

A white wireframe structure of a tower, resembling the Bank of China Tower, is positioned on the left side of the slide. The background is a vibrant red with a curved top edge and some light streaks.

# One Belt One Road

2016.01.06

# China's "Belt and Road" Initiative



Official map of the "One Belt, One Road"



- China plans to revive ancient Silk Road trade route stretching from Southeast Asia to Western Europe.
- New Silk Road runs through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other.
- The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe; linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean.
- The 21st-Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.

# China's "Belt and Road" Initiative



- On land, the Initiative will focus on jointly building a new Eurasian Land Bridge by taking advantage of international transport routes, relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms.
- At sea, the Initiative will focus on jointly building efficient transport routes connecting major sea ports along the Belt and Road.

a new and modern Eurasian Land Bridge



# Work in progress

China is planning a transcontinental network of bridges, tunnels, railways and ports that will stretch from Southeast Asia to Western Europe as part of “Belt and Road Project”

## 1. High speed rail

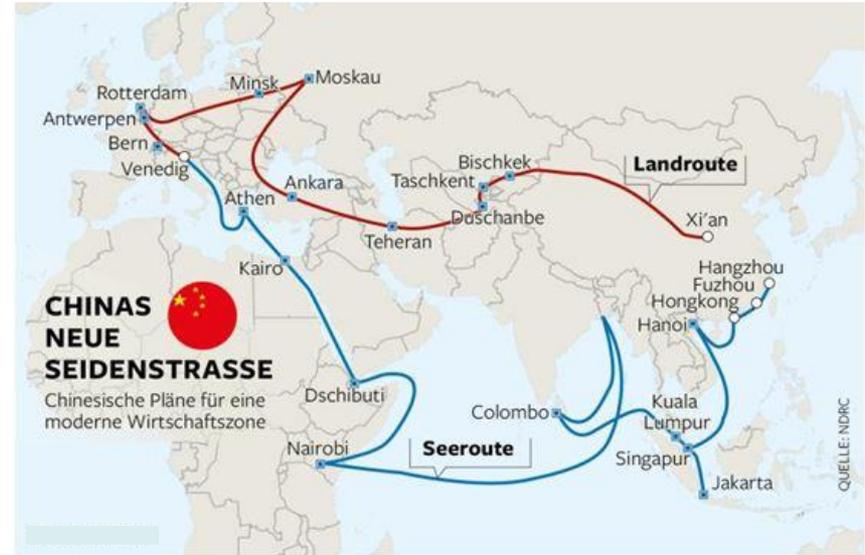
- Eurasia High-Speed Rail
- Central Asia High-Speed Rail
- Trans-Asian High-Speed Rail

## 2. Strategic Container ports:

- Pakistan’s Gwadar Port project
- Colombo Port City project in Srilanka
- Ports in Africa (Nairobi)

## 3. Communications Infrastructure

## 4. Electric Power station



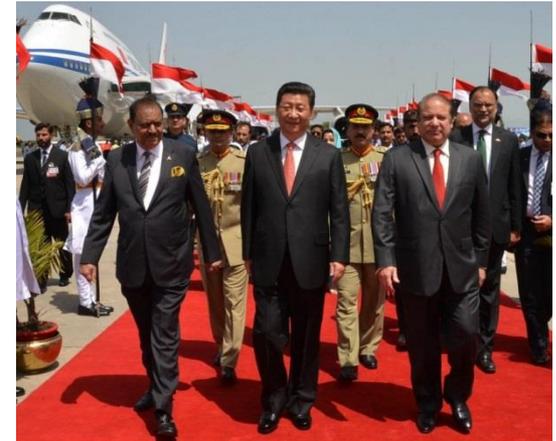
The location of Gwadar Port

# Work in progress

## The Economic and Trade Cooperation Zones

According to preliminary statistics from the Ministry of Commerce, China has established 118 overseas Economic and Trade Cooperation Zones in 50 countries, with 77 in 23 countries along the routes of the Belt and Road, which will serve as a foundation to facilitate China's Belt and Road project.

