



# BELT AND ROAD GLOBAL FORUM 一帶一路國際聯盟

**March 2018**  
News and updates



Secretariat:



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**haymarket**

# Welcome message

A warm welcome to the first issue of the Belt and Road Global Forum newsletter – a platform for sharing the latest insights and updates on the Belt and Road Initiative, and for facilitating business opportunities through Hong Kong

Established with the support of the Hong Kong Trade Development Council (HKTDC), the Belt and Road Global Forum is a network of organisations and companies from Hong Kong, the Chinese mainland and around the world, which share an interest in the Belt and Road Initiative. The forum aims to promote interaction, information sharing and business collaboration among member organisations to create opportunities.

Since the Belt and Road Initiative was introduced by China's President Xi Jinping in 2013, many from the public and private sector have been keen to find out what it means, and more importantly, how this vision can be turned into tangible business opportunities.

Given the scope and magnitude of the Belt and Road, it is important to assess the potential risk and return of participating in its projects; it is even more important to find the right partners to develop these opportunities together.

It is with this in mind that the Belt and Road Global Forum has been set up. We hope the Global Forum can give you information to make informed



decisions, and help you find the right partners to navigate this vast landscape together.

Once you have made the connections and done your research, Hong Kong is the ideal platform on which to conduct your international business for Belt and Road projects, whether your members are investors, project owners, entrepreneurs, professional and research experts.

Not only is Hong Kong the two-way international gateway for China, it is also a global city with worldwide connections and centuries of experience doing business with the world.

Apart from being the secretariat of the Belt and Road Global Forum, the HKTDC also hosts a wide range of Belt and Road events, such as the annual

Belt and Road Summit in Hong Kong (to be held on June 28 this year) and specialised investment missions to Belt and Road countries. The HKTDC also operates a digital information resource ([www.beltandroad.hk](http://www.beltandroad.hk)) that has investment project listings, news and insights and a directory of Hong Kong-based professional service providers.

With the establishment of the Belt and Road Global Forum, we hope the exchange among members will foster deeper and wider collaboration, generating more opportunities for all.

**Vincent HS Lo**

*Chairman, HKTDC Belt and Road Committee  
Chairman, Hong Kong Trade Development Council*



# Making connections, opening doors

Andrew Weir, Regional Senior Partner and Global Chairman of Real Estate and Construction, KPMG, explains why Hong Kong firms are ideally placed to guide international investment in Belt and Road projects

**H**ong Kong's long-established reputation as the gateway to and from the Chinese mainland means it's ideally placed to facilitate international investment in Belt and Road opportunities, according to Andrew Weir, Regional Senior Partner and Global Chairman of Real Estate and Construction, KPMG. He is also Convenor of the new International Market Working Group of the Hong Kong Trade Development Council's (HKTDC) Belt and Road Committee.

The group is one of five recently set up by the HKTDC to focus specifically on driving engagement with global investors, and to highlight Hong Kong's natural advantages which, Weir explains, go well beyond the city's global reputation as a financial centre. Weir believes Hong Kong is well placed to become the offshore service centre for Belt and Road opportunities. Its key advantages include human capital, expertise, professional services, transport and logistics, and the rule of law.

With more than 25 years of international and regional experience, Weir is confident about his role leading the new International Market Working Group's efforts to encourage global connectivity and deal matching as well as affirming Hong Kong's reputation as the region's services hub when it comes to sealing deals connected to Belt and Road development.

Aside from promoting Hong Kong attributes to new investors, the group will encourage international cooperation



and help local companies capitalise on opportunities created by this global initiative.

## TEAM HONG KONG

In his role as KPMG's Regional Senior Partner and Global Chairman of Real Estate and Construction, Weir said Hong Kong's status as one of the world's major global financial centres means it is already well placed when it comes to infrastructure financing.

"Hong Kong has so many advantages, it has wonderful examples of public-private partnerships, has design and quality controls and is clean and green," Weir said.

Weir feels the Belt and Road Initiative is at a turning point. He believes the private sector, typically banks, conglomerates and consortiums are getting increasingly interested in opportunities in the region and in ASEAN countries. He said more enlightened firms, including private equity, are also taking a look at Belt and Road opportunities.

