The Belt and Road Initiative

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Background

The ‘Belt and Road Initiative’ (BRI) or ‘One Belt, One Road’ (OBOR) is a project launched by China to develop countries and improve global connectivity. First unveiled in 2013 by Chinese President Xi Jinping, the initiative has and continues to grow in scale and popularity. The initiative is focused on creating networks that will allow for a more efficient and productive free flow of trade as well as further integration of international markets both physically and digitally.

BRI is comprised of the ‘21st Century Maritime Silk Road’ and the ‘Silk Road Economic Belt’ together they will connect more than 65 countries making up over 62% of the world’s population, around 35% of the world’s trade and over 31% of the world’s GDP. It will take the form of a series of highways, railways and ports as well as facilities for energy, telecommunications, healthcare and education.


BRI focuses on five main goals. (I) ‘Policy Coordination’; meaning the initiative intends to encourage Countries to jointly work and cooperate with each other to achieve projects. (II) ‘Cultural Exchange’; this being the aim to promote people-to-people bonds and friendly interaction between enterprises as well as deeper cultural understanding so as to further international cooperation. (III) ‘Financial Integration’; BRI is designed to enhance monetary and financial cooperation when monitoring and dealing with risk as well as general financial interactions. In addition, it looks to expand currency exchange and scope. (IV) ‘Trade and Investment’; through BRI cross-border investments and trade are aimed at being made easier and more cooperative between countries on the Belt and Road, promoting economic integration. (V) ‘Facilities Connectivity’; this is the focus on building facilities to enable greater connectivity between countries on the Belt and Road e.g rebuilding and developing ports, removing barriers, fixing roads etc. As well as creating better networks through the development of highways, railways and fibre-optic lines between countries along the Belt and Road.

According to Chinese President Xi Jinping as of January 2017 more than 100 countries and international organisations have responded well to the initiative and over 40 have signed cooperation agreements. Already, over $900 billion USD of BRI related projects are under way. However, it is worth noting that The Asian Development Bank estimate that by 2030 the initiative will cost over $22.6 trillion. None the less the Initiative has received an immense amount of positive reactions.

In collaboration with the Belt and Road Initiative the Asian Infrastructure Investment Bank (AIIB) was established with its headquarters in Beijing. AIIB is, (according to its official website) “a new multilateral financial institution founded to bring countries together to address the daunting infrastructure needs across Asia”. It was formally opened in January 2016 and to date has 56 member states and 26 prospective members including all BRICS
countries as well as England, France, Italy, Germany and Hong Kong. China is the largest shareholder with 26.06% of the votes. It is the only party with more voting power than the combined power of the 14 EU members of AIIB who hold a total of 19.04% of voting rights. In 2016, the bank committed $1.73 billion USD to nine development projects along the Belt and Road, 6 of which are in collaboration with lenders including the World Bank and the Asian Development Bank. The bank is credited with further connecting China to the rest of the world through international financial transactions and funding infrastructure.

**World Institutions and the Belt and Road Initiative**

**The United Nations (UN)**

In May 2017 at the ‘Belt and Road Forum for International Cooperation’, the Secretary General of the UN declared his support for the initiative. Quoting a famous Chinese saying he proclaimed that; “Building the road is the first step towards prosperity”. This follows on from September 2016 where the United Nations Development Programme (UNDP) and the People’s Republic of China (PRC) signed a ‘Memorandum of Understanding’ (MOU) on cooperation over the Belt and Road Initiative. This is a strategic cooperation designed to speed up and increase the likeliness of achieving both BRI and the 2030 Agenda for Sustainable Development’. Following on from the MOU, an ‘Action Plan’ for the Belt and Road Initiative was signed by both parties in May 2017. Within the speech at the 2017 Forum, the Secretary General proclaimed that; “For countries yearning to become more integrated with the global economy, it (BRI) can promote access to markets.”

**The World Bank group**

The initiative has received both verbal and monetary support from the World Bank Group. In May 2017, the World Bank Group’s president Jim Yong Kim announced that the World Bank Group were committed to paying $86.7 billion USD towards development and connectivity projects in BRI countries. In the words of Jim Yong Kim; “The Belt and Road Initiative has potential to lower trade costs, increase competitiveness, improve infrastructure, and provide greater connectivity for Asia and its neighbouring regions.”

