foundation	0.2
Debt repayment capacity	0.2
Political risk	0.2
Social elasticity	0.2

China relations	0.2

3. Rating samples

Table7.Country risk rating samples

	Country	**Continent**	**Investment stock as of 2015 ($100 million)**		**Country**	**Continent**	**Investment stock as of 2015 ($100 million)**
1	UAE	Asia Pacific	46.03	30	Iraq	Asia Pacific	3.88
2	Egypt	Africa	6.63	31	Iran	Asia-Pacific	29.49
3	Pakistan	Asia-Pacific	40.36	32	Israel	Asia-Pacific	3.17
4	Belarus	Europe	4.76	33	India	Asia-Pacific	37.7
5	Bulgaria	Europe	2.36	34	Indonesia	Asia-Pacific	81.25
6	Poland	Europe	3.52	35	Vietnam	Asia-Pacific	33.74
7	Russia	Europe	140.2	36	Argentina	US	19.49
8	Philippines	Asia-Pacific	7.11	37	Ethiopia	Africa	11.30
9	Kazakhstan	Asia Pacific	50.95	38	Angola	Africa	12.68
10	Kyrgyzstan	Asia-Pacific	10.7	39	Australia	Asia-Pacific	283.74
11	Cambodia	Asia-Pacific	36.76	40	Brazil	US	22.57
12	Czech Republic	Europe	2.24	41	Germany	Europe	58.82
13	Laos	Asia-Pacific	48.41	42	France	Europe	57.24
14	Romania	Europe	3.61	43	Korea	Asia-Pacific	36.98
15	Malaysia	Asia-Pacific	22.31	44	Netherlands	Europe	200.67
16	Mongolia	Asia-Pacific	37.60	45	Canada	US	85.16
17	Bangladesh	Asia-Pacific	1.88	46	Kenya	Africa	10.99
18	Myanmar	Asia-Pacific	42.59	47	US	US	408.02
19	Saudi Arabia	Asia-Pacific	24.34	48	Mexico	US	5.25
20	Sri Lanka	Asia-Pacific	7.72	49	South Africa	Africa	47.23
21	Tajikistan,	Asia-Pacific	9.09	50	Nigeria	Africa	23.77
22	Thailand	Asia-Pacific	34.4	51	Japan	Asia-Pacific	30.38
23	Turkey	Europe	13.29	52	Sudan	Africa	18.09
24	Turkmenistan	Asia-Pacific	1.33	53	Venezuela	US	28.0
25	Ukraine	Europe	0.69	54	New Zealand	Asia-Pacific	12.09
26	Uzbekistan	Asia-Pacific	8.82	55	Italy	Europe	9.32

27	Greece	Europe	1.19	56	UK	Europe	166.32
28	Singapore	Asia-Pacific	319.85	57	Zambia	Africa	23.38
29	Hungary	Europe	5.71				

This year, 57 countries are included in the rating samples of our rating system, including the United Arab Emirates, Egypt, Pakistan, Belarus, Bulgaria, Poland, Russia, the Philippines, Kazakhstan, Kyrgyzstan, Cambodia, Czech Republic, Laos, Romania, Malaysia, Mongolia, Bangladesh, Myanmar, Saudi Arabia, Sri Lanka, Tajikistan, Thailand, Turkey, Turkmenistan, Ukraine, Uzbekistan, Greece, Singapore, Hungary, Iraq, Iran, Israel, India, Indonesia, Vietnam, Argentina, Ethiopia, Angola, Australia, Brazil, Germany, France, Korea, the Netherlands, Canada, Kenya, the US, Mexico, South Africa, Nigeria, Japan, Sudan, Venezuela, New Zealand, Italy, the UK, and Zambia (See Table 7).

By the end of 2015, China's outbound direct investment had been scattered among 188 countries and regions. Among them, 57 countries have been chosen to be rating samples in our rating system mainly based on the following three criteria.

(1). Chinese enterprises mainly engage in genuine investment activities (production, R&D, employment, and business operation) and do not take the targeted country as a temporary place for investment transfer or a capital management center for tax avoidance. Hong Kong is an important transfer station for China's outbound direct investment. In 2015, 61.6 percent of China's outbound direct investment flew into Hong Kong and a large proportion of the capital had ultimately flown to other places via Hong Kong. China's direct investment in the tax haven region is dominated by business services. In 2015, 60% of the foreign investment and acquisition projects were re-invested through overseas enterprises. Therefore, the international free ports, such as Hong Kong, Cayman Islands, British Virgin Islands, and Luxembourg, are not included in our rating system.

(2). G20 economies and other countries where China has a large amount of outbound investment have been chosen as the main samples of our rating system. The 57 selected rating samples cover North America, Oceania, Africa, Latin America, Europe and Asia and China has large amounts of investment in those places, accounting for 85% of its total outbound direct investment stock[1].

[1] Not including Hong Kong, British Virgin Islands, Cayman Islands, Luxemburg and Bermuda, which have mainly used as investment transfer station and capital management center for tax avoidance.

Therefore, those countries are very typical samples that fit our rating system.

(3)They meet the requirement of accessibility of main indicators, especially the quantitative indicators (economic foundation and debt repayment capacity). In our rating system, five main indicators, including economic foundation, debt repayment capacity, political risk, social elasticity and China relations, are taken as the basis for country risk rating; therefore, the comprehensiveness and accessibility of data are very important. For example, Libya meets the first two criteria, i.e., China has a relatively large amount of investment and mainly engage in genuine investment activities, but since many supportive data (mainly economic foundation and debt repayment capacity) are not available, it is not included in our rating system.

4. Characteristics of **CROIC** Rating System

(1) Perspective of Chinese enterprises investing abroad

This country risk rating system assesses the major risks facing Chinese enterprises investing abroad from the perspective of overseas investment by Chinese enterprises and sovereign wealth fund. To that end, the system uses five indexes, namely, economic foundation, debt repayment capacity, social elasticity, political risk and China relations, which include 41 sub-indexes, to assess risks of war, nationalization, rotation of political parties, lack of inter-governmental guarantee, finance and security review by targeted countries that face Chinese enterprises that invest abroad. Our rating system provides risk warnings as reference for enterprises to lower their investment risks abroad and raise the possibility of successful investment in other countries.

(2) Focusing on direct investment while paying attention to sovereign debt investment

The country risk rating systems of existing major rating agencies assess the financial exposure risks of a country that investors face; their focus has mainly put in sovereign debt; in other words, they use qualitative and quantitative methods to comprehensively assess the capacity and willingness of sovereign countries in repaying commercial debts in full and on time. While assessing the country risks facing sovereign debt investment, our rating system has mainly focused on risks facing Chinese enterprises that invest abroad. Currently, China has become the second-largest country in terms of the amount of outbound direct investment. As its domestic transformation and upgrading continues and the competitiveness of its enterprises improves, China will see its outbound direct investment continue to grow at a fast pace. Traditionally, rating agencies have put priority on sovereign debt investment risks, but such a way of risk assessment has failed to satisfy the real demand from Chinese enterprises. Therefore, our rating system has put priority on the risk factors of direct investment and selected indicators that cover environmental policy, capital and human flow restriction, labor market regulation, commercial regulation, whether a BIT is signed, trade dependency, investment dependency, visa exemption, and level of direct investment block.

(3) Five major indicators are selected to fully cover economy, society, politics, debt repayment capacity and China relations

Many factors have a bearing on a country's investment risks and are often inter-related, therefore overruling the possibility of using one quantitative model to include all those factors. In conducting country risk assessment, our rating system combines qualitative and quantitative methods to comprehensively and fully cover the five major indicators of economic foundation, debt repayment capacity, social elasticity, political risk and China relations. On the basis of the traditional quantitative assessment method that comprises economic and financial indicators, our rating system adopts some new qualitative indicators, such as social elasticity, political risk and China relations and qualitative indicators account for more than half of the total indicators selected by our rating system. In our rating system, the five major indicators have been thoroughly studied and the core indicators of each part of the system have been defined so that the assessment methods of those core indicators have been adjusted in accordance with the different national conditions of targeted countries. Meanwhile, close attention has been paid to the internal links among different indicators and factors so that we can devise a methodology system with clear logic, rigorous framework, optimized indicators and reasonable argumentation.

(4) China relations: a unique indicator

China needs to establish a country risk rating system that fits its own national conditions. Our rating system has an important and unique indicator: China relations. It comprises six sub-indexes, namely, whether a bilateral BIT is signed, level of investment block, bilateral political relations, trade and investment dependency, and visa exemption. Good relations with China are an important cushion that lowers the risks of overseas investment by Chinese enterprises. It is a unique indicator of our rating system, which is not in any other country risk rating systems. Meanwhile, it is also an indicator that fits

Chinese investors abroad. Take the sub-index of level of investment block. Chinese enterprises have repeatedly suffered setbacks in overseas investment. Sri Lanka's re-assessment of the port project built by China, the write-down of about 10 billion yuan in China-invested iron ore project in Australia, and the indefinite postponing of the high-speed rail project by Mexico have become typical cases of investment block and failure. Investment block has obviously added to risks facing Chinese investors, thus becoming an important sub-index in our rating system.

(5) Rating system based on high-quality think tank, with "objectivity and independence" being the basic principle of country risk rating

Our rating system is based on the Institute of World Economics and Politics, CASS, a leading Chinese think tank with a global reputation. The main research areas of the institute include global macroeconomics, international finance, international trade, international investment, global governance, industrial economics, international political theory, international strategy, and international political economics. It has nearly 100 professional researchers and was ranked the top Asian think tank in the global think tank ranking compiled by US University of Pennsylvania in 2013. Overall, it is in the tenth place in the ranking. In the ranking of the "domestic economic policy" category, it is in the 11^{th} place in 2012 while it is in the 27^{th} place in the "international economic policy" category.

The research team releasing the country risk rating results is from the institute's international investment research office. The office focuses on study of such topics as cross-border direct investment, cross-border indirect investment, foreign exchange reserve investment, country risks, balance of international payments, and international investment position. Team members include Yao Zhizhong, Zhang Ming, Wang Yongzhong, Zhang Jinjie, Li Guoxue, Pan Yuanyuan, Han Bing, Wang Bijun, Zhao Qifeng, Li Xichen and Zhu Ziyang. The office regularly publishes the International Investment Studies and its main products include quarterly reports on China's outbound investment, country risk rating reports, working papers and finance comments.

5. Future Plan

Results will be publicized once a year. It is the fourth time that we have publicized our country risk rating results after our rating system is established. We will continually improve our rating system and plan to publicize country risk rating results once a year to warn of some changes in risks.

Country samples for rating will be increased. It is the fourth time that we conduct rating and we have selected 57 countries as rating samples. As we have mentioned above, we stick to three basic principles in selecting those samples. First, Chinese enterprises have engaged in genuine investment activities; second, those countries geographically cover a wide range of areas and the amount of investment is big; third, data of the main indicators, especially quantitative indicators (economic foundation and debt repayment capacity) are accessible. Those samples account for 85% of China's total outbound direct investment stock[2]. In the future, while sticking to the above-mentioned three basic sample selection principles, we will include more countries and regions in our rating system to comprehensive satisfy the outbound investment demand of Chinese enterprises in all corners of the world.

The rating system will be improved. Although supported by a powerful research team and a renowned think tank, there is still much room left for our rating system to improve. Improvement will be made in future selection of indicators, weighting distribution, and establishment of methodology in accordance with the constant changes in domestic and international situation, ever-evolving overseas investment models of Chinese enterprises and emergence of new investment risks.

Academic and policy studies will be further deepened. In the future, we will deepen academic and policy studies on the basis of the existing rating system to analyze the decisive factors, working channels and solutions of country risks facing Chinese enterprises investing abroad.

