The Belt and Road Initiative and Its Business Implications

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Fung Business Intelligence
September 2017
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Part I  B&R: from vision to actions
1. The Belt and Road (B&R) Initiative: concepts

- The Belt and Road (B&R) Initiative refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road, an ambitious development strategy spearheaded by the Chinese government to promote trade and economic integration among countries along the proposed B&R routes.

- The Initiative has been designed to enhance the orderly free-flow of economic factors and the efficient allocation of resources. It is also intended to boost market integration and create a regional economic cooperation framework of benefit to all.

- The National Development and Reform Commission of China issued the Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road on 28 March 2015. This official document outlined the framework, goals, key areas of cooperation and cooperation mechanisms of the B&R Initiative.
2. Geographic coverage

**The Silk Road Economic Belt:**
- China—Central Asia—Russia—Europe (the Baltic)
- China—Central Asia—West Asia—Persian Gulf—Mediterranean Sea
- China—Southeast Asia—South Asia—Indian Ocean

**The 21st Century Maritime Silk Road:**
- Coastal China—South China Sea—Indian Ocean—Europe
- Coastal China—South China Sea—South Pacific

*Source: Compiled by the Fung Business Intelligence based on the FRAMEWORK chapter of the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”*
3. Vision: the “Five Links”

While the ancient Silk Road was primarily a route for trading goods and cultural and technological exchanges, the new B&R envisions a more comprehensive partnership in five areas:

Source: Hong Kong Trade Development Council (HKTDC)
4. Regional and provincial positioning in the B&R Initiative:

Source: Compiled by the Fung Business Intelligence based on the FRAMEWORK chapter of the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”
5. A multi-dimensional infrastructure network: six economic corridors

Source: Hong Kong Trade Development Council (HKTDC)
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(1) **New Eurasia Land Bridge Economic Corridor**

Also known as the Second Eurasia Land Bridge, the corridor is an international railway line running from Lianyungang in China’s Jiangsu province through Alashankou in Xinjiang to Rotterdam in Holland. After exiting the Chinese territory, the new land bridge passes through Kazakhstan, Russia, Belarus and Poland, reaching a number of coastal ports in Europe.

China has opened multiple direct freight train routes running from Chinese cities to European cities.

*Source: Hong Kong Trade Development Council (HKTDC)*
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(2) China-Mongolia-Russia Economic Corridor

In September 2014, the three heads of state agreed to bring together the building of China’s Silk Road Economic Belt, the renovation of Russia’s Eurasia Land Bridge and the proposed development of Mongolia’s Steppe Road.

In June 2016, the three heads of state witnessed the signing of the “Outline of the Plan on Establishing the China-Mongolia-Russia Economic Corridor,” the first multilateral cooperation plan under the B&R Initiative.

Source: Hong Kong Trade Development Council (HKTDC)
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(3) China-Central Asia-West Asia Economic Corridor

The corridor runs from Xinjiang in China and exits the country via Alashankou to join the railway networks of Central Asia and West Asia before reaching the Mediterranean coast and the Arabian Peninsula. The corridor mainly covers five countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan) as well as Iran and Turkey in West Asia.

Source: Hong Kong Trade Development Council (HKTDC)
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(4) **China-Indochina Peninsula Economic Corridor**

Starting from Southwest China, the corridor connects China with countries on the Indochina Peninsula, thus serving as an important channel for wider and higher-level cooperation between China and ASEAN.

Currently, the countries along the Greater Mekong River are engaged in building nine cross-national highways, connecting east and west and linking north to south. A number of these construction projects have already been completed.

*Source: Hong Kong Trade Development Council (HKTDC)*
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(5) **China-Pakistan Economic Corridor**

This corridor is a flagship program of the B&R Initiative.

At present, the two governments have mapped out a provisional long-term plan for building highways, railways, oil and natural gas pipelines and optic fibre networks stretching from Kashgar, Xinjiang to Pakistan’s Gwadar Port.

Total investment in this corridor amounts to US$62 billion.

*Source: Hong Kong Trade Development Council (HKTDC)*
5. A multi-dimensional infrastructure network: six economic corridors (cont.)

(6) Bangladesh-China-India-Myanmar Economic Corridor

In December 2013 and December 2014, the first and second meeting of the Bangladesh-China-India-Myanmar Economic Corridor Joint Working Group were held. The four governments reached extensive consensus on cooperation in such areas as transportation infrastructure, investment and commercial circulation, and people-to-people connectivity.