**The International Monetary Fund (IMF)**

The IMF is increasingly recognising China as a force to be reckoned with on the global economic stage as is evident by its adding the Renminbi to the basket of ‘special drawing rights’ (SDR) in October 2016. Other currency in this basket include; US Dollar, Yen, Euro and Sterling. China is the first emerging-market currency to be included in the SDR basket. This action promotes the credibility of RMB and thus makes it more likely to be utilised by ‘Belt and Road’ countries.

**The European Union (EU)**

There is an agreed EU-China connectivity platform which involves cooperation on investment projects (predominantly on the Belt and Road). In June 2017, the 19th summit
for the EU and PRC was held. This resulted in developments on the extent of their cooperation. Developments were focused on the field of transport connections between the two and cooperation on ‘green’ transport solutions. Further movements were also made regarding; “concrete projects based on agreed criteria including sustainability, transparency and a level-playing field.” (In the words of the EU’s official website). The European Investment Fund and the Silk Road Fund also signed an MOU committing €250 million from each fund towards private equity and venture capital funds.

The ‘Corridors’ in Detail

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa
Key Port Cities:
I. Kuantan (Malaysia)
II. Kyaukpyu (Myanmar)
III. Jakarta and Batam Island (Indonesia)
IV. Colombo and Hambantota (Sri Lanka)
V. Gwadar (Pakistan)
VI. Djibouti (near red sea)
VII. Mombasa (Kenya)
VIII. Piraeus (Greece)

The Corridors:
1. ‘The New Eurasia Land Bridge’

This corridor, as proposed by China, will take the form of an international railway line from China’s Jiangsu province essentially in a horizontal line west to Rotterdam in Holland. According to plans it will be 11,800 km long and will serve over 30 countries.

Along this corridor, China has already opened four freight train routes. These include a route from Chongqing to Duisberg (Germany), a direct route from Wuhan to Mělník to Pardubice (Czech Republic), a route from Chengdu to Lodz (Poland) and one from Zhengzhou to Hamburg (Germany). In addition, along these routes China has issued the policy “one declaration, one inspection, one cargo release” to improve efficiency and ease. Further construction projects of power transmission lines, highways and ports are progressing steadily.

2. ‘The China-Mongolia-Russia Economic Corridor’

This includes the three countries mentioned and is focused on two main routes; one being: Beijing-Tianjin-Hebei region-Hohnot-Mongolia-Russia and the other being: Dailan-Shenyang-Changchun-Harbin and Manzhouli to Russia’s city Chita.
As far as the development of this corridor there were two major breakthroughs. First, in September 2014 the three Heads of State of the countries in question met at the Shanghai Co-operation Organisation (SCO) Dushanbe summit. Here they agreed on a tripartite cooperation based on bilateral ties. In addition, they agreed to renovate Russia’s Eurasian Land Bridge and potentially develop Mongolia’s Steppe Road. The intention of their agreement was to strengthen railway and highway connectivity, advance customs clearance, transport facilitation and promote cross-national cooperation. The second breakthrough was in July 2015 at a second summit held in Ufa in which the ‘mid-term road map for Development of trilateral Co-operation between China, Russia and Mongolia’ was formally adopted. In June 2016, the three countries created a development plan to follow through with. Further agreements were signed in the Belt and Road initiative forum held in May 2017. In August 2016, a ceremonial delegation of trucks from the three countries was sent out to test the proposed corridor.

3. China-Central Asia-West Asia Economic Corridor

This corridor is from Xinjiang to Alashankou to the railways of Central and West Asia to the Mediterranean Coast and finally the Arabian Peninsula. The corridor mainly covers Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan in Central Asia and Iran and Turkey in West Asia (although in total including 17 countries in West Asia). This corridor generally follows the path of the Ancient Silk Road.

The most significant movement in developing this corridor was in June 2015 at the ‘Third China-Central Asia Co-operation Forum’ held in Shandong. Here a joint declaration was signed by China and the 5 central Asian countries committing to ‘jointly building the Silk Road Economic Belt’. In 2016, the AIIB approved a loan of $27.5 million USD Dushanbe-Uzbekistan Border Road improvement project in Tajikistan. In 2017, the rehabilitation of Nurek hydropower plant in Tajikistan was announced.
4. China-Indochina Peninsular Economic Corridor (CIPEC)

This route is from the Pearl River Delta and goes west along the Nanchong-Guang’an Expressway and Nanning-Guangzhou high speed railway via Nanning and Pingxiang to Hanoi and Singapore. It links China with the Indochina peninsular and goes through Vietnam, Laos, Cambodia, Thailand, Myanmar and Malaysia.

