Policy Recommendations for Deepening Economic and Trade Cooperation Between China and Belt and Road Countries Amid Geopolitical Risks

Guopeng Li, Huihui Li, and Wenbin Chi *

International Business School, Dalian Minzu University, Dalian, China
Email: 273688738@qq.com (G.L.); 1663143958@qq.com (H.L.); chi623755@163.com (W.C.)
*Corresponding author
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***Abstract*—Since the Belt and Road Initiative (BRI) was proposed in 2013, China's merchandise trade with BRI countries grew from $1.04 trillion in 2013 to $2.08 trillion in 2023, with the share exceeding 50% of China's total foreign trade for the first time in 2024. However, geopolitical risks have become a core constraint on deepening cooperation. This paper selects 8 representative BRI countries, analyzes the current cooperation status and geopolitical risk characteristics based on 2013–2024 official data and case studies, dissects the dual transmission mechanisms of geopolitical risks via policy and market uncertainty, and summarizes core challenges. On this basis, it proposes targeted, actionable policy recommendations from four dimensions. This paper enriches the research on geopolitical risk transmission in BRI cooperation and provides practical references for stabilizing bilateral trade cooperation.**

***Keywords*—belt and road initiative, geopolitical risks, uncertainty effects, trade cooperation**

I. INTRODUCTION

Since China proposed the Belt and Road Initiative (BRI) in 2013, economic and trade cooperation with countries along the route has expanded continuously. According to China's Ministry of Commerce (2025), bilateral merchandise trade grew from $1.04 trillion in 2013 to $2.08 trillion in 2023, with an average annual growth rate of 7.2%, and direct investment stock exceeded $300 billion. In 2024, the share of BRI countries in China's total imports and exports exceeded 50% for the first time, with the mutual trade index (calculated as the ratio of bilateral trade volume between China and BRI countries to China's total foreign trade, data sourced from China General Administration of Customs, 2025) nearly doubling from 2013, fully demonstrating the resilience of BRI cooperation.

However, the BRI covers regions with the world's most complex geopolitical landscapes. As a key variable affecting interstate cooperation (Zhang, 2019), geopolitical risks show significant diversity and spillover effects in BRI cooperation, including territorial disputes in Southeast Asia, border conflicts in South Asia, great power rivalry in Central Asia, and political instability in West Asia and North Africa. In recent years, the U.S. Indo-Pacific Economic Framework (IPEF) and EU Global Gateway have further intensified external intervention, while political transitions in some countries have exacerbated policy discontinuity, bringing rising uncertainties to cooperation.

Existing studies have widely confirmed the inhibitory effect of geopolitical risks on bilateral trade. However, few studies have constructed a systematic analytical framework integrating international political economy and risk management theories, or put forward targeted response measures based on the heterogeneous characteristics of geopolitical risks. This paper attempts to complement the existing literature by analyzing the transmission mechanisms of geopolitical risks, summarizing core challenges, and proposing actionable policy recommendations to advance high-quality BRI economic and trade cooperation.

II. CURRENT STATUS OF COOPERATION AND GEOPOLITICAL RISK CHARACTERISTICS

A. *Selection of Representative Countries*

This paper divides BRI countries into four core regions (Southeast Asia, South Asia & Central Asia, West Asia & North Africa) referring to Li (2024), and classifies geopolitical risks into four types (war and conflict, great power intervention, territorial disputes, political instability) based on the Institute for Economics & Peace (IEP, 2023). Considering geopolitical coverage, trade cooperation intensity, and risk type representativeness, 8 representative countries are selected, with core characteristics shown in Table 1. All trade data are from China General Administration of Customs (2025), full-year preliminary statistics for 2024.

B. *Overall Status of Economic and Trade Cooperation*

From 2013 to 2024, bilateral trade between China and the 8 sample countries showed a steady upward trend, forming a clear three-tier structure. The first tier includes major Southeast Asian and Middle Eastern countries with trade volume exceeding $100 billion (Vietnam, Malaysia), with 2–3 times growth compared to 2013, leading overall cooperation. The second tier covers South Asian and Central Asian countries with trade volume between $20 billion and $50 billion (India, Kazakhstan), with steady growth and strong resilience despite occasional shocks. The third tier includes small economies with trade volume below $20 billion (Kyrgyzstan, Egypt), maintaining stable growth driven by livelihood and infrastructure cooperation.