Source: Hong Kong Trade Development Council (HKTDC)
6. Major infrastructure projects along the B&R

• Pipelines and energy projects
  - Yanbu Refinery, Saudi Arabia (37.5% stake held by Sinopec)
  - China–Myanmar oil and gas pipelines
  - Southern Kazakhstan–China gas pipeline
6. Major infrastructure projects along the B&R (cont.)

Yanbu Refinery, Saudi Arabia

Completed in 2016

Source: Norman Einstein, Venturesonsite.com
6. Major infrastructure projects along the B&R (cont.)

- **Southern Kazakhstan–China gas pipeline**
  - Completed in 2017

- **China–Myanmar oil and gas pipelines**
  - Completed in 2014

*Source: Reuters, Xinhua News Agency*
6. Major infrastructure projects along the B&R (cont.)

- **Ports**
  
  **Europe**
  - Kumport, Turkey (acquired by three Chinese state-owned companies in 2015)
  - Piraeus port, Greece (acquired by a Chinese state-owned company in 2016)

  **Asia**
  - Gwadar port, Pakistan (port operation rights acquired by China)
  - Hambantota port, Sri Lanka (port operation rights acquired by a Chinese state-owned company in 2017)
6. Major infrastructure projects along the B&R (cont.)

Kumport, Turkey

Piraeus port, Greece

Source: HKTDC, The Loadstar, JOC.com
6. Major infrastructure projects along the B&R (cont.)

Source: HKTDC, New Indian Express, BBC
6. Major infrastructure projects along the B&R (cont.)

• Railways

Transcontinental
- New Eurasia Land Bridge

East Africa
- Ethiopia–Djibouti railway (built by China)
- Mombasa–Nairobi railway, Kenya (built by China)

Europe
- Hungary–Serbia railway (built by China)

Southeast Asia
- China–Myanmar railway
- China–Laos railway (built by China)
- Bangkok–Nakhon Ratchasima high-speed rail, Thailand (built by China)
- Jakarta–Bandung high-speed rail, Indonesia (built by China)
6. Major infrastructure projects along the B&R (cont.)

New Eurasia Land Bridge

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Chinese platform companies offering rail freight service to Europe

<table>
<thead>
<tr>
<th>Company</th>
<th>Base</th>
<th>Shareholders</th>
<th>Regular service since</th>
<th>Destination</th>
<th>Service frequency, per week</th>
<th>Transport volume (teu)</th>
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<tbody>
<tr>
<td>Yuxinou Logistics</td>
<td>Chongqing</td>
<td>Chongqing government, China Railway Corp, Kazakhstan Railways, Deutsche Bahn, Russian Railways</td>
<td>Aug 11</td>
<td>Dusiburg, Germany</td>
<td>4-5</td>
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<td>YHV Chengdu Hatran Intermodal Logistics*</td>
<td>Chengdu</td>
<td>Hatrans Logistics, Vailog, YH Global</td>
<td>Apr 13</td>
<td>Lodz, Poland</td>
<td>1</td>
<td>3,198</td>
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<tr>
<td>Wuhan Han'Ou International Logistics</td>
<td>Wuhan</td>
<td>Wuhan government, China Railway Corp</td>
<td>Apr 14</td>
<td>Pardubice, Czech Republic</td>
<td>1</td>
<td>2,600</td>
</tr>
<tr>
<td>Zhengzhou International Hub</td>
<td>Zhengzhou</td>
<td>Zhengzhou and Henan governments</td>
<td>May 14</td>
<td>Hanburg, Germany</td>
<td>2</td>
<td>3,280</td>
</tr>
</tbody>
</table>

Source: SCMP
6. Major infrastructure projects along the B&R (cont.)

- Ethiopia–Djibouti railway
  - Completed in 2016

- Mombasa–Nairobi railway, Kenya
  - Completed in 2017

Source: The Economist
6. Major infrastructure projects along the B&R (cont.)

Hungary–Serbia railway

Under construction

Source: FT Research
6. Major infrastructure projects along the B&R (cont.)

6. Major infrastructure projects along the B&R (cont.)

Jakarta–Bandung high-speed rail, Indonesia

Source: Gunawan Kartapranata
6. Major infrastructure projects along the B&R (cont.)