IV. Overall Analysis of CROIC-IWEP Rating Results

Our rating this time involves 57 countries, including 16 developed economies, such as Germany and the US, and 41 emerging-market economies, such as the United Emirates and Russia. In terms of geographical distribution, 6 of them are in America, 15 in Europe, 8 in Africa and 28 in Asia Pacific.

The rating results are divided into nine categories, namely, AAA, AA, A, BBB, BB, B, CCC, CC and C, with AAA and AA indicating low risks (nine countries), A and BBB indicating mid-level risks (34 countries) and BB and B indicating high risks (14 countries). It is clear that the rating results are normally distributed and reasonably reflect risk distribution ranges.

[2] Hong Kong, British Virgin Islands, Cayman Islands, Luxemburg and Bermuda are not included since they are mainly taken as places for investment transfer and capital management center for tax avoidance.

1. Overall Results

Seen from the overall rating results (See Table 8), the ratings of developed countries are generally higher than those of emerging-market economies, indicating that investment risks in the former group of economies are lower. The top ten countries are all developed economies and their average risk assessment score is 0.707. Among the 41 emerging-market economies, the United Emirates is in the 12thplace, the highest ranking; its average risk assessment score is only 0.562. The BRICS countries are in the middle of the rankings.

Table 8. Overall rating results

Ranking	Country	Risk Rating	Change	2016 Rating	Ranking	Country	Risk Rating	Change	2016 Rating
1	Germany	AAA	-	AAA	30	Turkey	BBB	-	BBB
2	New Zealand	AA	↑	AA	31	South Africa	BBB	↓	BBB
3	Australia	AA	↑	AA	32	Turkmenistan	BBB	↑	BBB
4	US	AA	↓	AA	33	Pakistan	BBB	↑	BBB
5	Singapore	AA	↑	AA	34	India	BBB	↑	BBB
6	Canada	AA	↑	AA	35	Iran	BBB	↓	BBB
7	Korea	AA	↓	AA	36	Mongolia	BBB	↑	BBB
8	UK	AA	↓	AA	37	Kenya	BBB	↑	BBB
9	Netherlands	AA	-	AA	38	Thailand	BBB	↓	BBB
10	France	A	-	A	39	Sri Lanka	BBB	↓	BBB
11	Japan	A	-	A	40	Vietnam	BBB	↑	BBB
12	United Emirates	A	↑	A	41	Myanmar	BBB	↓	BBB
13	Israel	A	↓	A	42	Zambia	BBB	↑	BB
14	Hungary	A	↑	A	43	Ethiopia	BBB	↑	BB
15	Italy	A	↓	A	44	Tadzhikistan	BB	↓	BBB
16	Czech	A	↓	A	45	Uzbekistan	BB	↓	BBB
17	Romania	A	↑	BBB	46	Nigeria	BB	↓	BB
18	Poland	A	-	A	47	Bangladesh	BB	↓	BB
19	Malaysia	A	↑	BBB	48	Brazil	BB	-	BB
20	Saudi Arabia	BBB	↓	A	49	Argentina	BB	-	BB
21	Kazakhstan	BBB	↓	A	50	Belarus	BB	↓	BB
22	Russia	BBB	↑	BBB	51	Kyrgyzstan	BB	↑	BB
23	Cambodia	BBB	↑	BBB	52	Egypt	BB	-	BB
24	Indonesia	BBB	↓	BBB	53	Sudan	BB	↑	B
25	Bulgaria	BBB	↓	BBB	54	Angola	BB	↓	BB

26	Laos	BBB	↑	BBB	55	Ukraine	B	↓	BB
27	Philippines	BBB	-	BBB	56	Iraq	B	-	B
28	Mexico	BBB	↓	BBB	57	Venezuela	B	-	B
29	Greece	BBB	↓	BBB					

Note: "—" indicates no change in relative rankings compared with last year; "↑" indicates rankings moving up compared with last year; "↓" indicates rankings moving down compared with last year

Compared with last year, the rankings of Germany, the Netherlands, France, Japan, Poland, the Philippines, Turkey, Brazil, Argentina, Egypt, Iraq and Venezuela remain unchanged, but those of other countries have changed. Among them, 22 countries, such as New Zealand and Australia, see their rankings move up, with Laos, Turkmenistan, Zambia and Cambodia registering the biggest upticks, up by 11, 10, 9 and 8 notches, respectively. Ratings of Romania, Malaysia, Zambia, Ethiopia and Sudan are upgrade. 24 countries, such as the US and Korea, see their rankings move down compared with last year, with Sri Lanka, Uzbekistan, Thailand and the UK registering the sharpest falls, down by 11, 11, 6 and 5 notches, respectively. Ratings of Saudi Arabia, Kazakhstan, Tadzhikistan, Uzbekistan, and Ukraine are downgraded.

Compared with last year, among the developed economies, 5 countries see their rankings move up while 7 countries see their rankings fall, with 4 countries registering unchanged rankings; compared with other countries, the UK and Greece see their risk ratings rise by a relatively big margin. Among the emerging-market economies, 16 countries see their relative rankings move up while 17 countries see their relative rankings fall, with rankings of 8 countries remaining unchanged. Among the BRICS countries, Russia and India see their rankings move up by 2 notches while South Africa's ranking falls by 2 notches. The ranking of Brazil remains unchanged.

On the whole, the developed countries have better economic foundations, lower political risks, higher social elasticity and stronger debt repayment capacity; therefore, the overall risks of investing in those countries are lower than in emerging-market economies. Compared with last year, however, there have been some new changes. On the one hand, due to their continual economic recovery, the developed countries have seen their GDP growth pick up and economic foundations improve. On the other hand, the developed countries remain skeptical towards investment by Chinese enterprises, especially those with State-owned enterprise background, because they hold that China's outbound direct investment may threaten their economic security, thus affect their relations with China. The world economy is slowly recovering and the developed economies are expected to grow at a slow growth in the foreseeable future. The UK's Brexit voting and the expectations that the US Federal Reserve would raise its interest rate will add to the uncertainties of the global economy. On the whole, the slowing global trade and falling investment are worrisome. In its latest global investment trend monitoring report released on Oct. 6, the United Nations Conference on Trade and Development predicted that the amount of global foreign direct investment could fall by 10%-15% in 2016. However, the growth trend of China's outbound investment will not change. In the first half of 2016, its outbound investment increased by 58.7% year-on-year; its investment in the developed countries, in particular, has accounted for an increasing proportion of its total outbound investment in recent years. In terms of outbound direct investment stock, the US has become the largest destination of Chinese investment (those tax avoidance regions are not taken into account).

For the emerging-market economies, their gap with the developed countries in terms of economic foundation and political risk remains huge; political instability and slowing economic growth are the main factors that discourage investment. However, their overall economic growth remains higher than that of the developed countries and they are still an important driving force for global economic growth. In the future, the emerging-market economies remain the most promising destination of China's outbound investment since they have huge market potentials and great demand for infrastructure construction; they can also meet China's demand for resources as the latter's outbound investment increases. In 2016, the negative interest rate policy adopted by the European and Japanese central banks and the uncertainties caused by the changing interest rate hike decisions of the US Federal Reserve further worsened the international financial environment while the slowing export growth and falling prices of commodities affected the stable growth of the emerging-market economies. Domestically, the fiscal contraction and rising inflation of the emerging-market economies caused monetary policy tightening, which will also affect their economic growth. The investment environment of South Africa, Russia and Brazil worsened compared with the previous year; the economic growth of Brazil and South Africa fell while Russia's growth stabilized; India remains one of the fastest-growing countries in the world. Moreover, The Belt and Road Initiative, and the Asian Infrastructure Investment Bank, put forward by China, has provided favorable conditions for the economic growth of the emerging-market economies.

2. Indicator Analysis

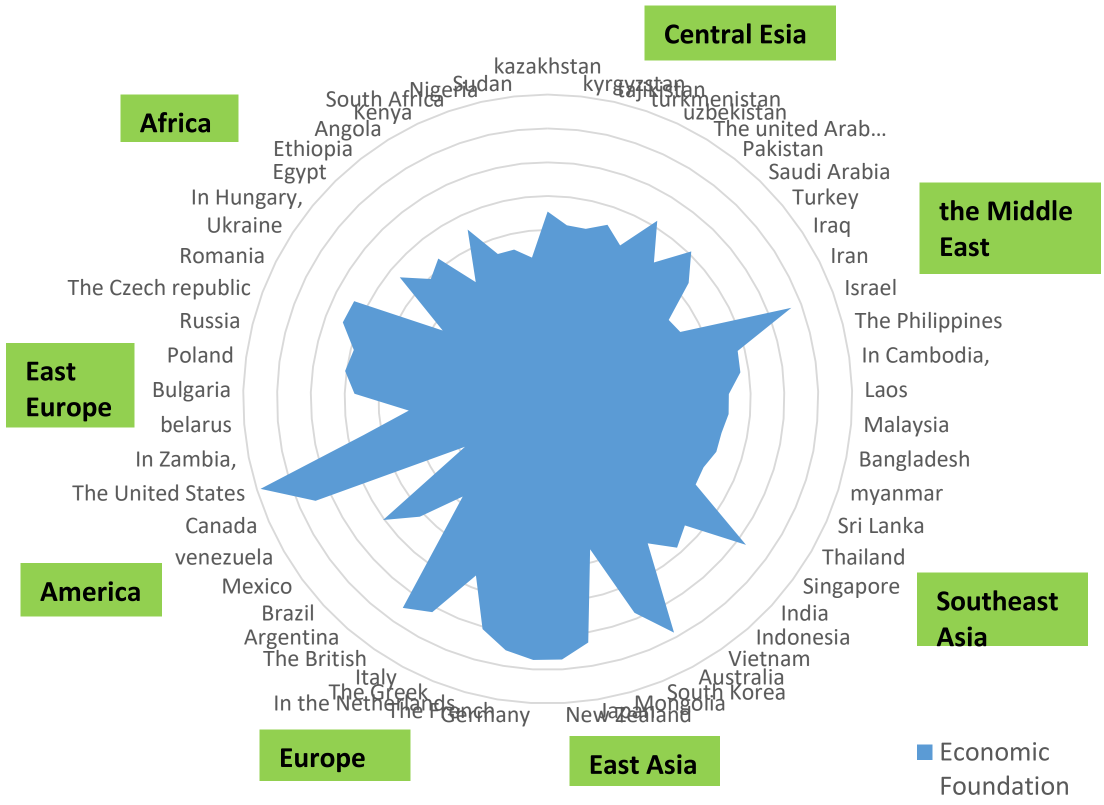
(1) Economic Foundation

The indicator of economic foundation remains unchanged compared with last year. We mainly pay attention to ten indicators. Our analysis of those indicators shows that the developed countries generally have better economic foundation than the emerging-market economies. The top ten countries in the ranking are all developed countries.

Compared with last year, the rankings of the US, Germany, Romania and Venezuela remain unchanged, but those of other countries have all changed. Among them, rankings of 24 countries, such as Australia and New Zealand, have risen, while those of 29 countries, such as the UK and Canada, have dropped.