Overall, by 2024, bilateral trade volume of most sample countries doubled compared to 2013, with the trade structure shifting from single energy and agricultural products to infrastructure, industrial capacity, and digital trade, fully reflecting the trade creation effect of the BRI.

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Table 1. Representative belt and road countries and core characteristics

Region	Country	2024 Bilateral Trade with China (billion USD)	Core Geopolitical Risks	Key Cooperation Areas
Southeast Asia	Vietnam	260.54	Territorial disputes (South China Sea)	Manufacturing, agricultural trade
Southeast Asia	Malaysia	212.04	Great power intervention (U.S. and EU influence)	Energy, infrastructure, electronics
South Asia	India	138.46	Territorial disputes, great power intervention	Pharmaceuticals, mechanical and electrical products
South Asia	Pakistan	23.04	War conflicts, political instability	Energy, infrastructure (Gwadar Port)
Central Asia	Kazakhstan	43.87	Great power intervention (Russia-U.S. game)	Energy, mineral trade
Central Asia	Kyrgyzstan	22.71	Political instability (regime changes)	Agricultural products, cross-border logistics
West Asia & North Africa	Saudi Arabia	107.57	Great power intervention (U.S.-Saudi alliance)	Energy, infrastructure
West Asia & North Africa	Egypt	17.38	Political instability	Infrastructure, manufacturing

C. *Typical Characteristics of Geopolitical Risks*

Based on case analysis, geopolitical risks in the BRI region show four core heterogeneous characteristics:

Territorial disputes are concentrated in Southeast Asia and South Asia, triggering trade restrictions and project approval delays, and causing short-term shocks to bilateral trade. For example, after the 2020 Galwan Valley incident, India imposed multiple trade restrictions on China, leading to a 5.5% year-on-year drop in bilateral trade that year.

1) Armed conflicts mainly manifest as border standoffs in South and Central Asia, directly damaging the physical foundation of cooperation by closing cross-border routes and halting project construction. The 2019 India-Pakistan airstrikes led to a 4.2% year-on-year decline in China-Pakistan trade and a 12.5% drop in Gwadar Port throughput.
2) Great power intervention is a cross-regional risk, where the U.S., Russia and other countries influence BRI countries' cooperation decisions through political pressure and economic aid. For instance, U.S. pressure on Malaysia in 2023 led to an 11.2% year-on-year drop in China-Malaysia digital economy cooperation.
3) Political instability, concentrated in Central Asia and West Asia/North Africa, undermines policy continuity through regime changes and domestic unrest. Kyrgyzstan's 2020 revision of the Foreign Investment Law after political unrest directly led to the suspension of two Chinese investment projects, with direct losses of about $210 million.

The specific performance and actual impact of various geopolitical risks in each sample country are detailed in Table 2.

Table 2. Types and impacts of geopolitical risks in sample countries

Country	Core Risk Type	Typical Events (2013-2024)	Impact on Economic and Trade Cooperation	Country
Vietnam	Territorial disputes	2014 981 Drilling Rig Incident, 2022 Island Reef Dispute	13.2 pct drop in trade growth in 2014; trade fell from $234.92B to $229.74B in 2022-2023	Vietnam
Malaysia	Great power intervention	2023 U.S. pressure on Chinese digital enterprises	11.2% year-on-year drop in digital economy cooperation in 2023	Malaysia
India	Territorial disputes, great power intervention	2020 Galwan Valley Incident, 2023 high-speed rail project suspension	Trade fell to $87.7B in 2020; industrial chain trade expansion constrained in 2023	India
Pakistan	War conflicts, political instability	2019 India-Pakistan airstrikes, 2023 Kashmir clashes	4.2% year-on-year trade drop in 2019; infrastructure projects delayed by 3 months in 2023	Pakistan
Kazakhstan	Great power intervention	2023 energy export policy adjustment	5% drop in China-Kazakhstan crude oil pipeline throughput in the month of adjustment	Kazakhstan
Kyrgyzstan	Political instability	2020 political unrest, Foreign Investment Law revision	Two projects suspended, $210M direct losses; mineral trade fell 15.3% year-on-year in 2020	Kyrgyzstan
Saudi Arabia	Great power intervention	2024 new energy project approval extension	Photovoltaic project delayed by 2 months; crude oil trade fell 6.1% year-on-year in Jan-Jun 2024	Saudi Arabia
Egypt	Political instability	2023 foreign exchange control	Infrastructure equipment exports fell 22.1% year-on-year in 2023	Egypt