- Highways and bridges
  - Western Europe–Western China highway
  - Taldykorgan–Kalbatau–Ust-Kamenogorskk highway, Kazakhstan (built by China)
  - Peshawar–Karachi motorway, Pakistan (built by China)
  - China–Pakistan Highway (Karakoram Highway), Pakistan (built by China)
  - Padma Bridge, Bangladesh (built by China)
  - Amur Bridge (China–Russia Bridge)
6. Major infrastructure projects along the B&R (cont.)

Western Europe–Western China highway

Russian length: 2,233 km

Kazakh length: 2,787 km

Chinese length: 2,425 km

Under construction and reconstruction

Source: Regional Centre for Development of Almaty, Kazakhstan
6. Major infrastructure projects along the B&R (cont.)

Taldykorgan–Kalbatau–Ust-Kamenogorsk highway, Kazakhstan

Under reconstruction

Source: Website of the Prime Minister of Kazakhstan
6. Major infrastructure projects along the B&R (cont.)

Peshawar–Karachi motorway, Pakistan

Source: Pakistan Real Estate Times
6. Major infrastructure projects along the B&R (cont.)

China–Pakistan Highway (Karakoram Highway), Pakistan

Source: YaleGlobal Online
6. Major infrastructure projects along the B&R (cont.)

Padma Bridge, Bangladesh

Source: De Mazid Islam, Bangladesh Bridge Authority
6. Major infrastructure projects along the B&R (cont.)

Amur Bridge (China–Russia Bridge)

Source: Xinhua News Agency

Under construction
6. Major infrastructure projects along the B&R (cont.)

• **Industrial parks**
  - China–Belarus Industrial Park (built by China)
  - Thai–Chinese Rayong Industrial Zone (built by China)
  - China–Egypt Suez Economic and Trade Cooperation Zone (built by China)
  - China–Ethiopia Hawassa Industrial Park (built by China)
  - Khorgos–Eastern Gateway Special Economic Zone, Kazakhstan (49% stake acquired by two Chinese state-owned companies in 2016)
6. Major infrastructure projects along the B&R (cont.)

China–Belarus Industrial Park

First phase of construction completed in May 2017

Source: Belarus News, Xinhua News Agency
6. Major infrastructure projects along the B&R (cont.)

Thai–Chinese Rayong Industrial Zone

Source: CGTN.com, Xinhua News Agency
6. Major infrastructure projects along the B&R (cont.)

China–Egypt Suez Economic and Trade Cooperation Zone

Established in 2008

Source: Teda.com.cn, Global Times
6. Major infrastructure projects along the B&R (cont.)

China–Ethiopia Hawassa Industrial Park

Completed in 2016

Source: Ebc.et, Fanabc.com
6. Major infrastructure projects along the B&R (cont.)

Khorgos–Eastern Gateway Special Economic Zone, Kazakhstan

A 49% stake acquired by two Chinese state-owned companies in 2016

Source: Reuters, Khorgos Gateway
The Asian Infrastructure Investment Bank (AIIB)

• Headquartered in Beijing, the AIIB was officially launched in December 2015, with a legal capital of US$100 billion.

• By the end of 2016, the AIIB had provided US$1.7 billion in loans to nine projects in fields such as energy, transport, and urban development in Indonesia, Tajikistan, Pakistan, and Bangladesh.

• As of 17 June 2017, there are 37 regional members (including Hong Kong), 19 non-regional members and 24 prospective members of the AIIB, bringing the total approved membership to 80.

• As of 4 July 2017, the AIIB approved funding for 17 projects in the form of loans or equity investment.
7. Financing channels (cont.)

**The Silk Road Fund**

- The Fund was launched in December 2014, with an initial registered capital of US$10 billion and total capital of US$40 billion.

- The Fund finances projects in infrastructure construction, exploration of natural resources, and industrial and financial cooperation along the B&R through equity stakes and other forms of financing.

- By the end of 2016, the Fund had signed 15 projects, with an estimated investment value of US$6 billion.

- At the opening ceremony of the B&R Forum held in May 2017, President Xi Jinping announced that China would contribute an additional 100 billion yuan to the Fund.
China Development Bank (CDB) and Export-Import Bank of China (Exim Bank)

• Financing through these two policy banks are more prominent than the AIIB and the Silk Road Fund so far.

• Since the Initiative was proposed, the CDB has signed off more than 100 projects in the B&R countries, to a value surpassing US$40 billion, with US$30 billion issued in loans. The Exim Bank has signed 1,100 projects, valued at US$100 billion, in the B&R countries, issuing US$80 billion in loans.