As far as advances go, in December 2014 during the ‘Fifth Leaders Meeting on Greater Mekong Sub-regional’ in Bangkok, Chinese Premier Li Keqiang proposed ways to deepen ties with the 5 countries in the Indochina Peninsular.

Nine cross-border motorways in the area of the Greater Mekong Subregion are currently under construction. In the South, China has funded and built various roads in several regions of Indonesia. The Kunming-Singapore High-speed Rail network is a project designed to connect China to Indochina through 3 high-speed railway routes; East, via Hanoi, Ho Chi Minh, Phnom Penh and Bangkok, Central (via Vientiane, Bangkok, Kuala Lumpur and Singapore) and West, (via Mandalay, Yangon and Bangkok). Most of this railway project within China is already complete and the railway is in operation in parts of Vietnam. Western segments are currently under construction whilst Malaysia and Singapore are jointly upgrading sections from Thailand to Singapore.

Within this corridor there are many plans for Air route expansion and integration ASEAN and China have already made a deal to allow Chinese airplanes to use ASEAN gateway city airports. This is in addition to the ASEAN ‘open skies policy’, a policy which all ASEAN countries have a ratified agreement except for Indonesia, Laos and the Philippines who are still in the process of fully enacting it. Currently there are developments in the linking of Southeast Asian ports to major Chinese cities. The ASEAN region has a lot of potential for untapped coal, oil and gas which are likely to be utilised within next 10 years. China already has many projects in this area underway for example, in Laos, China’s Three Gorges Corporation has completed two hydropower projects.

Opportunities and Challenges

This corridor is made of ASEAN members most of whom already have a series of exceptionally well developed economic agreements, this will make trade easier. With the development of these countries there are many opportunities to develop the banking, finance and other professional services sector particularly since Cambodia, Laos and Myanmar are revising regulations to encourage growth in this sector. Furthermore, regional institutions like the Asian Development Bank (ADB) are encouraging sustainable and efficient agriculture within this region. However, China’s ties with Indochina are tense which may put a halt on the initiative in this corridor. For example, various CIPEC projects have been delayed due to disagreements over money.
5. China-Pakistan Economic Corridor

This route is 3000 km long and starts in Kashgar ending in Gwadar, connecting the Silk Road Economic Belt in the North and the 21st Century Maritime Silk Road in the South.

In April 2015 both countries signed a joint declaration which stated that the two countries would be proactive in their joint projects that are designed to further connect the two countries. China has already invested $62 billion into the China-Pakistan economic corridor.

Along this corridor there is the plan to make Gwadar a special economic zone: a ‘new Dubai’. The Gwadar port is central to the corridor with China investing £1.3 billion in order to develop it into a deep-sea port which will be managed by China under a 43 year lease granted to Chinese Overseas Ports. With the hopes to make Gwadar into a ‘new Dubai’ there are plans to turn it into an oil city with petroleum refining zone as well as hubs for mining and minerals, agriculture, food processing, technology and advanced manufacturing. There are also plans for a new Gwadar International Airport and Chinese investment in energy and water infrastructure. Furthermore, China is hoping to develop tertiary sectors and residential projects in Gwadar e.g education, business services, retail and leisure elements. In addition, there are plans for a Gwadar-Kashgar pipeline and transport network. This will be a network of railways, road, telecommunications and energy supply. The oil pipeline will cover 17% of China’s oil imports. It will be financed by China and built by Pakistani Frontier Works Organisation however, it will be technically difficult due to mountainous terrain.

Over half of the investments in this corridor will be focused on energy projects in order to combat Pakistan’s energy shortage. These projects are expected to double Pakistan’s electricity capacity. China has already invested much in coal fired, nuclear energy and green energy. Current developments include what is set to be the world’s largest solar plant in Bahawalpur, a hydropower plant in Karot, a wind power plant in Jhimpir, two nuclear power stations near Karachi and a major coal-fired power plant is being planned in Qasim which is aiming at providing around 20% of Pakistan’s energy shortfall.
Opportunities and Challenges

The Gwadar port will require technical and logistical investment, technical assistance in ports and petroleum refining zones as well as general shipping and maritime services. For the nuclear, solar and wind power plants there is a demand for companies specialised in design, construction and efficient maintenance. The Gwadar-Kashgar pipeline needs technical expertise to overcome mountainous technical issues.