III. Mechanism Analysis of Geopolitical Risks Affecting Sino-Bri Trade Cooperation

This paper constructs an analytical framework based on interdependence theory (Keohane&Nye, 1977) in international political economy, transaction cost theory (Coase, 1937), and uncertainty shock theory (Bernanke, 1983). It demonstrates that geopolitical risks inhibit Sino-BRI economic and trade cooperation through two core, mutually reinforcing transmission channels: policy uncertainty and market uncertainty.

A. Policy Uncertainty Effect

The outbreak of geopolitical risks often leads to policy orientation shifts in BRI countries, reducing policy continuity and increasing institutional cooperation costs, which is fully explained by transaction cost theory. The stability of the institutional environment directly determines enterprises' transaction costs. Frequent policy changes force enterprises to allocate additional resources to adapt to new approval processes and compliance standards, significantly increasing institutional transaction costs and reducing their willingness to cooperate.

Typical cases include India's trade policy adjustments after border disputes and Kyrgyzstan's foreign investment policy revisions after political unrest. After the 2020 Galwan Valley incident, India placed Chinese investment under exclusive government approval channels and raised import tariffs on electromechanical products, leading to a 7.3% year-on-year drop in China's electromechanical exports to India in 2021. Similarly, Kyrgyzstan's 2020 revision of the Foreign Investment Law extended the project approval cycle from 30 to 90 days, resulting in the suspension of two Chinese mining projects due to excessive transaction costs. These cases confirm that policy uncertainty translates into rising transaction costs, the core intermediary variable of geopolitical risks inhibiting cooperation.

B. Market Uncertainty Effect

Geopolitical risks also disrupt market variables such as exchange rates, energy prices and logistics costs, increasing enterprises' operational risks, which can be elucidated by uncertainty shock theory. When market uncertainty exceeds enterprises' risk tolerance, they tend to scale back cooperation or exit the market to mitigate risks.

Typical cases include Pakistan's market volatility after border conflicts and Saudi Arabia's energy cooperation risks under great power intervention. After the 2019 India-Pakistan airstrikes, the Pakistani rupee depreciated by 8.5% against the Chinese yuan within a month, and cross-border logistics costs rose by 30%. 62% of Chinese exporters to Pakistan adjusted their trade scale due to foreign exchange losses, leading to a 4.2% year-on-year drop in bilateral trade. In 2024, U.S. pressure widened the price fluctuation range of Saudi crude oil exports to China from ±3% to ±8%, forcing Chinese enterprises to adjust import sources to mitigate risks, resulting in a 6.1% year-on-year drop in crude oil trade in Jan–Jun 2024. This shows that market uncertainty amplifies operational risks, leading to the contraction of bilateral cooperation.

C. Mechanism Summary

In summary, geopolitical risks affect Sino-BRI trade cooperation through the dual mechanism of policy uncertainty and market uncertainty, which are interrelated and mutually reinforcing. Policy uncertainty mainly increases institutional transaction costs at the institutional level, reducing enterprises' willingness for long-term cooperation; market uncertainty amplifies operational risks at the operational level, leading to short-term trade contraction. The synergistic effect of the two channels makes the impact of geopolitical risks spill over through trade and investment chains, affecting overall cooperation. This means that response measures must address both institutional environment stabilization and market risk support.

IV. Key Challenges in Deepening Sino-BRI Cooperation

Based on the above analysis, the core challenges are summarized into four dimensions:

A. Overlapping Geopolitical Risks

Most sample countries face compound risks, such as India's dual risks of territorial disputes and great power intervention, and Saudi Arabia's intertwined risks of external intervention and energy price volatility, which amplify cooperation uncertainty.