• At the opening ceremony of the B&R Forum held in May 2017, President Xi Jinping announced that the CDB and the Exim Bank will make special loans worth 250 billion yuan and 130 billion yuan, respectively, to support cooperation in infrastructure, industrial capacity and financing.
Huge funding gap in B&R infrastructure

- OECD (2017) estimates global infrastructure investment needs of US$6.3 trillion per year over the period 2016-30 to support growth and development, without considering further climate action. We estimate that almost half of the investment needs come from B&R countries.

- ADB (2017) estimates that infrastructure needs in developing Asian countries, mostly B&R countries, will exceed US$22.6 trillion through 2030, or US$1.5 trillion per year, if the region is to maintain growth momentum. The estimates rise to over US$26 trillion, or US$1.7 trillion per year, when climate change mitigation and adaptation costs are incorporated.

* January-March

Source: China Ministry of Commerce, quoted by Financial Times
8. The B&R Forum: shaping inclusive globalization with worldwide participation

- Featuring the theme ‘Cooperation for Common Prosperity’, the forum, held on 14-15 May this year, drew around 1,500 delegates from more than 130 countries and 70 international organizations, including 29 foreign heads of state and government.

Source: news.Xinhuanet.com
8. The B&R Forum: shaping inclusive globalization with worldwide participation (cont.)

- The forum yielded fruitful results with 270 deliverables in five key areas, namely policy coordination, infrastructure, trade, finance as well as people-to-people exchange.

- Amid mounting concerns over rising protectionism and isolationism, the forum is an important political event for promoting the B&R Initiative as a new platform for mutually beneficial collaboration and inclusive globalization.

- The unprecedented attendance by both developing and developed countries has marked a significant milestone in China’s rise as a diplomatic superpower at the world stage.
Part II  Business Implications
1. Logistics: new transportation infrastructure unlocks new options for logistics enterprises

• The improvement in intercontinental connectivity has unlocked vast opportunities for logistics players to expand their operations along the B&R routes and explore new land-water intermodal transport options.

• At present, most of China’s US$600 billion of yearly trade with the Europe is shipped by sea. But as demand for the premium electronics and other value-added goods that China is now producing grows in Europe and demand for European agricultural products and luxury goods increases in China, so too does the demand for faster shipping options.
1. Logistics (cont.)

*China’s growing portfolio of direct rail connections with Europe*

- As of May 2017, there were 51 trans-Eurasia rail routes connecting 28 cities in China with 29 cities in 11 European countries, including Germany, Poland, Britain, the Netherlands, Italy, Spain and Belgium.
- It is expected that by 2020, freight trains will make 5,000 trips between China and Europe per year.

*Source: Silk Road Briefing*
1. Logistics (cont.)

*Road transport: Western Europe-Western China Highway*

- Once completed, the Western Europe-Western China Highway will stretch from the coast of China at Lianyungang through Kazakhstan to Saint Petersburg, Russia.
- That will make it possible to truck products between continents in just 10 days, opposed to 30-50 days to ship between the same points by sea and 12-15 days by rail.

*Western Europe–Western China highway (under construction)*

*Source: Regional Centre for Development of Almaty, Kazakhstan*
1. Logistics (cont.)

• Railway and road transport allows manufacturers and freight forwarders to transport their products between China and Europe in less than half the time of shipping by sea at a fraction of the cost of shipping by air.

• While these land-based routes are not a viable form of transport for all types of products, they fill a void in the market for high-value products that need to be transported as fast as possible, such as electronics, fashion items, car parts, heavy machinery, premium agricultural goods, and fresh meat.

• Meanwhile, these new routes are now providing European manufacturers and retailers with a new way to get their products to the booming consumer and B2B markets in China, particularly products that meet the demand for the rising middle-class in China, such as pharmaceuticals, luxury, cars, food and drinks.
2. Retail and distribution: B&R gives access to the fast growing but highly fragmented consumer markets in Asia

- While the Northern overland routes provide ample opportunities for sourcing resources and commodities from the West and Central Asia, the emerging South and Southeast Asian countries along the maritime routes are potentially vast consumer markets.

- According to the OECD, by 2030, two-thirds of the global middle class will be living in Asia, accounting for nearly 60% of the world’s middle-class consumption – with more than two-thirds coming from India and China.
2. Retail and distribution (cont.)