However, there have been previous deals along this corridor that have fallen through previously due to issues of corruption and lack of transparency. Furthermore, there are issues between the Pakistani central government and local governments not cooperating as well as concerns over security across the country.

6. Bangladesh-China-India-Myanmar Economic Corridor

This route includes the four countries mentioned with an emphasis on India. This corridor will cover 9% of the planets land mass and 440 million people. The main part of the corridor is a 2,800-km route running as follows; Kolkata-Dhaka-Mandalay-Kunming. It will take the form of a series of railways, motorways, airways, waterways and telecom networks.

In May 2013 China and India jointly proposed building this corridor together. In December 2013, the ‘Working Group’ of the corridor met in Kunming. Here official representatives of the four countries embarked on in-depth discussions. Following this the countries signed meeting minutes agreeing to the ‘Bangladesh-China-India-Myanmar Economic Corridor Joint Study Programme’ establishing roots for cooperation between the four countries.

Bangladesh

Bangladesh’s ‘Vision 2021’ proposed by the Bangladeshi government is focused on creating links with its neighbours as a main priority. In Bangladesh, the main area of investment will be energy, telecommunications and agriculture. Already, large transport infrastructure projects are being carried out such as Chinese companies building a £3.6 billion railway from Dhaka to Jessore. Energy infrastructure is also being developed, Bangladesh-China power
company ltd are focused on building £1.3 billion coal-fired power plant in South Dhaka furthermore, the AIIB have approved a £133 million loan for Bangladesh to expand electricity into rural areas

India
In 2015 China and India signed a £17.7 billion trade agreement with a focus on renewable energy, steel, transport infrastructure and real estate sectors e.g Chinese company Wanda Group are building an £8 billion industrial park in Haryana near Delhi.

Myanmar
Here there is a large twin gas and oil pipeline project from the port of Kyaukpyu to Guanxi and Yunnan. The gas pipeline is already in use and the oil pipeline opened in April 2017. China is highly invested in Kyaukpyu and have developed the ‘Kyaukpyu Special Economic Zone’ including a deep-sea port at Kyaukpyu which is under development led by Chinese CITI Group Corporation. China led power and energy projects across Myanmar are already in action as is demonstrated by the £2.4 billion refinery in the South East which was granted approval in 2016

Opportunities and challenges
Within this corridor there are issues over environmental concerns and security issues in all countries within the corridor. In addition, it is the least developed corridor. That being said, there are long-term opportunities in Shipping and Maritime services as well as technical and logistical support.

Countries involved in the Initiative
NB: The Belt and Road initiative is open to all and not limited to the countries listed below, as the official action plan states “the Initiative is open for cooperation. It covers, but is not limited to, the area of the Ancient Silk Road. It is open to all countries, and international and regional organizations for engagement...”.

Countries along the Belt and Road:

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
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<tbody>
<tr>
<td>East Asia</td>
<td>China, Mongolia</td>
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<tr>
<td>Southeast Asia</td>
<td>Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Vietnam</td>
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<tr>
<td>Central Asia</td>
<td>Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Palestine, Syria, United Arab Emirates, Yemen</td>
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<tr>
<td>South Asia</td>
<td>Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka</td>
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<tr>
<td>Europe</td>
<td>Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria,</td>
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</tbody>
</table>
Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine

Source: Industrial Cooperation between Countries along the Belt and Road, China International Trade Institute. The countries are grouped based on World Bank's classification by region.

Countries who have participated in the initiative

This is a list of countries who have shown interest in the initiative either through joining the Asian Infrastructure Investment Bank (AIIB), developing infrastructure, or any other cooperative interactions with China. NB. ‘AIIB signatory’ means ‘member of AIIB’ thus meaning they hold a percentage of the votes as shareholders.

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Form of participation/ cooperation</th>
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<tbody>
<tr>
<td>East Asia</td>
<td>South Korea</td>
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<td>South Asia</td>
<td>Afghanistan</td>
<td>Expressed interest in deepening cooperation with China under BRI</td>
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<td>Bangladesh</td>
<td>AIIB signatory</td>
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<td>Sri Lanka</td>
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<td>South East Asia</td>
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<td>Djibouti</td>
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Source: Various sources from news and official websites, mostly compiled by the Fung business Intelligence Centre.
Opportunities the Belt and Road Initiative can offer Foreign Investors

By building greater connectivity and developing nations, once completed, the initiative will make it easier for large multinationals and start-ups alike to reach new large consumer markets. It has been estimated that the growing middle class in Asia could number 4 billion by 2021 and following on from this (according to HSBC) 66% of the world’s population could be living in Asia by 2030. This will mean a continuously growing buyers’ market in Asia demanding luxury goods and services. It is worth noting that the initiative will reportedly be open to all nations and not limited by geography. Thus, the benefits of easy access to a growing market will be accessible to all investors regardless of their geographic background. Consequently, through the initiative this immense market will be accessible for all.