Weir said firms in Hong Kong can help international investors by providing invaluable local advice about entering or exploring specific Belt and Road-related sectors. This includes introductions to owners, projects or specific companies, advice about acquisition strategy, assistance with capital raising (e.g. for IPOs), modelling of investments, and acquisition of financial and commercial projects.

Here in Hong Kong, KPMG has already partnered with and supported a diverse range of investors seeking to explore Belt and Road opportunities.

These include working with Standard Chartered, assisting China Everbright International Group's aims to further its global reach, and exploring returns for Blackstone, one of the world's leading investment firms.

He said KPMG also works with clients to facilitate tax and acquisition structures, provides advice about deals, issues and new company structures, as well as financial guidance and strategic advice about market entry.

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## GOING BEYOND INFRASTRUCTURE

He explains that he sees the HKTDC Belt and Road International Market Working Group's role taking a further step, going beyond the Initiative's initial focus on infrastructure, to focusing on connectivity. The group will actively educate international investors, to showcase Hong Kong's potential as a business and service hub, and to encourage investors to look at the region's potential with fresh eyes.

"The working group needs to position the Hong Kong story as a centre of excellence for doing business. As a gateway to the region, Hong Kong has a natural position and tradition of trade. The challenge for the working group will be to open up discussion in different pockets of demand."

## JOINT BENEFITS

Growing connectivity and deal matching with international clients is also a two-way street.

Increasingly, it is about helping a diverse range of business partnerships form joint ventures and strategic alliances that share a specific idea or goal.

Weir views this form of coming together of large organisations as a means by which they can pool their resources and share ideas for a single specific project, taking what he calls an "asset-light approach". Such an arrangement creates obvious cost savings for both entities while keeping the companies entirely separate. This form of cooperation is particularly suited to technology and clean energy. One example Weir mentioned where this has been successful is an

engineering alliance between a Chinese enterprise and a German clean energy company.

## LOOKING AHEAD

The HKTDC can help investors with problem-solving and market entry as well as facilitating professional services to provide strategic advice to global investors about ways to access to the broad range of projects that fall into the sweeping Belt and Road investment radius.

Weir explains the next step for the HKTDC's International Market Working Group will be to create a Belt and Road Global Forum linking global chambers of commerce and business groups, a move that will serve to position Hong Kong as a facilitator and centre of excellence for the commercialisation of Belt and Road opportunities.

# Belt and Road: perception versus reality

Research conducted by FinanceAsia provides an interesting insight into the understanding of what the Belt and Road Initiative really is. In many cases, those impressions may not fit with reality

**H**ailed by Chinese President Xi Jinping as project of the century, the plan fits into his bigger narrative that China will uphold the notion of globalisation across the developed world.

The plan, which will ease the infrastructure needs of developing countries, will provide a new engine of growth and drive prosperity of the countries along the Belt and Road.

To test the level of appetite from investors and corporation operating in Asia, FinanceAsia surveyed its readers

on their expectations for the Belt and Road Initiative.

The survey discovered that sometimes the perception of what the Initiative is differs from the reality. For example, senior executives believe the majority of Belt and Road projects will occur in Central Asia. This will not be the case. Southeast Asia will be (and already is) the major recipient of investment.

We also found there is concern about how infrastructure projects in developing countries will be funded. This is a natural anxiety. According to Asian Development Bank, the emerging Asia and the Pacific Region is expected to need about US \$26 trillion of infrastructure investment between now and 2030. That amounts to US \$1.7 trillion per year, more than twice of what the ADB had forecast in 2009.

About 81% of the respondents expect Chinese capital will lead funding those infrastructure projects, according to the survey, namely policy lenders such as China Development Bank and the Export-Import Bank of China, as well

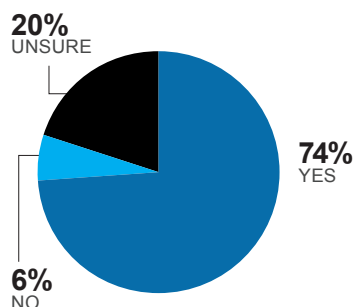
as state-owned enterprises.

During his speech at the opening of the Belt and Road Forum for International Cooperation in May 2017, President Xi promised extra funding to bring the total funds pledged for the Initiative to US \$113 billion, and urged countries across the globe to join hands with him in pursuit of globalisation.