• Compared with the mature and organized consumer markets in the US and the Europe, however, the fast-growing consumer markets in Asia are more fragmented and highly localized, with millions of small and medium-sized enterprises market players.

• Better infrastructure and connectivity will lead to improved ease of doing business and better access to these emerging but challenging consumer markets.

• By bringing flows of trade and investment into Asia, the B&R Initiative may likely lead to higher household income in countries along the Maritime Silk Road.
3. Manufacturing and sourcing: industrial cooperation and infrastructure improvement unleash manufacturing potential of low-income countries

- Industrial cooperation under the B&R Initiative will help promote industrialization and enhance productivity in the underdeveloped countries along the B&R.

- Better infrastructure in those B&R countries, on the other hand, may lead to improvement in supply chain efficiencies and reduction in logistics costs, making them viable alternatives for manufacturing consumer products.

- The trend of industrial relocation from China to other low-cost production countries is likely to accelerate.
### Li & Fung’s top 10 production countries in 2016

<table>
<thead>
<tr>
<th>Rank</th>
<th>Production Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Vietnam</td>
</tr>
<tr>
<td>3</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
</tr>
<tr>
<td>6</td>
<td>Cambodia</td>
</tr>
<tr>
<td>7</td>
<td>Philippines</td>
</tr>
<tr>
<td>8</td>
<td>Turkey</td>
</tr>
<tr>
<td>9</td>
<td>Thailand</td>
</tr>
<tr>
<td>10</td>
<td>Guatemala</td>
</tr>
</tbody>
</table>
3. Manufacturing and sourcing (cont.)

Examples of some B&R countries may see their manufacturing sector benefit from the Initiative:

- **Pakistan** has a young and reasonably well-educated workforce; however, persistent power outages and insufficient transport links are major hindrances to the development of a competitive manufacturing sector. Investment in transportation and power projects under the China-Pakistan Economic Corridor will help address these problems.

- The B&R Initiative provides much-needed infrastructure upgrades for **Myanmar**, the formerly economically isolated country. The country’s garment industry can potentially increase productivity and supply chain efficiency, while opening up trade with the rest of Asia, Europe and Africa through the B&R.

- With better infrastructure, presently nascent garment manufacturing industries on the **African continent** are in a better place to expedite their integration into the global supply chains.
4. Finance

• There is a huge funding gap in B&R infrastructure development that cannot be supported by governments and multilateral institutions. Thus, it must be filled by the private sector, which cannot be filled by equity alone. It is necessary to promote the development of an Asian bond market, an opportunity that Hong Kong should take hold of.

• Hong Kong can provide B&R countries with the capital required for infrastructure construction, with a diversity of financing channels in place, including equity listing, syndicated loans, private equity funds, ordinary bonds, dim sum bonds and Islamic bonds.

• As the world’s largest offshore renminbi centre, Hong Kong can offer a range of renminbi financial products and asset allocation tools to the B&R, thereby further enhancing its function as a renminbi offshore market.
4. Finance (cont.)

• As a centre for international asset management and risk management, Hong Kong is well-positioned to capture the wealth of the B&R and meet the demand for risk management services. Hong Kong companies can therefore provide professional insurance and reinsurance services for major B&R infrastructure projects.

• Driven by the B&R Initiative, Chinese Mainland enterprises will expand their overseas business. Hong Kong is an ideal place for them to set up corporate treasury centres to lower corporate financial costs and enhance treasury risk management.

• Hong Kong can also serve as a platform conducive to the development of Islamic finance.
5. Professional services

- Hong Kong can play an intermediate role in inbound and outbound trade and investment for the Chinese Mainland under the B&R Initiative.

- Hong Kong enjoys advantages in various areas including accounting, legal, investment environment and risk assessment, environmental consulting, construction and project management.

- Among these, Hong Kong meets advanced international standards in the operation and management of infrastructure, such as railways, airports, ports, electricity supply and gas supply. Hong Kong companies can provide consultancy services for the operation and management of the B&R projects.

- Moreover, Hong Kong has a sound legal system and adopts the common law regime which is very familiar to the international business community. Hong Kong companies can provide professional international legal and dispute resolution services for Chinese enterprises seeking to ‘go global’.
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Our past publications on Belt and Road

The Belt and Road Initiative: Seeking Deeper and Broader Cooperation (May 2017)

The Belt and Road Initiative: 65 Countries and Beyond (May 2016)

The Silk Road Economic Belt and the 21st Century Maritime Silk Road (May 2015)
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