B. Inadequate Policy Coordination Mechanisms

Existing bilateral consultation mechanisms lack targeted contingency provisions for trade frictions triggered by geopolitical risks, and investment dispute resolution mechanisms have low efficiency, failing to effectively mitigate policy uncertainty.

C. Weak risk management capabilities of market entities

Only 35% of Chinese export enterprises to sample countries used exchange rate hedging tools in 2023, far lower than the 62% ratio for EU trade, and most enterprises lack diversified logistics channels, making them vulnerable to market shocks.

D. Intensified External Intervention by Major Powers

The U.S. IPEF and EU Global Gateway have created cooperation norms divergent from the BRI, compressing the space for Sino-BRI cooperation through conditional aid and rule penetration.

V. Policy Recommendations

Aiming at the above mechanisms and challenges, this paper proposes targeted, actionable policy recommendations to deepen Sino-BRI economic and trade cooperation amid geopolitical risks:

A. Targeted Response to Heterogeneous Geopolitical Risks

For territorial dispute risks (Vietnam, India), leverage existing consultation mechanisms to avoid highly contentious areas, and expand functional cooperation in marine environmental protection, cross-border port clearance and other non-sovereign fields. For political instability risks (Kyrgyzstan, Egypt), focus on small-scale, people-oriented livelihood projects such as vocational training and agricultural technology upgrading, to enhance local acceptance of cooperation. For war conflict risks (Pakistan), accelerate the construction of dual logistics channels and multimodal transport corridors, to reduce reliance on single trade routes.

B. Mitigate Policy Uncertainty Through Institutional Improvement

First, incorporate targeted geo-risk response clauses into Bilateral Investment Treaties (BITs) and Free Trade Agreements (FTAs), tailored to countries' risk characteristics: for territorial dispute countries, add trade contingency consultation clauses to stipulate a 15-day emergency window for trade restriction measures; for politically unstable countries, add policy stability clauses to clarify a 3-month advance notice period for foreign investment policy adjustments and a reasonable compensation mechanism for policy reversals; for countries facing great power intervention, add industrial chain security clauses to prohibit the suspension of ongoing projects due to third-party pressure. Second, establish a regular geopolitical risk and policy coordination working group under multilateral frameworks such as the China-Central Asia Summit and China-ASEAN FTA, to share policy updates and formulate response strategies in a timely manner.

C. Enhance Enterprises' Market Risk Management Capabilities

Promote a combined risk hedging toolkit including local currency swaps, forward foreign exchange contracts and export credit insurance through policy financial institutions, launch pilot programs in Pakistan and Egypt with high exchange rate volatility, to reduce transaction costs and expand insurance coverage. Guide Chinese enterprises to shift from single trade and investment to industrial chain cluster cooperation, extend the value chain, and reduce reliance on single products and markets.

D. Optimize the External Cooperation Environment

Leverage multilateral platforms such as the Shanghai Cooperation Organization (SCO), BRICS and China-ASEAN FTA to promote rules and standards compatible with the BRI in digital trade and cross-border transportation, to mitigate the impact of Western regulatory frameworks. Carry out trilateral cooperation with neutral third parties such as Japan, South Korea and the UAE in BRI countries, to share pressure from external intervention and technological blockades.

VI. Research Limitations And Future Research Directions

This study has two main limitations. First, it selects 8 representative BRI countries as the research sample, and the conclusions may not be fully applicable to small economies with extremely low trade volume with China. Second, this paper focuses on the macro transmission mechanism of geopolitical risks, and has not conducted a quantitative test on the heterogeneous impact of different risk types on trade at the micro-enterprise level.

Future research can expand the sample size to cover more BRI countries, use panel data to quantitatively test the marginal impact of different geopolitical risk types on bilateral trade, and conduct in-depth research on the micro-level risk response strategies of Chinese small and medium-sized enterprises in BRI markets.

Conflict of Interest

The authors declare no conflict of interest.

Author Contributions

Guopeng Li conceptualized the research framework and wrote the original manuscript; Huihui Li collected and sorted the research data, case materials; Wenbin Chi revised the manuscript, supervised the research process and optimized the policy recommendations; all authors have read and approved the final version of the manuscript.

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