Ranking	Country	Change	Ranking	Country	Change	Ranking	Country	Change
1	US	-	20	Russia	↑	39	Kyrgyzstan	↑
2	Australia	↑	21	Indonesia	↓	40	Tadzhikistan	↑
3	Germany	-	22	Philippines	↑	41	Brazil	↑
4	New Zealand	↑	23	Cambodia	↑	42	Pakistan	↓
5	Israel	↑	24	Bulgaria	↑	43	Thailand	↓
6	France	↑	25	Hungary	↑	44	Sri Lanka	↓
7	UK	↓	26	Greece	↓	45	Uzbekistan	↓
8	Canada	↓	27	Kazakhstan	↑	46	Egypt	↓
9	Japan	↓	28	Kenya	↓	47	Mongolia	↓
10	Singapore	↑	29	Zambia	↑	48	South Africa	↑
11	Italy	↓	30	India	↓	49	Nigeria	↓
12	Netherlands	↓	31	Turkmenistan	↑	50	Iran	↓
13	Korea	↓	32	Turkey	↓	51	Iraq	↑
14	Czech	↑	33	Malaysia	↑	52	Sudan	↑
15	Romania	-	34	Laos	↑	53	Belarus	↓
16	UAE	↓	35	Ethiopia	↓	54	Angola	↓
17	Saudi Arabia	↓	36	Bangladesh	↓	55	Argentina	↓
18	Poland	↑	37	Myanmar	↓	56	Ukraine	↓
19	Mexico	↓	38	Vietnam	↑	57	Venezuela	-

Note: "—" indicates no change in relative rankings compared with last year; " ↑ " indicates rankings moving up compared with last year; " ↓ " indicates rankings moving down compared withlast year.



(2) Political Risk

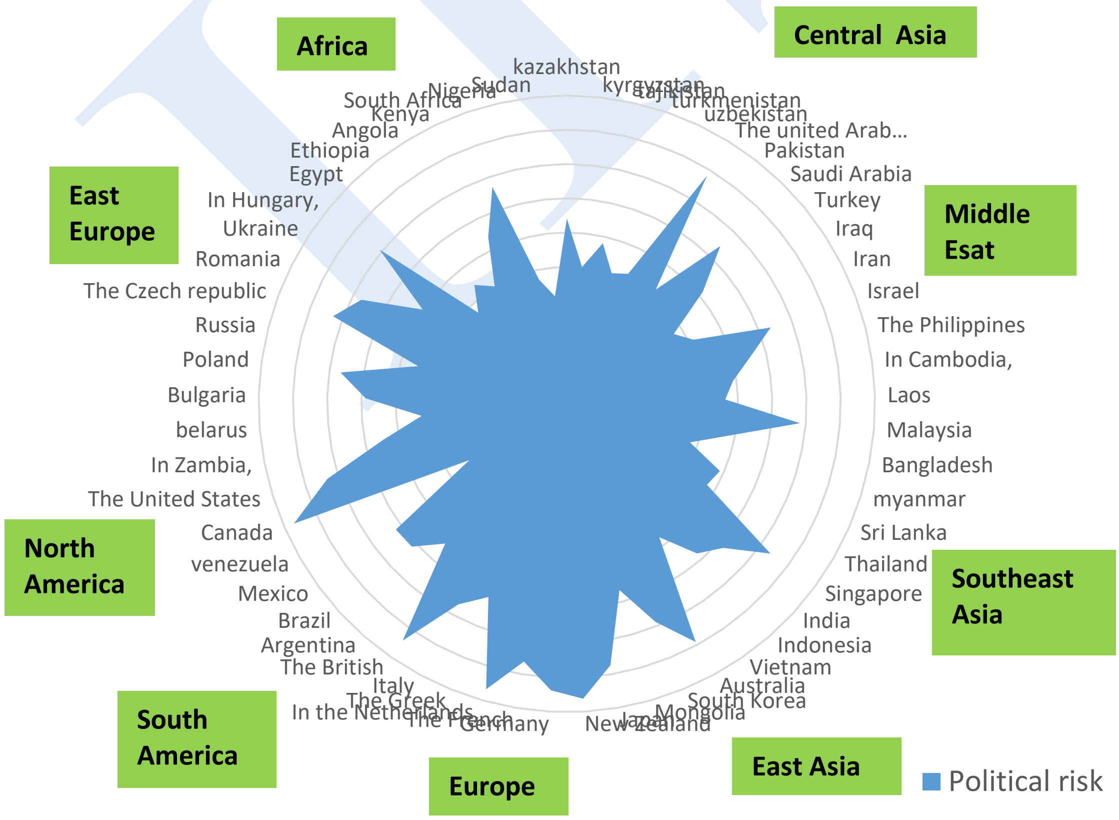
The indicator of political risk remains unchanged compared with last year. We mainly focus on eight indicators. Our analysis of those indicators shows that compared with last year, the developed countries generally face lower level of political risk than the emerging-market economies. The top ten countries in the ranking are all developed countries except the United Emirates, which is a new comer in the top ten rankings.

Compared with last year, only Australia sees its ranking unchanged while rankings of other countries in terms of political risk have all moved up or down. Among them, rankings of 21 countries, such as Canada and the Netherlands, have risen while those of 35 countries, such as the UK and Germany, have dropped.

Ranking	Country	Change	Ranking	Country	Change	Ranking	Country	Change
1	Canada	↑	20	Saudi Arabia	↑	39	Tadzhikistan	↓
2	Netherlands	↑	21	Israel	↓	40	Vietnam	↓
3	New Zealand	↑	22	India	↑	41	Thailand	↓
4	UK	↓	23	Mexico	↓	42	Laos	↑
5	Germany	↓	24	Brazil	↑	43	Russia	↑
6	Australia	-	25	Greece	↓	44	Ethiopia	↑

7	United Emirates	↑	26	Bulgaria	↓	45	Belarus	↓
8	Japan	↑	27	Indonesia	↑	46	Pakistan	↑
9	France	↓	28	Mongolia	↓	47	Uzbekistan	↓
10	Singapore	↓	29	Philippines	↓	48	Iran	↓
11	US	↓	30	Zambia	↓	49	Turkmenistan	↓
12	Czech	↓	31	Kazakhstan	↓	50	Angola	↓
13	Hungary	↑	32	Argentina	↑	51	Kyrgyzstan	↓
14	Korea	↓	33	Kenya	↓	52	Myanmar	↑
15	Malaysia	↑	34	Turkey	↑	53	Iraq	↑
16	Romania	↑	35	Ukraine	↓	54	Nigeria	↓
17	South Africa	↓	36	Cambodia	↑	55	Egypt	↓
18	Poland	↓	37	Sri Lanka	↓	56	Venezuela	↓
19	Italy	↓	38	Bangladesh	↓	57	Sudan	↓

Note: "—" indicates no change in relative rankings compared with last year; " ↑ " indicates rankings moving up compared with last year; " ↓ " indicates rankings moving down compared with last year.



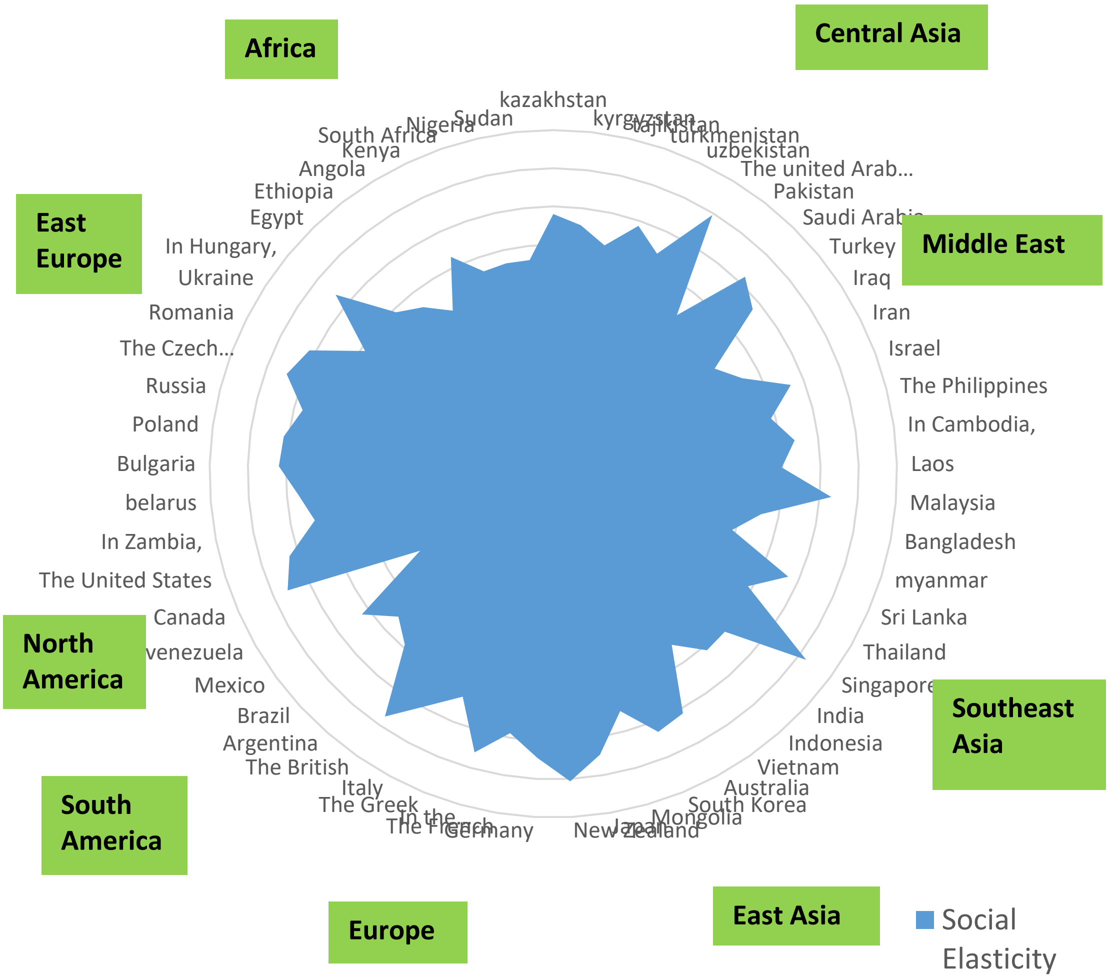
(3) Social Elasticity

The indicator of social elasticity remains unchanged compared with . We mainly focus on eight indicators. Our analysis of those indicators shows that compared with last year, the developed countries generally have higher level of social elasticity than the emerging-market economies. Nine out of the top ten countries are developed countries (there are altogether 15 developed countries in the ranking). The United Emirates, an emerging-market economy, is in the tenth place in the ranking.

Compared with last year, rankings of nine countries, such as Singapore and New Zealand, remain unchanged while those of other countries in terms of social elasticity have move up or down. Among them, 18 countries, such as Czech and Japan, register higher rankings while 30 countries, such as Germany and the US, register lower rankings.

Ranking	Country	Change	Ranking	Country	Change	Ranking	Country	Change
1	Singapore	-	20	France	↑	39	Laos	↑
2	New Zealand	-	21	Turkmenistan	↑	40	Argentina	↓
3	United Emirates	-	22	Kazakhstan	↑	41	Egypt	↓
4	UK	-	23	Russia	-	42	Ukraine	↓
5	Canada	-	24	Turkey	↓	43	Thailand	↓
6	Netherlands	-	25	Sri Lanka	↓	44	Philippines	↓
7	Czech	↑	26	Belarus	↑	45	Nigeria	↓
8	Germany	↓	27	Israel	↓	46	Sudan	↑
9	Japan	↑	28	Kyrgyzstan	↓	47	South Africa	↓
10	Hungary	↑	29	Mongolia	↑	48	Iran	↓
11	Malaysia	↑	30	Cambodia	↑	49	Bangladesh	↓
12	Korea	-	31	Uzbekistan	↑	50	Ethiopia	↓
13	US	↓	32	Zambia	↑	51	Brazil	↓
14	Saudi Arabia	↓	33	Greece	↓	52	Vietnam	↓
15	Bulgaria	↑	34	Kenya	↓	53	Pakistan	↓
16	Romania	↑	35	Mexico	↑	54	Iraq	↓
17	Australia	↓	36	Tadzhikistan	↑	55	Angola	↓
18	Poland	↓	37	Indonesia	↓	56	Myanmar	↓
19	Italy	↓	38	India	↓	57	Venezuela	-

Note: "—" indicates no change in relative rankings compared with last year; " ↑ " indicates rankings moving up compared with last year; " ↓ " indicates rankings moving down compared with last year.