The Belt and Road Initiative could be a good investment for private investors due to President Trump’s move to back out of the Trans-Pacific Partnership (TPP). The action means the Belt and Road Initiative is likely to gain more popularity and momentum as it is aimed at providing a vast network for international trade similar to the TPP. As the US are starting to become more introverted there is gap being left on the world’s economic stage which will likely be filled by China. This view is supported by Louis Kuijs, head of Asia Economics at Oxford Economics in Hong Kong. By investing in the initiative’s developing countries, investors are investing in creating more buying power and establishing efficient routes to fully utilise these new markets.

The Chinese government are encouraging a mixture of foreign investment and domestic investment in Belt and Road projects. Various banks and funds such as The New Development or ‘BRICS’ Bank and The Asian Infrastructure Investment Bank (AIIB) are providing loans for such projects. In 2016 AIIB committed $1.73 billion USD to nine development projects along the Belt and Road. According to the Articles of Agreement of the Bank they will “provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asia region”. AIIB has three main requirements for financing projects: sustainable in operation, environmentally friendly and widely accepted by public society. According to a China-Britain Business Council (CBBC) report, “immediate key sectors are infrastructure, maritime and logistics, banking and financial services, professional services and energy. Further opportunities also exist in the agriculture, fishing, food processing, light equipment manufacturing, education, tourism and consumer sectors.”

For further detail about acquiring loans from AIIB see:

Currently there are many large corporations who are in cooperation with Chinese banks and companies in countries along the Belt and Road for example BP and CNPC who in 2015 saw the highest record of oil production in Iraq since 1990. Chinese enterprises such as Changan,
China Mobile and BCEGI Construction and foreign owned enterprises such as Pinsent Masons and NVC lighting are finding many opportunities for their service and expertise along the Belt and Road in aiding the development of the initiative.

Key Investment opportunities

Banking and Financial services
Firstly, with the implementation of BRI there will be a large demand for expertise in complex financial tools, the participation of financial institutions in BRI will mean long-term access to capital and a more liquid and diverse market. Thus, companies investing in BRI will need both traditional services e.g loans and settlements but also complex financial tools e.g investment banking, third party agency facilities, risk control and financial management. Furthermore, BRI will push RMB to expand thus creating the need for overseas financial centres. Environmental sustainability is very important for BRI and much of it needs to come from private investors. This creates opportunities for financial intermediaries to support financial institutions and governments in identifying, monitoring, supervising and evaluating green projects as information disclosure and risk control become more in demand.

Many banks such as the Bank of China (BOC) and China Construction Bank are issuing billions of dollars’ worth in BRI bonds. The bond market e.g Panda and Dim Sum Bonds, offers early access for foreign and private capital. Growth in BRI bond markets is likely to attract new bond issuers beyond Chinese banks thus creating greater opportunities for foreign enterprises. With the initiative, there is an increasing demand for commodities trading. This is evident by BOC launching 2 offshore global commodity business centres in Singapore and providing £40 billion in financial services to support Chinese and Singaporean companies who want to invest in BRI. For other foreign investors, opportunities lie in providing input for the fostering of secure, efficient and robust commodity trading and RMB commodity financial innovation.

The immense size of BRI and the nature of there being much risk in investing in the initiative means there are many opportunities in this field risk management and insurers. Insurers can develop novel insurance products and services to aid companies investing in BRI. In addition, there are more opportunities for asset managers to act as collective financing mechanisms who can provide smaller or private investors access to large infrastructure projects. This is promising as much of the funding for the initiative is expected to be from private investors.