- The Economic and Trade Cooperation Zones are classified into four kinds: manufacturing, resources utilization, agricultural processing, and logistics. Up to now, 2,790 Chinese enterprises have set up operations in such zones, having invested a total of over US\$12 billion and created a production value of US\$48 billion.
- At present, the number of China's overseas enterprises is about 25,000 with overseas assets of about US\$ 3 trillion, and about one million Chinese employees working overseas.



Xi Jinping with Pakistani President and Prime Minister



Zambia-China Economic & Trade Cooperation Zone (ZCCZ)



# Work in progress

## The establishment of multilateral financial institutions

### The Asian Infrastructure Investment Bank (AIIB)

- The prospective founding members of the AIIB finalized at 57.
- The bank legally established as the Articles of Agreement take effect on December 25, 2015, commences operations on Jan 16, 2016
- China is the largest shareholders of AIIB, holding a 30.34 percent stake, its voting share is calculated at 26.06 percent.
- The AIIB is expected to lend between \$10 billion and \$15 billion a year in its initial years.



### Silk Road Fund

- The \$40-billion Silk Road Fund, sponsored by official foreign exchange reserves, China Investment Corporation, the Export-Import Bank of China, and the China Development Bank, aims to identify investment opportunities and provide financing and investment services along “Belt and Road”.
- Silk Road Fund has picked a Pakistan power project to initiate its first investment, with total amount US\$1.65 billion, following its inception in December 2014.



## Comparison of the basic situation of the multilateral financial institutions

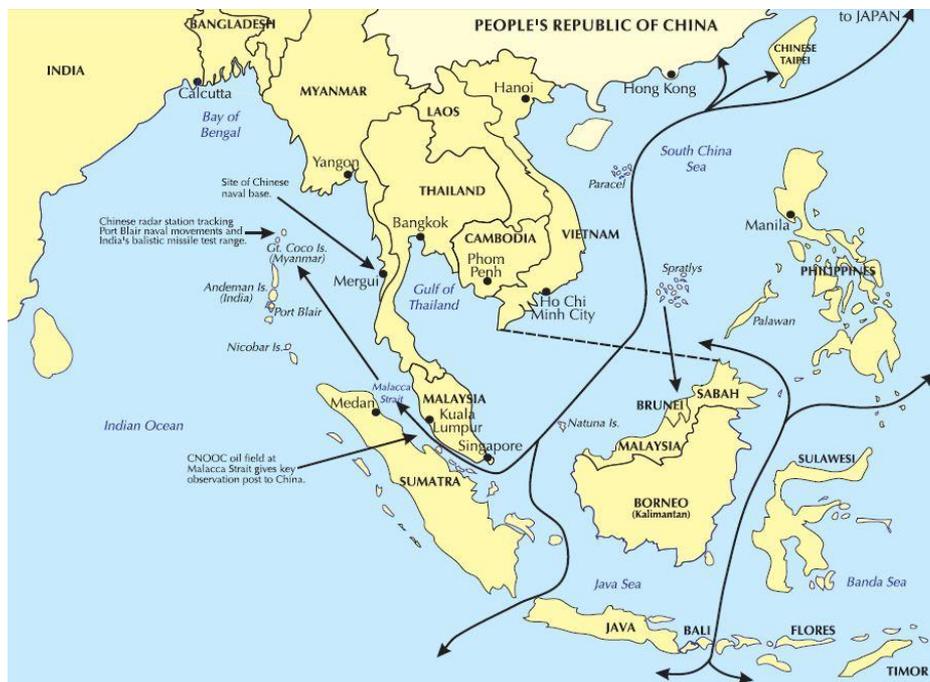
	AIIB	ADB	World Bank	IMF
Members	57 countries (Lead by China)	67 countries (Lead by USA & Japan)	188 countries (Lead by USA)	188 countries (Lead by USA & Europe)
Headquarter	Beijing, China	Manila, Philippines	Washington DC, USA	Washington DC, USA
Capital	USD100bn	USD175bn	USD223bn	USD238bn
Mission	Provide funding to the construction of infrastructure in Asia	Assist the emerging Asian countries in infrastructure development and poverty eradication	End extreme poverty and promote shared prosperity	Ensure stability in the international system and provide financial assistance to countries in need