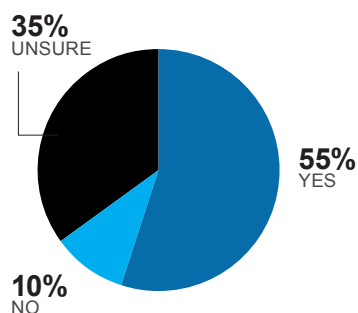
The Belt and Road Initiative will require a broad spectrum of international and regional investors to put their capital to work in long-term projects through bank loans and bond markets. According to the survey, 70% of the respondents said the adoption of public-private partnerships will be the key funding model.

A total of 130 responses were collected for the research, which was carried out in mid-July for five days. Public-services and corporate sector represented 38.5% and 28.5% of the total feedback, with the remaining responses from banks (20%), investors (7.7%), law firms (2.3%) and others (3.1%).

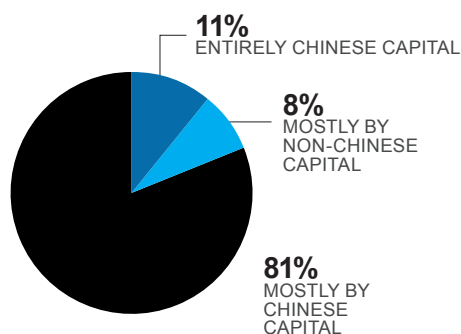
### WILL THE BELT AND ROAD INITIATIVE INCREASE TRADE IN YOUR COUNTRY?



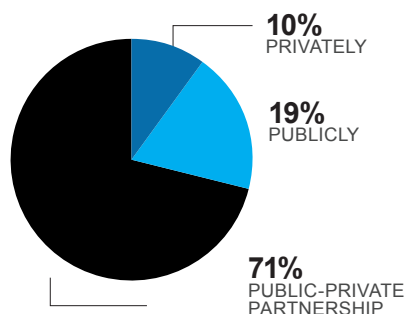
### WILL THE INITIATIVE INCREASE JOBS IN YOUR COUNTRY?



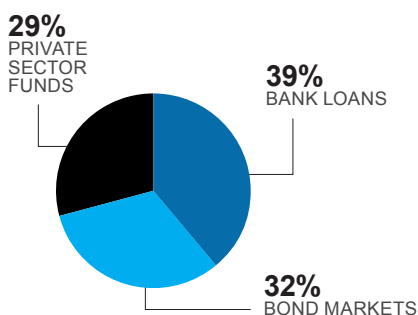
### WHO WILL FINANCE BELT AND ROAD PROJECTS?



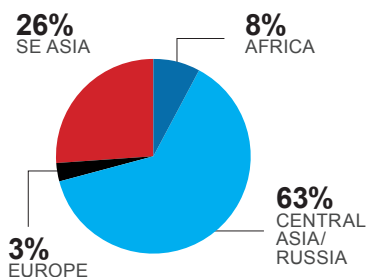
### HOW WILL BELT AND ROAD PROJECTS MOSTLY BE FINANCED?



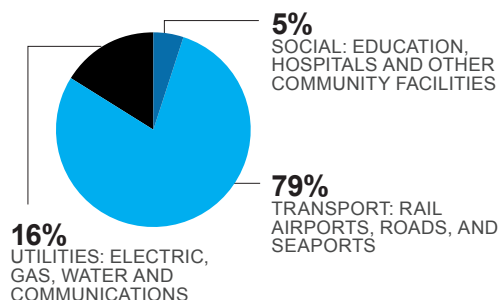
### HOW WILL FOREIGN CAPITAL BE DEPLOYED?



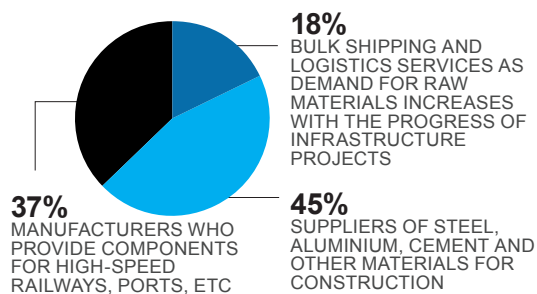
### WHICH REGIONS WILL BENEFIT FROM THE INITIATIVE?