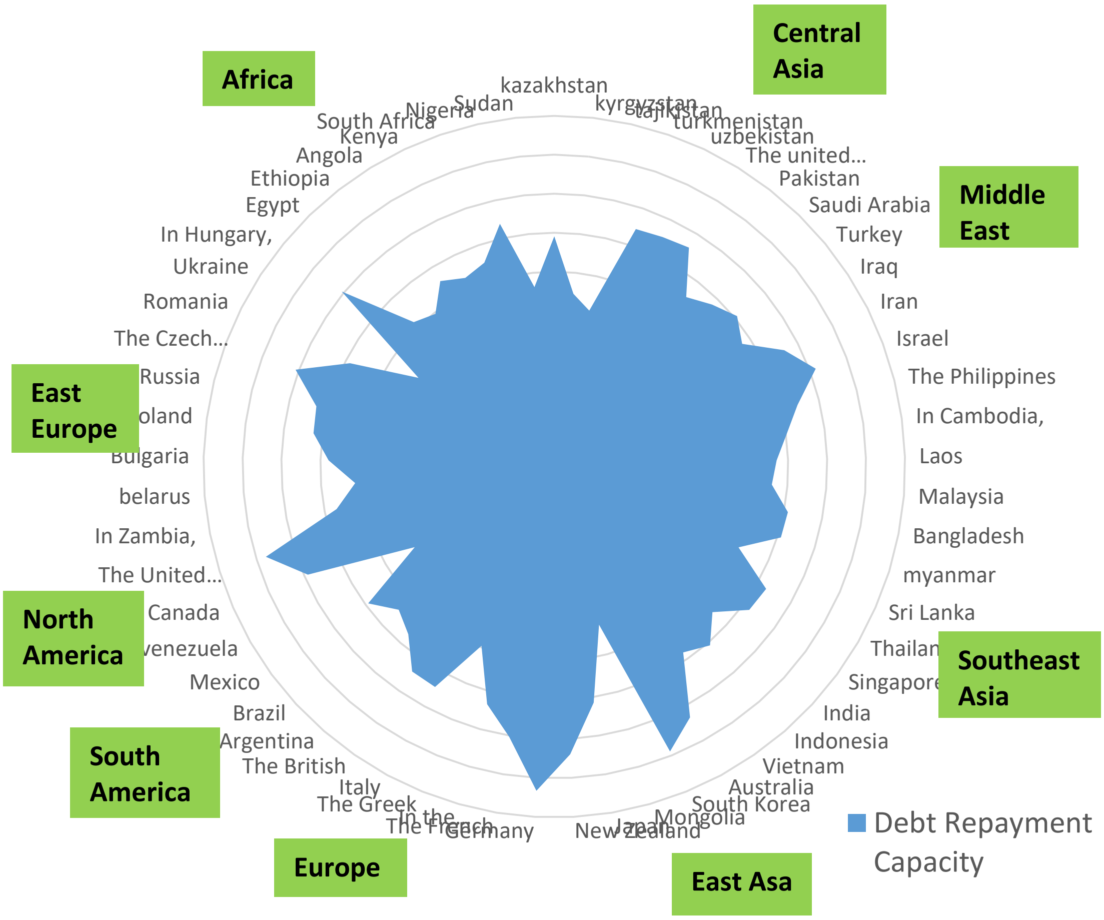
(4) Debt Repayment Capacity

The indicator of debt repayment capacity remains unchanged compared with . We mainly focus on eight indicators and our analysis of those indicators shows that the developed countries are generally more capable of repaying debts than the emerging-market economies. All the top ten countries are developed economies.

Compared with last year, rankings of Germany, France and Japan remain unchanged while those of other countries in terms of debt repayment capacity all moved up or down by varying degrees. Among them, 32 countries, such as Korea and New Zealand, register higher rankings while 22 countries, such as the US and Australia, register lower rankings in terms of debt repayment capacity.

Ranking	Country	Change	Ranking	Country	Change	Ranking	Country	Change
1	Germany	-	20	Russia	↑	39	Zambia	↓
2	Korea	↑	21	Thailand	↑	40	Malaysia	↑
3	US	↓	22	Poland	↑	41	Angola	↓
4	New Zealand	↑	23	Singapore	↑	42	South Africa	↑
5	Australia	↓	24	Japan	-	43	India	↓
6	Israel	↑	25	Bangladesh	↓	44	Pakistan	↑
7	Czech	↓	26	Myanmar	↓	45	Brazil	↓
8	Hungary	↑	27	Indonesia	↑	46	Kenya	↑
9	France	-	28	Turkey	↑	47	Egypt	↑
10	Canada	↓	29	Cambodia	↑	48	Sri Lanka	↑
11	Iran	↑	30	Mexico	↑	49	Belarus	↓
12	United Emirates	↑	31	Kazakhstan	↑	50	Ethiopia	↓
13	Uzbekistan	↑	32	Romania	↑	51	Greece	↓
14	Turkmenistan	↓	33	Vietnam	↓	52	Sudan	↑
15	Philippines	↑	34	Saudi Arabia	↓	53	Kyrgyzstan	↓
16	Italy	↑	35	Bulgaria	↑	54	Mongolia	↑
17	UK	↓	36	Iraq	↓	55	Ukraine	↑
18	Nigeria	↑	37	Laos	↑	56	Venezuela	↓
19	Netherlands	↓	38	Argentina	↑	57	Tadzhikistan	↓

Note: "—" indicates no change in relative rankings compared with last year; " ↑ " indicates rankings moving up compared with last year; " ↓ " indicates rankings moving down compared with last year.



(5) China Relations

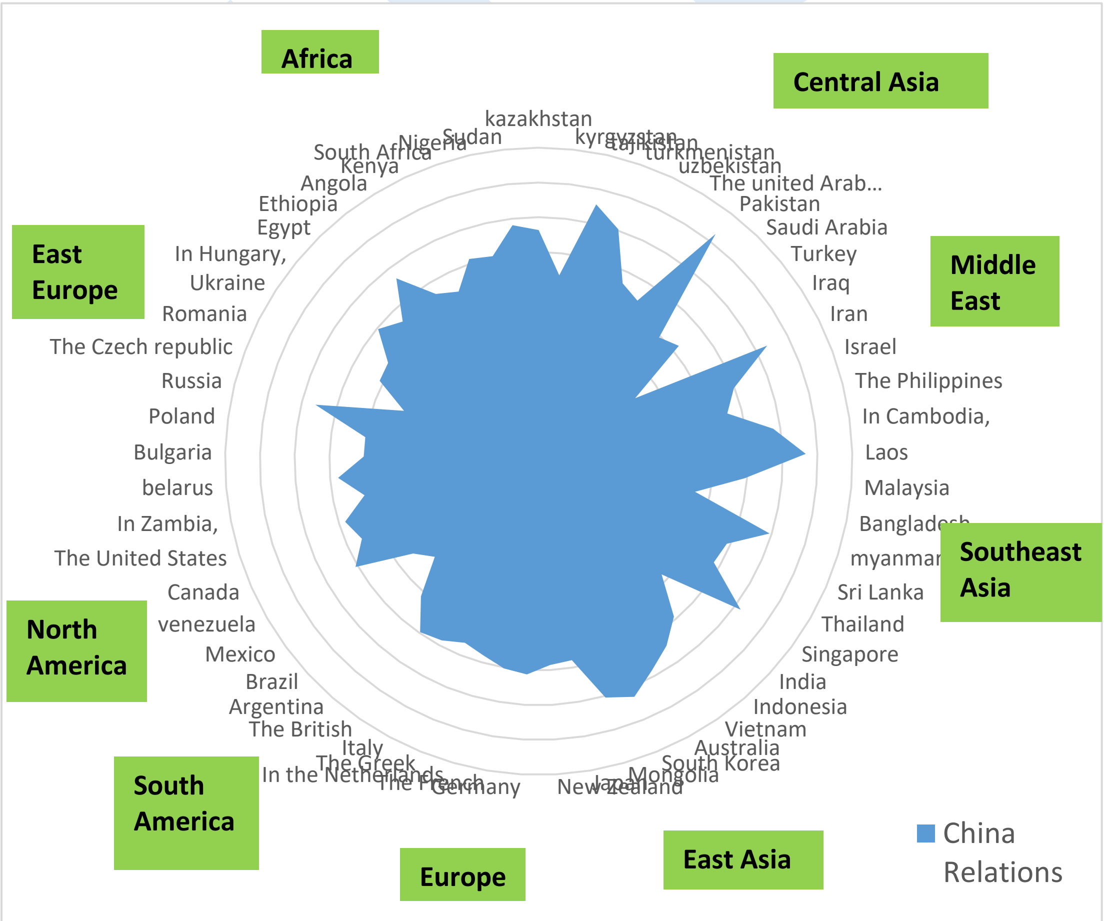
The indicator of China relations remains unchanged compared with last year. We mainly focus on six indicators and our analysis of those indicators shows that similar to last year, the top ten rankings include three developed countries (Korea, Singapore, and Australia) and seven emerging-market economies.

Compared with last year, rankings of seven countries, such as Pakistan, remain unchanged in terms of China relations while those of other countries all move up or down by varying degrees. Among them, 26 countries, such as Laos and Tadzhikistan, register higher rankings and 24 countries, such as Korea and Australia, register lower rankings.

Ranking	Country	Change	Ranking	Country	Change	Ranking	Country	Change
1	Pakistan	-	20	Nigeria	↑	39	Philippines	↓
2	Laos	↑	21	France	↑	40	Canada	↓
3	Tadzhikistan	↑	22	Israel	↑	41	United Emirates	↓

4	Iran	↑	23	UK	↓	42	Kenya	↑
5	Korea	↓	24	Hungary	↑	43	Kyrgyzstan	↓
6	Singapore	-	25	Malaysia	↓	44	Turkey	-
7	Mongolia	↑	26	Indonesia	↓	45	Ukraine	↑
8	Turkmenistan	↑	27	Sri Lanka	↑	46	Argentina	-
9	Myanmar	↑	28	New Zealand	↓	47	Romania	-
10	Australia	↓	29	Italy	↑	48	Zambia	↓
11	Sudan	↓	30	US	↓	49	Bulgaria	↑
12	Cambodia	↓	31	Thailand	↓	50	Poland	↓
13	Ethiopia	↑	32	Netherlands	↓	51	Saudi Arabia	↓
14	Kazakhstan	↓	33	Japan	↓	52	India	↑
15	Russia	↑	34	Belarus	↑	53	Bangladesh	↑
16	Vietnam	↑	35	Uzbekistan	↓	54	Mexico	-
17	South Africa	↓	36	Angola	↑	55	Czech	↑
18	Germany	↓	37	Greece	↑	56	Brazil	↓
19	Venezuela	↑	38	Egypt	↑	57	Iraq	-

Note: "—" indicates no change in relative rankings compared with last year; " ↑ " indicates rankings moving up compared with last year; " ↓ " indicates rankings moving down compared with last year.