## Impacts of Belt and Road Initiative

- **Boost world economic recovery, and regional economic growth**
- **Improve the region's infrastructure** (Building the road is the first step to become rich, Asia is estimated to need at least US\$ 6 trillion to cover its infrastructure expenditures before year 2020) , **and put in place an efficient network of land, sea and air passages**
- **Lift regional connectivity to a higher level** (including enhancing regional investment facilitation, establishing a regional network of trade and logistics)
- **enhance cultural exchanges, and promote mutual understanding and friendship among people of all countries**
- **The role of RMB** (China is expected to encourage the broader use of the RMB through contracted projects, currency exchange and trade, which will be in favor of the formation of a RMB area, or RMB bloc. In 2015 all Asian currencies weakened with Chinese Yuan, the correlation between emerging-market /Asian currencies and the Yuan has risen. Among Asian currencies, Taiwan dollar and Singapore dollar have a correlation of 0.93 with the Yuan over the past 200days, compared with near 0.5 on Aug. 10, 2015, supporting general view that Asia has become increasingly Yuan-Centric.)

## Trade and Logistics

- New Silk Road trade route will create new markets for promoting trade along the countries of the Belt and Road.
- In 2014, China's commodity trade with the countries along the Belt and Road was US\$ 1.12 trillion, accounting for 26% of China's overall trade (US\$ 4.3trillion).
- China's overall trade with the countries along the Belt and Road will increase to about US\$ 2 trillion if the 10% compound annual growth rate being achieved from 2015 to 2020.



## The Belt and Road with RMB internationalization

- The Belt and Road will drive massive investment (infrastructure, real estate and industrial investment), merchandise trade and cross-regional logistics and distribution, these activities need to be supported by funds and financing (banking loans, bonds issuance, currency trading).
  - In the long run, as the Belt and Road makes progress, China and its trade and investment partners need a stable financial and monetary environment, using RMB as the currency in trade settlement, payment and reserve can effectively avoid or reduce the foreign exchange risk related to trade and investment flows.
  - RMB is able to become an anchor currency, and be widely used in less developed countries or regions, such as Central Asia, South Asia, West Asia and North Africa.
  - RMB's wider use can speed up its process to be an international currency, and gradually form a distinctive "RMB area or The RMB bloc".
- (Historically, there are 84 Member States joining the "sterling area" at peak times)**

# Investment

**More optimistic about the growth and investment opportunities in Southeast Asia, Western Asia and Central Asia.**

**The main reasons:**

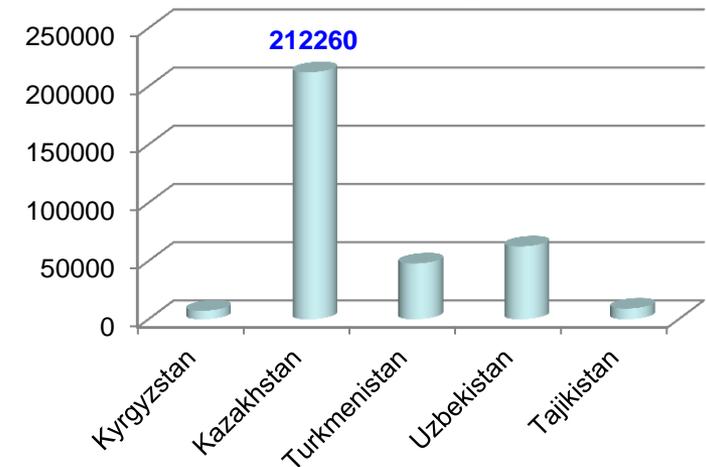
- **Location** (China's neighbors/location near China)
- **Population** (Southeast Asia, Western Asia)
- **Natural gas resources** (Central Asia, the Central Asia-China Gas Pipeline will be part of China's four strategic oil and gas transmission channels constructed by China National Petroleum Corporation.)
- **Investment or FDI environment** (Southeast Asia)