### WHICH BROAD INDUSTRY SEGMENT WILL BENEFIT OVER THE 5 YEARS?



### WHICH SEGMENT WILL BENEFIT OVER THE NEXT 2 YEARS?



*This survey was originally published in FinanceAsia and edited for the Belt and Road Global Forum newsletter.*

## Victor Chu: find the value and get the return

Hong Kong's success with Belt and Road investment opportunities lies with inclusion, efficiency, and competitiveness, says Victor LL Chu, Chairman and CEO of First Eastern Investment Group

**M**ore than three decades ago, the entrepreneurial First Eastern Investment Group forged a path for Hong Kong companies to invest in the Chinese mainland. Now this private equity and venture capital firm helps mainland businesses explore opportunities for global ventures via the Belt and Road Initiative.

Hard-earned lessons and experiences from the past are today easing the way forward for mainland companies seeking partners and opportunities in international and emerging markets, the group's Chairman and CEO Victor Chu said.

China's plan to promote global trade via the Belt and Road Initiative's land and sea routes includes massive infrastructure projects such as the US \$32billion Gwadar Port Free Zone in Pakistan, financed through a Chinese government concessional loan.

Despite the vast amounts currently under negotiation for infrastructure projects in Thailand, Laos, Cambodia, Indonesia, Sri Lanka, Pakistan, Kenya, Ethiopia, Belarus, and Europe, these projects all involve Chinese government funds and local government partnerships.

What's lacking from significant projects and proposals is private equity. Although many private investors are interested in taking advantage of Belt and Road opportunities, at this early stage of the Initiative's development many are holding back, seeking more information or models for the commercial viability of such projects which still need to be developed.



"The Belt and Road Initiative is huge, with more than 65 countries signed on. It's a 100-year programme. Right now the private sector is still quite wary because we are really just on the ground floor. The really exciting projects involving public-private partnerships or build-operate-transfer projects will probably take another 10 years," Chu said.

"As an investor, if I was to consider investing in a Belt and Road project at this point of time, I would specifically target services and people providing legal, accounting, investment consulting, logistics and aviation businesses, given many frontier economy still lack land transport networks," he said.

### DEALS WITH A SOCIAL IMPACT

First Eastern Investment Group has a unique approach to the Belt and Road

Initiative and infrastructure.

"The Belt and Road is part of our China strategy. We look at infrastructure not just because it's Belt and Road related but because we are always looking for an opportunity for us to add value over and above getting a reasonable economic return. We look where we can make a social impact. Therefore, infrastructure, environmental energy efficiency and renewable energy are things that naturally come into our radar."

Specific ventures First Eastern Investment supports include Sustainable Development Capital, one of the leading investors in energy efficient projects in the UK and Europe, six energy efficiency projects that are part of a scheme sponsored by the Singapore Economic Development Board, and a mega solar project in

Japan. It also funds renewable and sustainable energy development in Europe, Japan and Singapore.

More recently, the group has sought to invest in innovative fintech companies in Hong Kong and the Chinese mainland. Other projects include Japan's first low-cost airline Peach that began operating in 2012. The firm remains the budget carrier's largest shareholder. It's also involved in the growth area of outbound tourism from the mainland.

"Social impact is important to us. Our overall return needs to include both economic and social returns. We are able to do that because we are predominately a family-run capital and investment firm. My generation looked for the best returns but the new generation is a lot more enlightened and wants inclusion, social justice and sustainability as well as attractive returns."

#### **BENEFITS FOR HONG KONG**

Chu sees the Belt and Road Initiative as an opportunity for Hong Kong to promote itself as efficient, cost effective and competitive.



**Victor Chu, Chairman and CEO of First Eastern Investment Group**

Creating partnerships is vital for building Hong Kong's reputation and Chu believes that's one area where Hong Kong is already ahead of the game with most of its regional competitors still focused on ASEAN.

He said Hong Kong has many strategic advantages as an international finance centre. Its legal system is ideally suited to handle cross-border disputes and arbitration. Much of the preliminary feasibility

analysis and packaging needed to take advantage of Belt and Road opportunities, such as raising seed capital, will involve local, regional and international professionals familiar with Hong Kong.