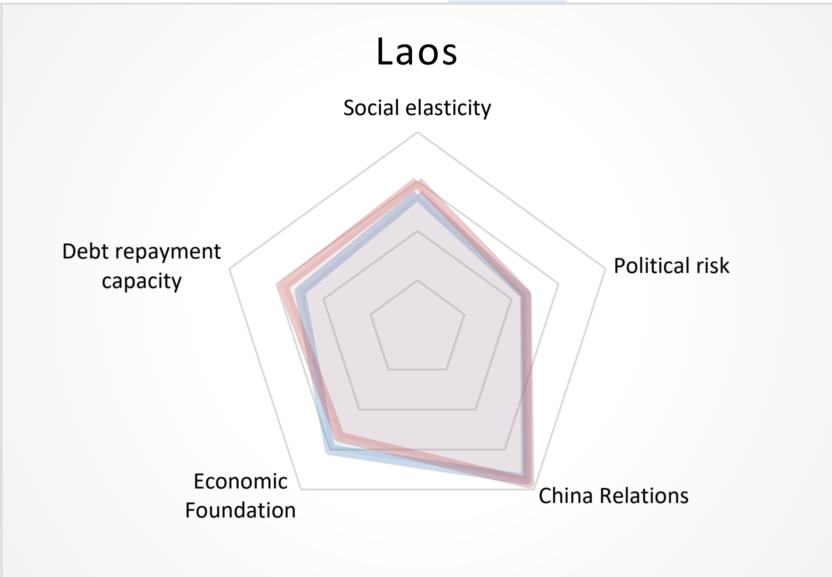


V. Country Analysis of CROIC-IWEP Rating

1. Laos (↑11)

Indexes of Laos have risen in a balanced manner. Its index of economic foundation has dropped slightly; its indexes of social elasticity and political risk have fallen; and it has good relations with China.

In 2015, Laos completed the transfer of power in its central commission, cabinet, government and provincial leadership and its political situation has been stable. Moreover, it has joined the ASEAN economic community and its opening-up to the outside world has been expanded.

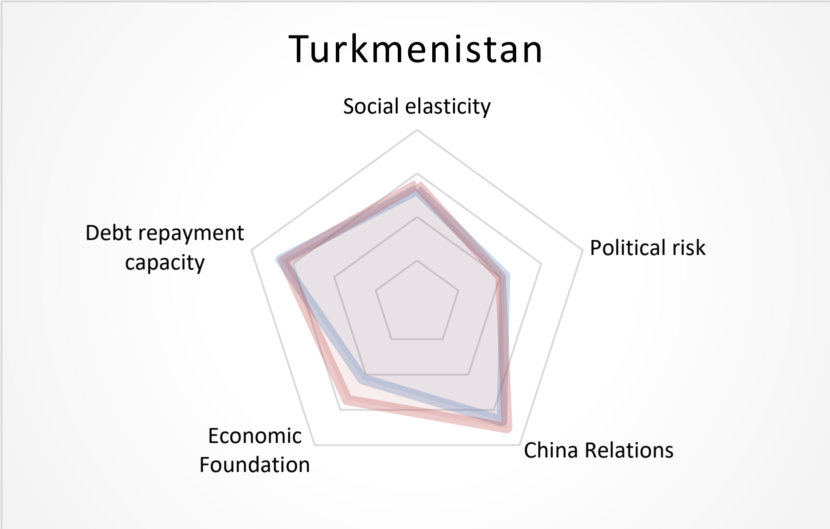


Note: Red color represents scores of this year while blue color represents scores of last year.

2. Turkmenistan (↑10)

It performs well as its indicators have improved stably — its indicators of social elasticity, China relations and economic foundation have all risen. Its outbound investment and trade opening-up have improved. Its cooperation with China has been deepened. It has adopted a visa exemption policy for Chinese visitors. And its investment dependency has risen significantly.

The country adopts a visa exemption policy for Chinese visitors and has ample natural gas reserves; it has also actively push the construction of railway networks connecting Central Asia regions, which is favorable for investment by Chinese enterprises.

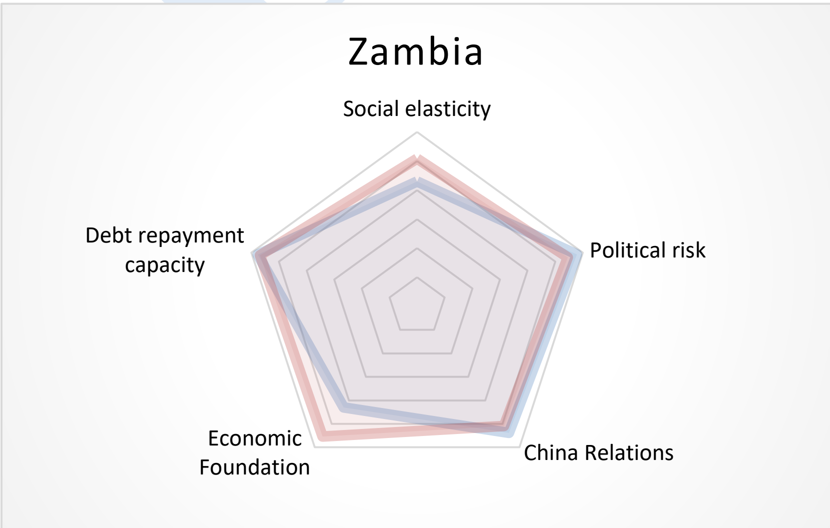


Note: Red color represents scores of this year while blue color represents scores of last year.

3. Zambia (↑9)

The country registers fast-rising scores in indicators of economic foundation and social elasticity; especially, it has loosened capital and human flow restrictions and improved trade opening-up. As its restrictions on domestic capital and human flow relax, its overall investment environment has become more favorable.

In 2015, the World Bank forecast that the country would achieve moderate growth in agriculture and power and its economy as a whole would improve. However, the low global copper prices have remained and the country is yet to see its exports recover.

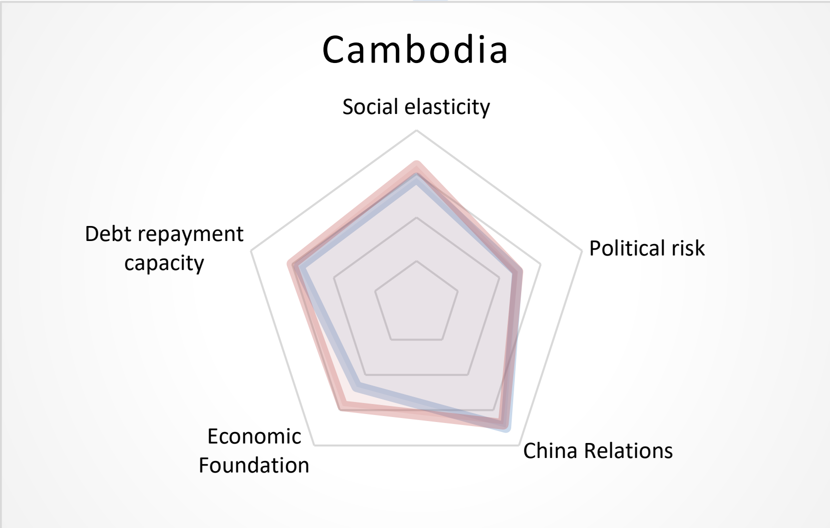


Note: Red color represents scores of this year while blue color represents scores of last year.

4. Cambodia (↑ 8)

The country has encountered some setbacks in its relations with China. It has strengthened capital control, but its economic growth has been strong; its investment and trade liberalization have improved and its debt indicators have turned for the better, thus leading to improvement in its indicators of economic foundation and debt repayment capacity. Its overall social elasticity has also risen moderately and it has been moving in the direction of benefiting investment after reducing capital and human flow restrictions.

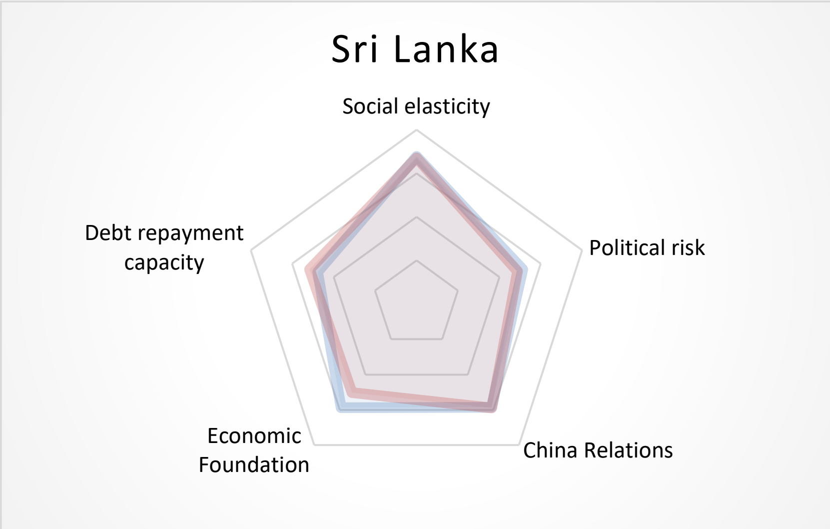
In 2015, the country engaged in a border dispute with Vietnam. Government corruption remains a quite serious problem.



Note: Red color represents scores of this year while blue color represents scores of last year.

5. Sri Lanka (↓ 11)

The country continues to maintain its China relations, but its economic foundationhas worsened; its prospects of investment liberalization and GDP growth are not bright; its domestic political risk rises and government stability is on the decline. Its economy is “on the brink of collapse” and its public debt ratio is rising. It has secured emergency assistance from the IMF and started to conduct comprehensive structural reforms required by the IMF. It has resumed China-related projects to combat crisis.

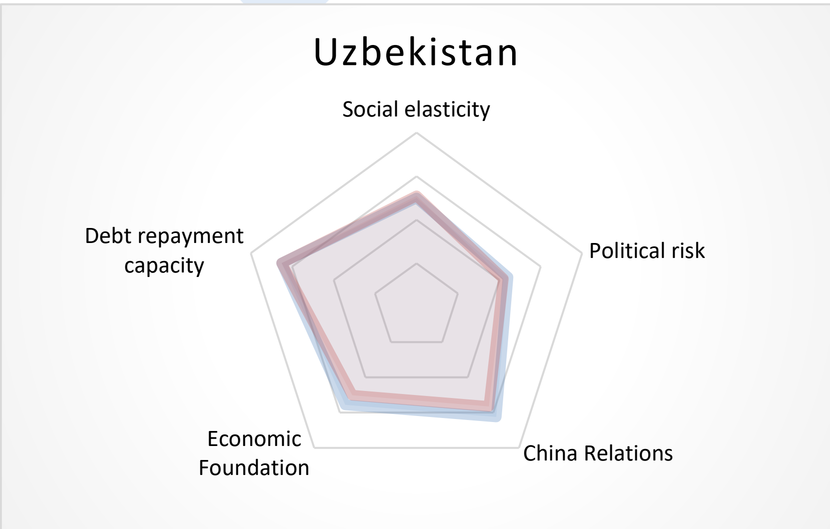


Note: Red color represents scores of this year while blue color represents scores of last year.

6. Uzbekistan (↓ 11)

The country sees its indicators of economic foundation, debt repayment capacity, social elasticity and political risk all worsen and the weakening government stability has brought some political risks. Moreover, its indicator of China relations drops significantly and, in particular, its trade dependency on China dropped by a big margin in 2015.

In 2015, given the low commodities prices, the country had been seriously affected, but as China-Central Asia gas pipeline C line gradually pressurized, the future gas volume may increase, which may be help to improve the economic situation of Uzbekistan and China and the trade volume between Uzbekistan and China.