Legal services
BRI investments require legal advice and services due to the complexities that emerge with operating in many of the BRI countries. Many countries along the Belt and Road have different policies and practices and so need specialised help to find a common understanding and follow the legal requirements. For example, Clifford Chance advised the Industrial and Commercial Bank of China, Bank of China, China Construction Bank Corporation and Export-Import Bank of China on £1.2 billion financing oil project in Jordan and Linklaters advised China Development Bank Corporation on the largest Chinese-led power project in Indonesia. In addition, many BRI countries are developing and thus have basic tax, accounting and audit regimes. However, investors must have an understanding of the differences. This provides the opportunity for foreign enterprises to aid Chinese
enterprises in understanding local regulations and practices and assist them in following local tax and auditing laws. There are many opportunities for foreign enterprises in assessing investment environments and conducting feasibility studies as BRI requires strategic advice and practical business solutions. Examples of foreign companies who provided advice to Chinese parties includes JLT and PWC. China’s role in the shipping industry has grown and with it there are a multitude of legal requirements to be satisfied. A good opportunity for British investors lies in advising maritime services as English law is used in international maritime issues and processes. The size of this opportunity is immense given that China is currently producing 90% of the world’s standard dry cargo. BMT group and Pinsent Masons have already become involved in this prospect.

Infrastructure planning and development

Given the scale and nature of the initiative there are innumerable joint opportunities for international specialised companies and Chinese companies to build railways along the Belt and Road. Furthermore, there are numerous amounts of power generation and industrial development projects in BRI. Oil and gas pipelines as well as electricity transmission/distribution networks need to be sustainable and efficient and so need international specialists to aid these projects. In addition, water and waste management projects need specialists in city layouts, supporting regulatory frameworks, co-developing and operating the infrastructure. More infrastructure projects along the Belt and Road means increased supply chain manufacturing facilities and research centres in 3rd countries which provides many prospects for Sino-Foreign Joint Ventures. The development of the corridors increases the movement of goods, commodities and people thus requiring efficient logistics centres to cope with these ‘macro-flows’, DP World is an example of a company already invested in this project. In all the vast urbanisation projects across the Belt and Road there emerge many opportunities such as investing in education within these new cities.

Energy

Over half of the infrastructure funds along Belt and Road will go towards electricity supply thus meaning there are many opportunities in this sector. Areas in the ASEAN region have much gas and oil. There is thus, a demand for international expertise on marine environments, resource exploration, developments and optimal exploitation. The Keller Group are already involved in this opportunity. Similarly, coal/nuclear power generation requires legal, technical and operational/management support. Renewable energy projects are becoming more price competitive thus creating opportunities for smaller solar and wind power plants. In 2017 China announced a nationwide carbon trading market however, they need expertise on trading markets, carbon credit obligations schemes, regulatory frameworks and professional services that support planning and development. KPMG have already aided China in this area.
How the Belt and Road Initiative Will Impact China’s Economy

There have been many queries over how the ‘Belt and Road’ initiative will achieve actualisation due to its immense cost requirement and subsequent infrastructure financing ‘gap’. The issue is a result of China providing the majority of the funds. This is demonstrated by a 2015 case study where Beijing’s Import and Export Bank of China lent $80 billion USD to the initiative compared to the Asian Development Bank which lent $27 billion USD. Given that the Asian Development Bank estimate the initiative will cost over $22.6 trillion USD by 2030 it brings into question how China will be able to continue burdening this weight of carrying the initiative.

The answer lies in China’s financing resources such as: The Silk Road Fund, the 10 major cooperation projects announced at the Forum on China-Africa Cooperation, the AIIB, The New Development Bank and loans from Chinese policy banks. In addition, the Belt and Road Initiative will eventually start paying for itself or at least providing significant returns; as of March 2017, Chinese companies have made over $50 billion USD from investments related to the initiative and many projects have already been launched in countries connected through the initiative. Within the first eight months of 2016, China’s trade with BRI countries exceeded $600 billion USD. Estimates suggest that the initiative will make China’s annual trade along the Belt and Road over $2.5 trillion USD. Aside from monetary returns, the initiative provides an outlet for China’s immense industrial capacity. It creates and protects jobs in the industrial field as well as helping to maintain economic growth. Furthermore, the connections to Russian and Iranian oil and gas will protect China’s energy needs whilst pipelines on the coast of countries such as Myanmar and Pakistan enables more diverse maritime routes and thus a greater outlet for Chinese goods. Exports to BRI countries have grown faster than total exports since 2013 demonstrating the potential of the Belt and Road initiative for China’s growing economy.