Most of this business will naturally flow towards large service providers but Chu sees the challenge ahead as one of inclusiveness, of making sure small- and medium-sized enterprises are encouraged to participate in Belt and Road opportunities.

"We are at the forefront of this Initiative. Being part of China, and as its international capital market, Hong Kong naturally has a special place but we need to be imaginative about how this programme can help smaller local service companies. How can we find a way that is economic and value driven enough for these companies to go to frontier economies where projects may be good?"

"We need to be practical and patient and take it step by step and we need to spread the word that Hong Kong is the place to be for the Belt and Road," Chu said.



# The bigger trade picture

Insights from a recent report by ANZ on how the Belt and Road Initiative complements regional free trade agreements by improving local infrastructure while encouraging direct foreign investment and local jobs

Since the Belt and Road Initiative was announced in 2013, it has gained momentum primarily through massive infrastructure deals with countries along the Initiative's land and sea routes.

By the end of 2017, 68 countries had signed Belt and Road cooperation agreements with China. Such rapid international adoption of this Initiative is likely to create impressive investment opportunities in roads, railways, sea ports and trade channels.

According to HSBC, Belt and Road infrastructure for Asia will cost US \$1.7 trillion each year, through to 2030. AIIB, the Silk Road Fund and the New Development Bank have already contributed around US \$1.1 trillion for infrastructure projects along the routes.

While it may appear that other countries could miss out on trade and investment opportunities, a recent report by ANZ indicates this is certainly not the case since the Initiative is open ended.

## BEYOND INFRASTRUCTURE

"For countries outside the Belt and Road routes, there are obvious benefits from a global supply chain perspective," explained Betty Wang, ANZ's senior China economist and co-author of *China's Belt and Road Primer: Five Myths about the Initiative*.

For example, Australia is a commodity export country, so if the region's infrastructure is lifted by the Initiative, there should be more opportunities for commodities to be traded. Regional

financial hubs with technology and consultancy services with expertise in this sector could also get involved.

Rather than dilute or challenge existing free trade agreements (FTAs), Wang said the Initiative complements regional FTAs by improving local infrastructure while encouraging direct foreign investment and local jobs.

One common misconception among ANZ's commercial banking clients and foreign investors not familiar with

China's efforts to promote globalisation and regional conductivity is the belief that the Initiative's real focus is infrastructure.

"For our commercial clients, investment is the most important factor. China is putting a lot of effort into Belt and Road countries and we do see genuine demand coming from these countries with large infrastructure construction," said Wang. Among Southeast Asian nations, Cambodia,



Thailand, Laos and Indonesia were quick to sign agreements with China to develop major infrastructure projects including railways and roads worth around US \$25.5 billion.

“When the Belt and Road Initiative was first announced we saw a lot of resistance in the form of political and economic concerns but now countries like Pakistan, Indonesia and even India are getting involved as people become more familiar with the Initiative and see it’s not only about infrastructure but also trade flows, financial cooperation, connectivity and policy coordination with the rest of the world,” said Wang.

### PLAY TO HONG KONG’S STRENGTHS

Hong Kong has much to offer those interested in Belt and Road opportunities through its financial services, rule of law, regulatory

regime, and location within the Guangdong-Hong Kong-Macau Bay Area.

As a regional financial hub with a very active capital market, it is well placed for companies with infrastructure financing needs such as debt raising and bond issuing. Local banking services provide investors with trade finance and financial market products as well as risk management and retail banking. According to ANZ, Hong Kong is well ahead of the Chinese mainland in legal and consulting services and ready to provide professional services to companies lacking experience in operating across different countries and international legal systems.

In Wang’s opinion both the Belt and Road Initiative and the internationalisation of the renminbi are moving in the same direction with

Hong Kong taking a leading role in developing the offshore renminbi market, FX hedging, and cross-border renminbi settlements. This is particularly significant given that by 2020 it is expected that 50% of the Chinese mainland’s foreign trade will be settled using renminbi.

According to ANZ’s report, local Belt and Road-driven infrastructure investment is likely to help drive global commodity trade as demand for raw materials like oil, cement and steel increases. While infrastructure certainly takes centre stage at this point in time, the report predicts the Initiative is creating additional business opportunities outside of infrastructure and infrastructure financing. As Belt and Road-related investment grows, so will trade and financial cooperation, and even tourism as economic and cultural connectivity improves.