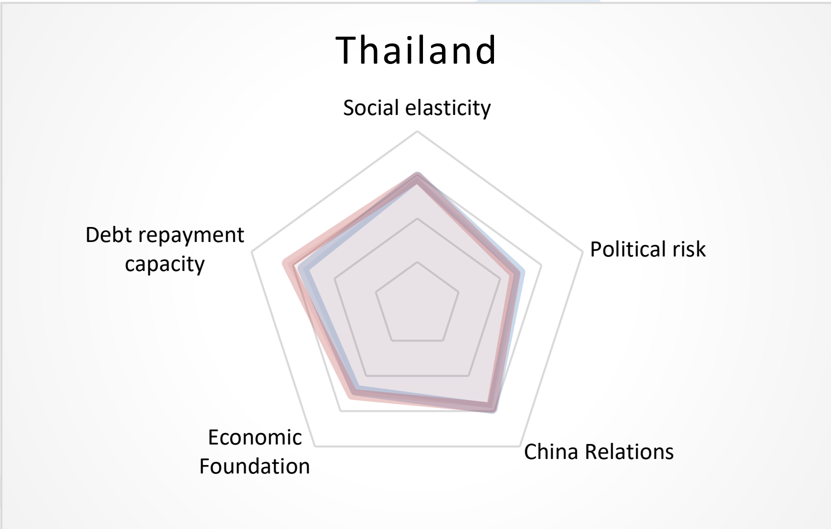


Note: Red color represents scores of this year while blue color represents scores of last year.

7. Thailand (↓6)

The country performs well in economic growth, but its scores in indicators of political risk, social elasticity and China relations have all dropped, leading to much lower overall ranking.

Its social turmoil has intensified and internal conflict remains a big issue for the Thai society. Moreover, Thai King Bhumibol Adulyadej died in 2016 and its social and political stability needs to be closely monitored.

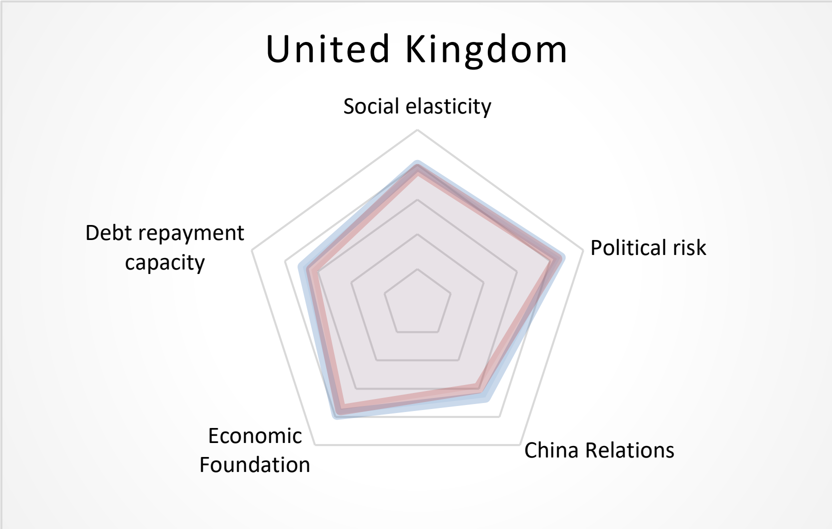


Note: Red color represents scores of this year while blue color represents scores of last year.

8. UK (↓5)

The country's five major indicators drop slightly. In 2015, the UK economy did not perform well and its indicators of economic foundation and debt repayment capacity fell. Moreover, it was trapped in swirling disputes, such as the Brexit vote and the refugee issue, in 2015, leading to lower scores in terms of the social elasticity, political risk and China relations indicators.

In 2016, the UK has decided to leave the EU through the Brexit voting; new government has sworn in and its political and social uncertainties will intensify in the future. It should be closely monitored whether its investment environment will worsen.



Note: Red color represents scores of this year while blue color represents scores of last year.

Country-Risk Rating of Overseas Investment from China 2017

Risk Rating of Countries along the "Belt and Road" Routes

Country-Risk Rating Research Team of IWEP, CASS

Chinese President Xi Jinping formally put forward the "Belt and Road" initiative at the Conference on Interaction and Confidence-Building Measures in Asia Summit in May, 2014. As an initiative put forward by China and pushed forward by top leaders, the Belt and Road program is of undisputable significance. In recent years, China's outbound direct investment has increased rapidly, with areas along the "Belt and Road" routes becoming new growth points. In 2015, China's outbound direct investment in countries along the routes reached 18.93 billion yuan, up by 38.6% year-on-year. After deducting its investment in the tax avoidance regions, such as Hong Kong, the Netherlands, Cayman Islands, British Virgin Islands and Bermuda, China's outbound direct investment flow in countries along the "Belt and Road" routes accounted for 64.7% of its total outbound direct investment. Meanwhile, however, countries along the "Belt and Road" routes are mainly developing countries with relatively weak economic foundations, simple economic structures, and poor economic stability; some countries, thanks to complicated geopolitical situation and frequent regime changes, face high political risks and suffer from poor social elasticity and weak debt repayment capacity. Investors face quite a lot of uncertainties in making investment in those countries. Therefore, risk warning must be conducted to properly recognize risks and effectively handle them so that Chinese enterprises can raise the possibility of making successful investment abroad.

The rating methodology of this report is the same with that of the main report. It also comprises five major indictors of economic foundation, debt repayment capacity, political risk, social elasticity, and China relations. First, scores of the sub-indexes of the five indicators are standardized and score of each index is calculated through weighting, which falls within the 0-1 range; the higher the score, the lower the risk; second, calculate the weighted mean of score of each indicator, with the weigh set a t0.2; third, transform the scores into nine corresponding categories, including AAA, AA, A, BBB, BB, B, CCC, CC, and C, with AAA and AA indicating low-level risks, A and BBB indicating mid-level risks and BB and below indicating high-level of risks.

In 2017, 35 countries along the "Belt and Road" routes are rated in this report, accounting for more than half of all the 64 "Belt and Road" countries. The rating countries include five developed economies, including Singapore, Israel, Czech, Hungary and Greece, and 30 emerging-market economies, such as the United Emirates and Saudi Arabia. Seen from geographical distribution, the rated countries include one African economy, 10 European economies, and 24 Asia-Pacific economies. By the end of 2015, China's overseas investment in those 35 countries had reached $112.37 billion, accounting for 97.14% of its total investment in all those "Belt and Road" countries. In 2015, the top ten countries receiving the most Chinese outbound direct investment flow include Singapore, Russia, Indonesia, the United Emirates, India, Turkey, Vietnam, Laos, Malaysia and Cambodia. See Table 1 for rating samples and data of China's investment stock in those 35 countries.

On the whole, most "Belt and Road" countries are emerging-market economies, with only Singapore, Israel, Czech, Hungary and Greece being developed economies. Therefore, the "Belt and Road" countries suffer from such problems as weak economic foundation, simple economic structure and poor economic stability. Some of those countries face complicated geopolitical situation and suffer from frequent regime changes, thus having high political risks. Moreover, they also suffer from low social elasticity and poor debt repayment capacity. What is worth noting is that the "Belt and Road" country group includes both countries that have good political relations with China and economically highly dependent on China, such as Pakistan and Laos, and those that are quite alert to China, such as India, which has low economical dependency on China and unfavorable investment environment for Chinese enterprises; it also includes countries whose lack of stability and economic liberalization makes it difficult for Chinese enterprises to invest there, such as Iraq; besides, it also includes countries that have good political relations with China but not economically dependent on China, such as Saudi Arabia and Czech. In the future, China should make investment in the "Belt and Road" countries with which it has close economic interconnections to push the implementation of the "mutual benefit and win-win" principle, reduce the alertness of relevant countries and facilitate investment by Chinese enterprises, and sign investment treaties in order to increase the scale of China's investment in those "Belt and Road" countries.

Table 1.Risk rating samples of "Belt and Road" countries

Ranking	Country	Developed country or not	Invest stock as of end of 2015 ($100 million)	Change in ranking
1	Singapore	1	319.85	0
2	Russia	0	140.2	0
3	Indonesia	0	81.25	1
4	Kazakhstan	0	50.95	-1
5	Laos	0	48.41	0
6	United Emirates	0	46.03	8
7	Myanmar	0	42.59	-1
8	Pakistan	0	40.36	0
9	India	0	37.7	1
10	Mongolia	0	37.6	-3
11	Cambodia	0	36.76	0
12	Thailand	0	34.4	0
13	Vietnam	0	33.74	0
14	Iran	0	29.49	-5
15	Saudi Arabia	0	24.34	0
16	Malaysia	0	22.31	0
17	Turkey	0	13.29	1
18	Kyrgyzstan	0	10.7	-1
19	Tadzhikistan	0	9.09	1
20	Uzbekistan	0	8.82	4
21	Sri Lanka	0	7.72	5
22	Philippines	0	7.11	-3
23	Egypt	0	6.63	-2
24	Hungary	1	5.71	-2
25	Belarus	0	4.76	3
26	Iraq	0	3.88	-1
27	Romania	0	3.61	3
28	Poland	0	3.52	-1
29	Israel	1	3.17	5
30	Bulgaria	0	2.36	1
31	Czech	1	2.24	-2
32	Bangladesh	0	1.88	0
33	Turkmenistan	0	1.33	-10
34	Greece	1	1.19	-1
35	Ukraine	0	0.69	0

Seen from the overall rating results (Table 2), only Singapore's rating falls in the AAA-AA low risk range; ratings of 26 countries fall in the A-BBB mid-level risk range, accounting for 74 percent of all the rating countries; and ratings of eight countries fall in the BB-B high risk range.

Table 2. Rating results of "Belt and Road" countries

2017 ranking	Country	Developed country or not	Change in ranking	2017 rating result	2016 rating result
1	Singapore	1	-	AA	AA
2	United Emirates	0	↑	A	A
3	Israel	1	↓	A	A
4	Hungary	1	↑	A	A
5	Czech	1	↓	A	A
6	Romania	0	↑	A	BBB
7	Poland	0	-	A	A
8	Malaysia	0	↑	A	BBB
9	Saudi Arabia	0	↓	BBB	A
10	Kazakhstan	0	↓	BBB	A
11	Russia	0	↑	BBB	BBB
12	Cambodia	0	↑	BBB	BBB
13	Indonesia	0	↓	BBB	BBB
14	Bulgaria	0	↓	BBB	BBB
15	Laos	0	↑	BBB	BBB
16	Philippines	0	↓	BBB	BBB
17	Greece	1	↓	BBB	BBB
18	Turkey	0	↓	BBB	BBB
19	Turkmenistan	0	↑	BBB	BBB
20	Pakistan	0	↑	BBB	BBB
21	India	0	↑	BBB	BBB
22	Iran	0	↓	BBB	BBB
23	Mongolia	0	↑	BBB	BBB
24	Thailand	0	↓	BBB	BBB
25	Sri Lanka	0	↓	BBB	BBB
26	Vietnam	0	↑	BBB	BBB
27	Myanmar	0	↓	BBB	BBB
28	Tadzhikistan	0	↑	BB	BBB
29	Uzbekistan	0	↓	BB	BBB
30	Bangladesh	0	-	BB	BB
31	Belarus	0	-	BB	BB
32	Kyrgyzstan	0	↑	BB	BB
33	Egypt	0	↓	BB	BB
34	Ukraine	0	-	BB	BB
35	Iraq	0	-	B	B

On the whole, the developed countries generally have better rating results than the merging-market economies. They perform better than the developing countries thanks to their low political risks, better economic foundation, higher social elasticity and better debt repayment capacity. The overall risks of investment in the developed countries are relatively low. The top five countries are all developed economies except the United Emirates. Although Greece is a developed economy, its rating is low, since it even lags behind the emerging-market economies in terms of debt repayment capacity and social elasticity thanks to the effect of debt crisis; enterprises investing in Greece should strengthen awareness of risk prevention. Singapore has the highest rating and its economic development, political stability, relations with China and social elasticity are all at high levels; it also has a high economic dependency on China and a low level of investment block. Moreover, Singapore, together with Israel and Hungary, has become a founding member of the Asian Infrastructure Development Bank, reflecting its supportive attitude towards infrastructure investment in the "Belt and Road" regions. Its stance will help China's direct investment in the "Belt and Road" areas.