Potential Expansion of Renminbi

Firstly, it is worth noting that at this current moment the US dollar is still the most popular choice of currency for settlements along the Belt and Road. Whilst it is not a specific aim of The Belt and Road Initiative the initiative provides three possible routes through which Renminbi could be internationalized. (I) BRI could promote RMB settlement through the current account. Currently China is aiming for their trade with BRI countries to reach around $2.5 trillion USD per year within the next 10 years. Given that China is promoting the use of RMB on the Belt and Road this would mean an immense amount of RMB exchanging hands internationally. In addition, greater export of goods and services along the Belt and Road will mean an increased demand for RMB trade settlement and currency mobility. For example, in 2015 Chinese companies signed 3,987 construction contracts in BRI countries this is 44.1% of the value of Chinese overseas construction projects. (II) The Initiative could improve RMB outflows through the capital account. Between January 2012 and September 2015, the number of China’s Outward Direct Investments (ODI) settled in RMB increased from 0.2 billion RMB to 20.8 billion RMB. The Belt and Road Initiative means more markets. For example; In 2015 China’s Outward Direct Investments (ODI) involved 49 BRI countries with investments connected to BRI reaching USD $14.8 billion (18.2% higher than 2014). ODI’s in BRI countries will increase with its development and thus RMB outflow will rise
through the capital account as well as RMB trade settlements for BRI countries are more likely to utilize RMB to avoid transaction fees and exchange rate issues. (III) BRI could promote the international spread of RMB as a store of value. Already the demand for RMB in BRI countries is increasing and countries along the Belt and Road are becoming more open to using RMB as a reserve asset. The initiative will also encourage countries to use RMB in their foreign exchange reserves, South Korea, Malaysia and Cambodia have already made RMB one of their reserve currencies, a trend expected to be followed with the growth of the initiative.

Another contributing factor to the spread of RMB, which will only be enhanced by BRI is the inclusion of RMB by the IMF in the Special Drawing Rights (SDR) Basket on the 1st October 2016. Other currencies in the basket are USD, GBP, EUR, JPY, China is the first emerging economy to be included. Being in the SDR Basket massively boosts RMB credibility with international investors; the People’s Bank of China (PBoC) predicts that following this move RMB in foreign central banks’ official reserves could exceed 4% soon. Furthermore, Standard Chartered Bank predicts that the total net purchases of China’s bonds and stocks could reach RMB 5.5 trillion ($791 billion USD) and RMB 6.2 trillion respectively by 2020.

The inclusion of RMB encourages the Chinese government to continue banking and financial sector reforms as well as capital-account liberalization. If this reform and economic growth continues then RMB denominated assets will become increasingly regarded as ‘safe assets’ by global investors and sovereigns. As Eurozone bonds are not viewed as being as safe as they were pre-2008 downgrades have been issued to many European countries including Austria, the UK, the US and France resulting in the decline of their supply of global ‘safe assets’. Banks need more low-risk assets to meet regulatory requirements. Since the debt issues of developed countries cannot easily be solved there is the prospect of emerging economies such as China to develop opportunities for banks that satisfy the need for risk-free or low-risk assets. If RMB becomes seen as a safe and liquid asset the demand for RMB will increase. Standard Chartered Bank predicts proportion of RMB assets in global foreign exchange reserves will increase from 1% to 5% within 5 years. In addition, RMB is affected by the growth and international respect of Chinese bank AIIB. Through the increased credibility and use of RMB BRI countries will be even more inclined to utilize RMB in trade.

Estimates from the Chinese Government suggest that by 2020 half of China’s foreign trade will be settled in RMB. Peter Wong, Deputy Chairman and Chief Executive, The Hong Kong and Shanghai Banking Corporation Limited says, “As the commercial activities between China and countries along the BRI become more frequent, RMB will gain wider acceptance.” Consequently, HSBC recommended that “companies who haven’t already adopted RMB should consider doing so now if they plan on participating in BRI growth and expansion.” BRI growth has many advantages for foreign investors as laid out previously under ‘How the Belt and Road Initiative can affect Foreign Investors’.
Latest Updates on the Belt and Road Initiative

In June 2017, it was announced that the China Railway Group Ltd will build a high-speed railway in Russia connecting Yekaterinburg to Chelyabinsk as a further effort to develop and connect as many areas on the Belt and Road as possible. This will be a part of high speed corridor that goes through Berlin, Moscow, Astana and Beijing.

On June 23 2017 it was announced that the World Bank and AIIB were jointly lending $380 million to Andhra Pradesh (a southern state in India), to be used for a power project that aims to provide power for the whole population. The loan will take the ratio 60:40 World Bank, AIIB respectively. China also recently invested $3.6 billion USD in the Nairobi-Mombasa railway which was opened 31 May 2017. Furthermore, in recent months India and Japan have presented plans to establish the Asia-Africa Growth Corridor (AAGC) which will focus on transport development, health-care, crisis management and agriculture.