**More cost-effective projects:**

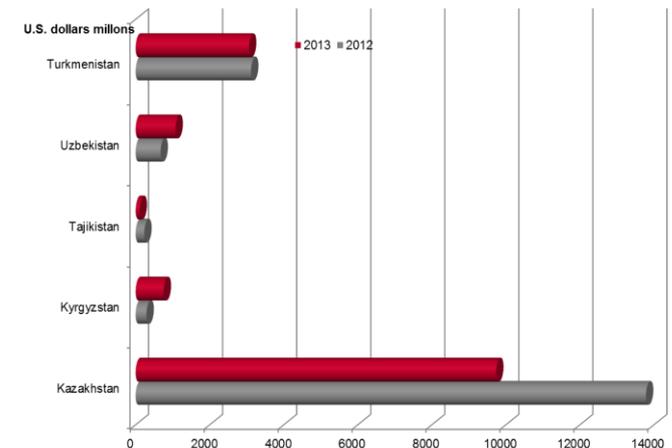
- **Electric Power Station** (Southeast Asia)
- **Container Port** (Southeast Asia)
- **High-Speed Rail** (Trans-Asian High-Speed Rail)
- **Gas Pipeline** (Central Asia)

Region	GDP , (US\$ Billion )	Population (million)
Central Asia	3,23	62.58
Southeast Asia	2,015	609.63
Western Asia	2,382	1688.61

GDP of Central Asian Countries in 2014 (millions of U.S. dollars )



2013 FDI in Central Asian Countries (UNCTAD)



## Challenge & Obstacles

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- **Political system**
- **Legal system**
- **Financial regulation** ( exchange rate, capital account control)
- **Operation** (Government effectiveness, efficient operation, project management )
- **Business model** (long - term investment cycle, credit risk management )
- **Large differences in cultural and religious backgrounds** (OBOR covers many nationalities, ethnics, speaking many languages)

# The key tools for promoting the Belt and Road

## The key tools for promoting the Belt and Road



As railways developed and expanded one of the key issues was track gauge (the distance, or width, between the inner sides of the rails) to be used. The result was the adoption throughout a large part of the world of a “standard gauge” or normal gauge of 1,435 mm or 4 ft 8 1/2 (distance between the inside edges of the rails) in allowing inter-connectivity and inter-operability. Currently approximately 60% of lines in the world are used normal gauge. Exceptions including Russia, Uzbekistan and Finland.

## Hong Kong's Strengths and experience in infrastructure financing

### Main financing mode of Belt and Road infrastructure project:

- **Financing through multilateral financial institutions (AIIB, Silk Road Fund)**
- **Direct Public Financing**
- **Indirect Public Financing**
- **Private Sector Financing**
- **The Public-Private Partnership (PPP)**

(PPP will form a long-term cooperative relationship through a partnership of government and private sector companies, compared to the Build—Operate—Transfer (BOT) and Build-Transfer (BT) mode, is suitable for long-term investment.)

- **Hong Kong financial institutes have wealth of experience in equity financing, bond financing, project financing and syndicated loans.**
- **278 publicly-listed infrastructure companies in Hong Kong: HK\$ 6.6 trillion market capitalization; 66 companies out of 278 have a market capitalization of HK\$ 10 billion.**
- **HK\$ 368.3 billion bank loans to infrastructure industries: transportation and transport equipment, electricity and gas fuel as well as electronic communication.**

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