The "Belt and Road" countries have high investment risks and political risk is the most serious potential risk while weak economic foundation is the biggest hurdle for investors. Seen from our rating results, only Singapore has low country risk; eight countries have high country risk; and the remaining 26 countries have mid-level of risk. On the whole, the "Belt and Road" countries have a simple economic structure, lack indigenous driving force for economic growth, and suffer from inadequate supply of infrastructure and serious shortage of power facilities. However, they boast rich mineral resource reserves and have great market potentials, which are the basis for implementation of the "Belt and Road" strategy. Among the "Belt and Road" regions, ASEAN countries, mainly Indonesia, Malaysia, Vietnam, the Philippines, and Singapore, receive the most direct investment from China and the main fields of investment are metal and energy exploitation and manufacturing, infrastructure, such as power and construction, and rubber products. China's investment in India and Pakistan in South Asia has grown at the fastest pace and its investment has mainly concentrated on infrastructure construction, information and telecommunication technology, software design and development, metal exploitation and manufacturing.

In the future, China should properly adjust its investment in the "Belt and Road" countries in accordance with changes in local situation, levels of risk and geographic advantages of those countries. China should distribute its investment in different countries in accordance with their comparative advantages; for example, it should make more investment in the energy industry in West Asia, infrastructure construction in East and South Asia, processing industry in Russia and Central and East Europe, and telecommunication and software industries in India. Meanwhile, it should make efforts to reduce the alertness of the "Belt and Road" countries towards China, resolve their misunderstanding and concerns, regulate corporate investment activities, and revise and sign bilateral investment treaties, so that the investment block and risks facing Chinese enterprises can be further reduced; By taking those measures to reduce investment block, China's investment in regions with high investment potentials, heavy economic dependency on China, great market demand and high level of political and economic stability can hopefully increase at a fast pace.

Seen from the sub-indexes (See Table 3), the first place, measured by all the other three major indicators, except political risk and China relations, has been occupied by developed countries.

Table3.Sub-index rankings of the "Belt and Road" countries in 2017

Ranking	Economic foundation	Political risk	Social elasticity	Debt repayment capacity	China relations
1	Israel	UAE	Singapore	Israel	Pakistan
2	Singapore	Singapore	UAE	Czech	Laos
3	Czech	Czech	Czech	Hungary	Tadzhikistan
4	Romania	Hungary	Hungary	Iran	Iran
5	UAE	Malaysia	Malaysia	UAE	Singapore
6	Saudi Arabia	Romania	Saudi Arabia	Uzbekistan	Mongolia
7	Poland	Poland	Bulgaria	Turkmenistan	Turkmenistan
8	Russia	Saudi Arabia	Romania	Philippines	Myanmar
9	Indonesia	Israel	Poland	Russia	Cambodia
10	Philippines	India	Kazakhstan	Thailand	Kazakhstan
11	Cambodia	Greece	Russia	Poland	Russia
12	Bulgaria	Bulgaria	Turkey	Singapore	Vietnam
13	Hungary	Indonesia	Sri Lanka	Bangladesh	Israel
14	Greece	Mongolia	Belarus	Myanmar	Hungary
15	Kazakhstan	Philippines	Israel	Indonesia	Malaysia
16	India	Kazakhstan	Kyrgyzstan	Turkey	Indonesia
17	Turkmenistan	Turkey	Mongolia	Cambodia	Sri Lanka
18	Turkey	Ukraine	Cambodia	Kazakhstan	Thailand
19	Malaysia	Cambodia	Greece	Romania	Belarus
20	Laos	Sri Lanka	Indonesia	Vietnam	Uzbekistan

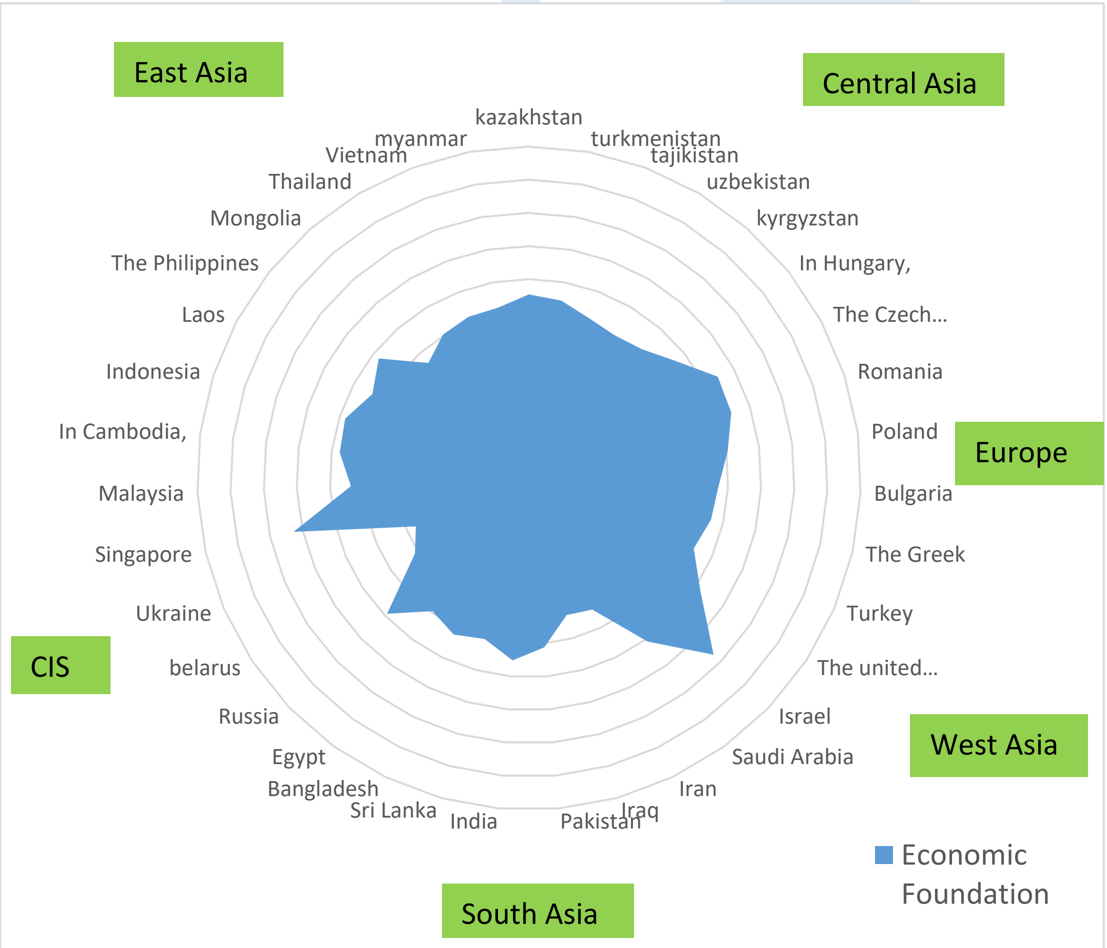
21	Bangladesh	Bangladesh	India	Saudi Arabia	Greece
22	Myanmar	Tadzhikistan	Laos	Bulgaria	Egypt
23	Vietnam	Vietnam	Egypt	Iraq	Philippines
24	Kyrgyzstan	Thailand	Ukraine	Laos	UAE
25	Tadzhikistan	Laos	Thailand	Malaysia	Kyrgyzstan
26	Pakistan	Russia	Philippines	India	Turkey
27	Thailand	Belarus	Iran	Pakistan	Ukraine
28	Sri Lanka	Pakistan	Bangladesh	Egypt	Romania
29	Uzbekistan	Uzbekistan	Turkmenistan	Sri Lanka	Poland
30	Egypt	Iran	Vietnam	Belarus	Bulgaria
31	Mongolia	Turkmenistan	Pakistan	Greece	Saudi Arabia
32	Iran	Kyrgyzstan	Uzbekistan	Kyrgyzstan	India
33	Iraq	Myanmar	Iraq	Mongolia	Bangladesh
34	Belarus	Iraq	Myanmar	Ukraine	Czech
35	Ukraine	Egypt	Tadzhikistan	Tadzhikistan	Iraq

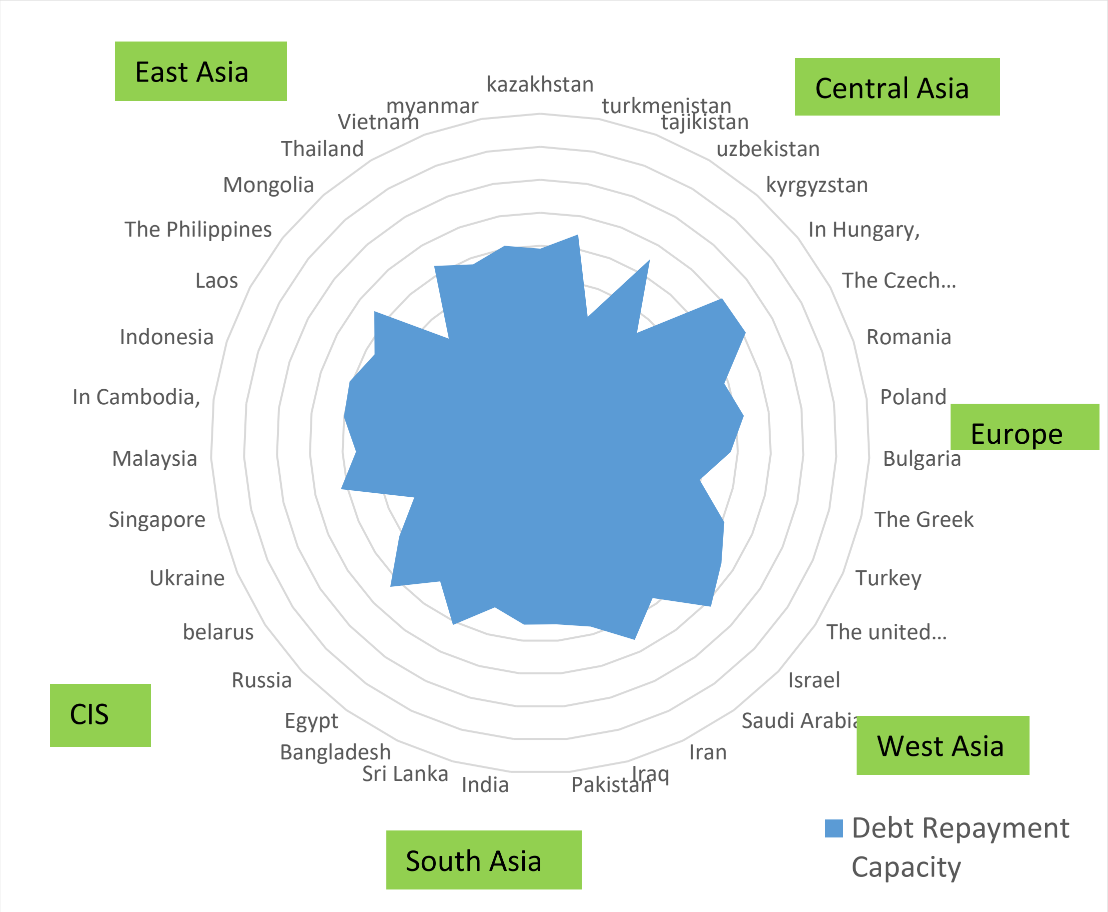
To accurately assess the performance of the "Belt and Road" countries in various aspects, we need to compare their performance with that of the overall sample countries. The "Belt and Road" countries significantly lag behind the overall 57 sample countries in indicators of political risk, economic foundation and debt repayment capacity; however, they perform better in terms of China relations.