As a result of the May 2017 Belt and Road Initiative Forum, over 130 bilateral and regional agreements with countries along the Belt and Road have been signed by China. In a drive to improve rail infrastructure, economic development and trade cooperation, the railway authorities of China, Belarus, Germany, Kazakhstan, Mongolia, Poland and Russia have jointly signed an agreement to improve cooperation on China-Europe freight rail services. Furthermore, the forum saw more developments in the initiative through agreements such as the ‘Signed Intergovernmental Agreement’ on the peaceful use of nuclear energy with Thailand as well as the Chinese government’s signing of an MOU on Cooperation (2017-2020) with the United Nations Educational, Scientific and Cultural Organization.

In March 2017 in support of BRI, the Hong Kong Government released a bill detailing plans to offer tax concessions in order to encourage aircraft leasing companies to develop branches in Hong Kong. This is in addition to the recent growth of Chinese parties controlling aviation companies. For example, the HNA group recently acquired Irish and US aircraft leasing companies Avalon and CIT (respectively). Furthermore, Chinese airlines have been increasing their international air routes as is demonstrated by the China-Australia agreement which allows both countries airlines to have unrestricted international access into each other’s markets under an “open aviation market”.

For more information on projects on the Belt and Road already approved by AIIB see: https://www.aiib.org/en/projects/approved/index.html
How LehmanBrown Can Help

LehmanBrown can provide continuous hands-on tailored aid and advice to all who desire to pursue a future with China and along the Belt and Road. Lehman Brown is registered with the PCAOB in the US and is able to conduct SEC work, as well as being accredited by accounting bodies in the UK and Australia. Having an extensive affiliate network throughout China and in over 100 countries worldwide LehmanBrown offers expert advice and support to both local and international clients both within China and in various countries along the Belt and Road. LehmanBrown offers ‘whole of life’ services meaning we offer clients assistance throughout every step of their China business life cycle, from preconception to afterlife. This is an addition to an assortment of accounting, professional and management services. LehmanBrown is equipped to aid companies with taxation guide and assist in various legal capacities from labour and corporate legal advisory to trademark and intellectual property advisory.

For further details see: http://www.lehmanbrown.com/services/

About us

Founded in 2001, LehmanBrown is a China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

Combining years of international expertise with practical Chinese experience and knowledge, LehmanBrown offers expert advice and support to both local and international clients. Within the mid-tier, we are regarded as a market leader and our clients enjoy access to a combination of senior and experienced counsellors from both China and abroad.

At LehmanBrown we recognise that you are unique, that you have unique requirements and we are committed to providing individually tailored financial solutions. LehmanBrown is dedicated to providing personalised service by working closely with our clients to understand your individual business needs. This enables us to offer the most up-to-date and expert advice.
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Mergers & Acquisitions
Transaction Advisory
M&A Divesture
M&A Integration
Financial Due Diligence

Outsourcing Services

Accounting & Bookkeeping
Budgeting & Forecasting
Financial Statement Preparation
Head Office Reporting

Financial Management
Interim Financial Management
Finance Manager Function
CFO Function

Treasury Management
Set-up of Bank Account

Payroll Services
Payroll Processing Setup
Expatriate Employees
Local Employees

Secondment & Temping Service

Taxation Services

Individual Tax Planning (IIT)
Tax Immigration & Investment Review
US & Overseas Personal Income Tax Planning & Filing
IIT Tax Payment Facilitation
Application for Individual Income Tax Refund
Expatriate Staff Individual Income Tax Staff Filing
Local Staff Individual Income Tax

Company Taxation (CIT)
Tax Consulting
Corporate Tax Planning
Business Restructuring
Value Chain Review
Onshore / Offshore Investment
Transfer Pricing

Tax Compliance
Tax Due Diligence
Tax Deregistration
Negotiation of Tax Penalties
Tax Refund Application
Tax Representatives for Tax Audit
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PRC Tax Receipt Verification
VAT Application
VAT & Sales Tax Filing
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US GAAP Conversion

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IFRS Financial Statement Preparation
IFRS Public Company Compliance

SEC
SEC Public Company Compliance

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Review & Preparation of Repatriation Agreements

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For further information about how we can add value and support your individual or business needs, please contact us.

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