Table 4. Scores of "Belt and Road" countries compared with overall scores

	Total	Social elasticity	Political risk	China relations	Economic foundation	Debt repayment capacity
Belt and Road	0.578	0.634	0.535	0.592	0.547	0.583
Overall	0.595	0.638	0.576	0.589	0.572	0.599

Further analysis shows that in terms of political risk, the "Belt and Road" countries are in the middle-to-low area of the rankings of all the 57 sample countries; their political risk score is 7% lower than that of all the 57 countries. Among the top ten countries in the political risk category, only two are "Belt and Road" countries (the United Emirates, 7th place, and Singapore, 10th place) and six of the "Belt and Road" countries are in the worst performer group. In terms of economic foundation, the "Belt and Road" countries are in the middle-to-low areas of the rankings of all the 57 sample countries; their score is 4.4% lower than that of all the 57 countries. In terms of economic foundation, only two of the "Belt and Road" countries (Israel, 5th place, and Singapore, 10th place) are in the top ten country group and four of the "Belt and Road" countries are in the worst performer group. The gap of the "Belt and Road" countries in terms of debt repayment capacity is smaller; their score is 2.7% lower than that of all the 57 countries. Three "Belt and Road" countries (Israel, 6th place, Czech, 7th place, and Hungary, 8th place) are among the top ten best performers in terms of debt repayment capacity. In terms of social elasticity, the "Belt and Road" countries perform almost as well as the sample countries as a whole. Their rankings are quite scattered, with Singapore, the United Emirates, Czech, Hungary and Malaysia in the 1st, 3rd, 7th, 10th and 11th place, respectively. In terms of China relations, the "Belt and Road" countries perform better than the 57 sample countries as a whole; the rankings of the "Belt and Road" countries are quite high, with eight of them among the top ten performers and Pakistan being in the first place in terms of China relations.

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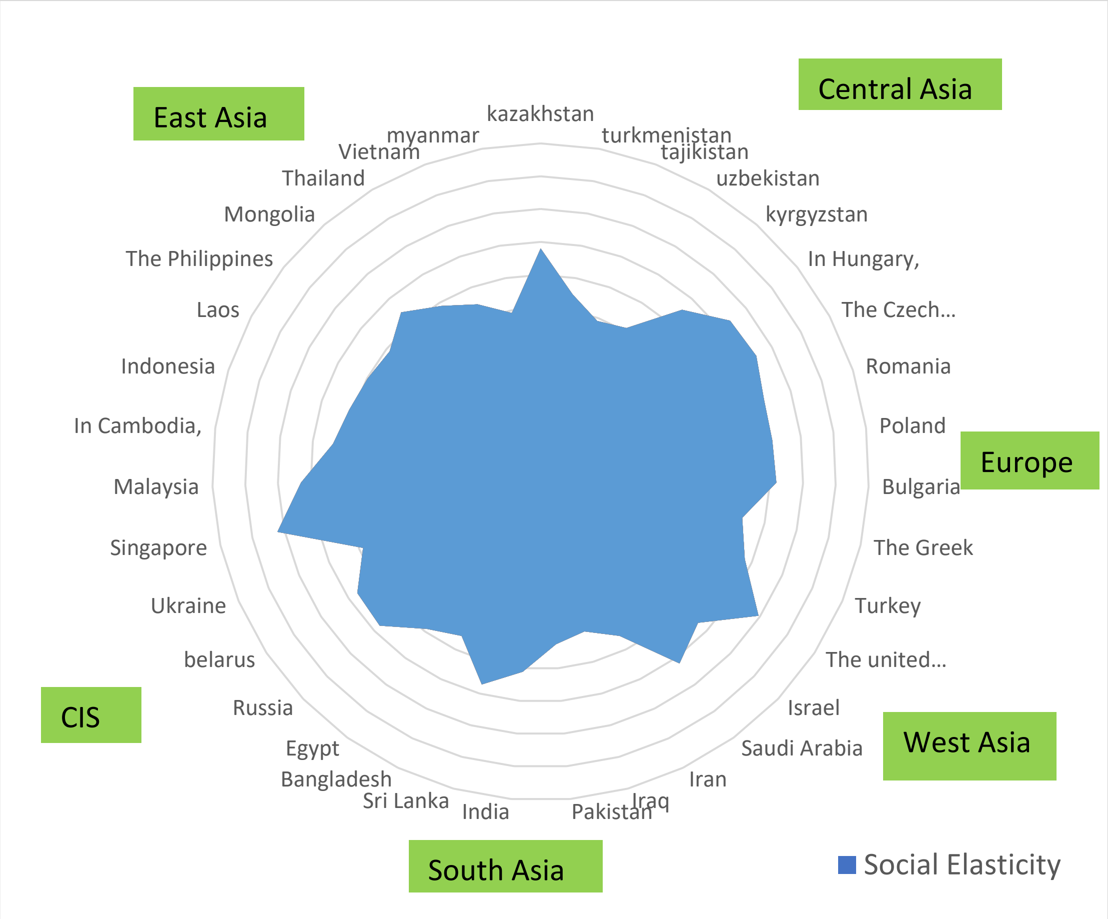
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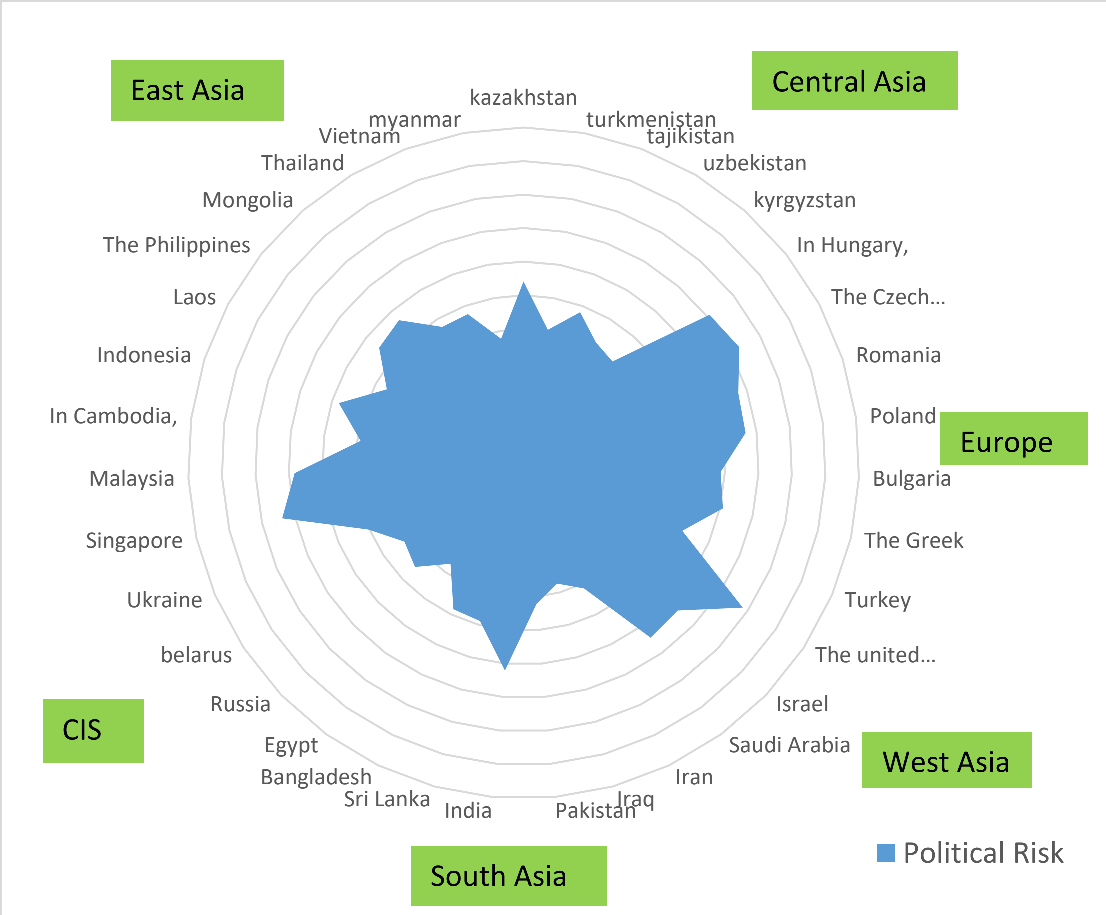
Social Elasticity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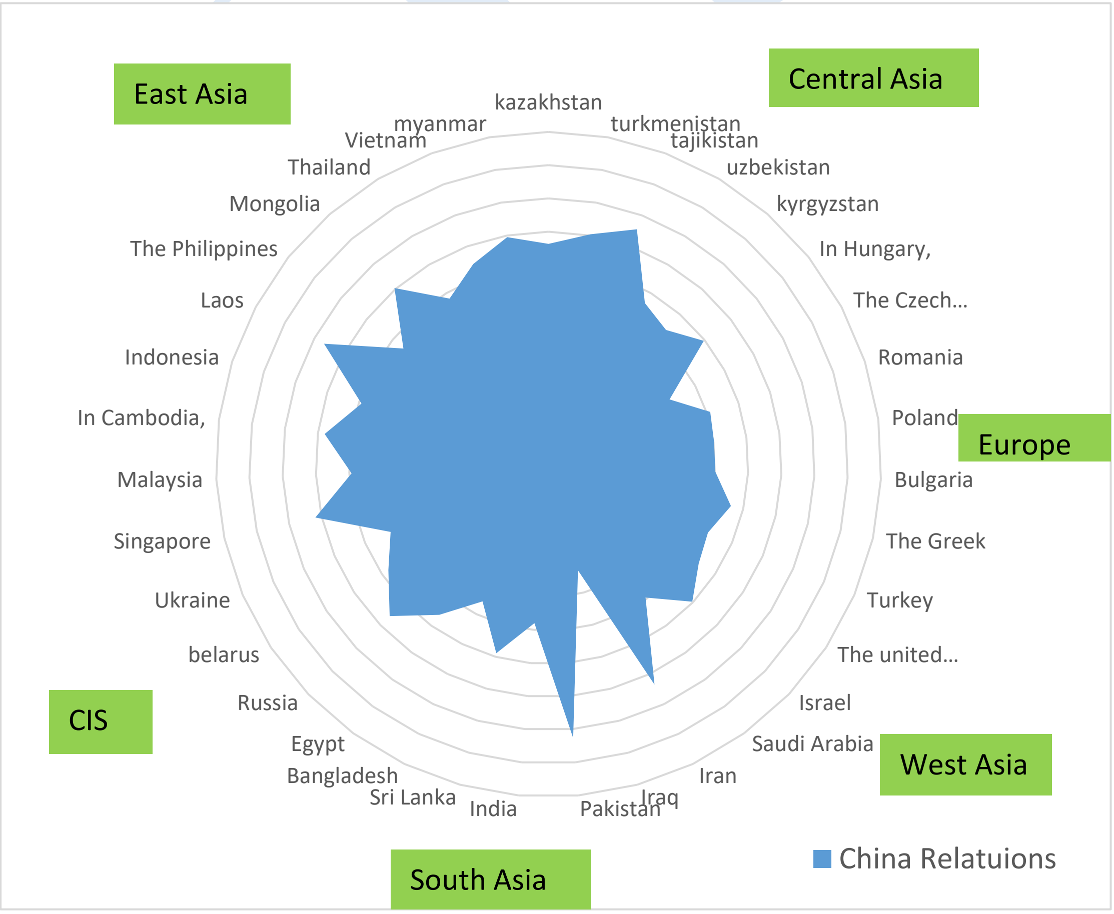
Political Risk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