# Belt and Road: working with the world

Infrastructure project collaboration across borders will yield mutual benefits. However, finding ways to work together will be vital for its success

Since it was announced in 2013, the Belt and Road Initiative has promised an infrastructure bonanza for countries across Southeast Asia, Central Asia and beyond. The vast programme offers ambitious road, pipeline, telecoms, rail and port projects that aim to super-charge intra-regional connectivity and facilitate more commerce between China, the rest of Eurasia, and Africa. In the shorter term it also promises a construction boom.

China has spared no effort in laying the groundwork. It has poured resources into the new Asian Infrastructure Investment Bank, the Silk Road Fund, and the Shanghai Cooperation Organisation, and has inked trade and investment deals with numerous countries along the Initiative's routes.

While there is no official data on the total number and value of expected Belt and Road projects, China Development Bank has already said it has reserved \$890 billion for over 900 projects. The Export-Import Bank of China also said in 2016 that it had started financing over 1,000 projects in 49 Belt and Road countries.

Some investments are under way in East Africa and Southeast Europe, but most existing projects are concentrated in South and Central Asia and, notably, in Southeast Asia, which is lapping up the chance to fund its needs.

So how can global investors profit from this platform, what are the potential pitfalls, and how can they be avoided?

Belt and Road projects are no different to other Chinese mainland projects but they are fundamentally different to, for example, US-led ones. More international operators prefer a



document first, which clearly states scope, obligations, process, legal frameworks etc. In certain parts of Asia relationships matter first, detail and contracts later – if anything goes wrong, the parties talk to resolve it.

## CAUTIONARY TALES

Several recent projects in Europe and Asia suggest international players need to build effective partnerships.

In 2013 a deal was signed between China, Serbia, and Hungary to build a 350km high-speed rail line between

Belgrade and Budapest — the first part of a broader project to connect the (China-run) Piraeus port in Greece with the heart of Europe.

By late last year it seemed the project was finally set to kick off – but the fact that EU member countries must publicly tender large-scale infrastructure projects was somehow overlooked. Hungary could not grant the project to the China Railway International Corporation, and in February 2017, the project was halted for review by Brussels.

“Working government to government has been okay in much of Asia,” Tony Regan, an energy expert and Managing Director at Data Fusion, explained. “But increasingly negotiating a large infrastructure project requires aligning multiple parties – politicians, financial institutions, NGOs.”

Getting the right people, which results in a mix of languages, skills and, above all, cultural attitudes, which requires far more supervision to ensure good outcomes is essential. Places such as Hong Kong play an important hand in this context. As a hub for international investment and financial services, it can facilitate long-term partnerships between investors and project owners.

#### **PATIENCE PLEASE**

Still, potential investors troubled by prior missteps in Europe and Southeast

Asia also know that Belt and Road is here to stay and that the value of patient collaboration goes well beyond today’s project.

Investor patience is critical. As the implementation of Belt and Road, and challenges related to it, become clearer, there will certainly be new opportunities for international firms to engage with partners seeking to mitigate local risk.

It follows that those able to demonstrate a strong track record in countries affected would be best placed to become powerful partners to Chinese mainland investors.

Encouragingly, Tony Segadelli, Managing Director of power engineering consultancy firm Owl Energy, sees evidence that countries such as China are also beginning to recognise the importance of greater rigour in contracting and accept that they have to work more to international models of

governance, especially outside Asia.

Expect challenges in terms of compliance, operating standards, and work practices, be wary of departures from code or from plan, driven by ignorance or by a desire to cut costs and a poor understanding of the consequences, and invest in project management, advised Marcus Hand, Editor of Seatrade Maritime News and global shipping expert.

“There is a clear reputational risk in being associated with projects which fall foul of these issues – but, on the other hand, there is an obvious opportunity to bring new ways of thinking to your partnership with the Chinese, if you have the right relationship,” Hand said.

*This feature was originally published in FinanceAsia and edited for the Belt and Road Global Forum newsletter.*



# HKTDC Belt and Road Committee officially launched

Working groups to strengthen engagement with international, Chinese mainland, ASEAN markets and various sectors

The Hong Kong Trade Development Council (HKTDC) announced the formation of the HKTDC Belt and Road Committee today. The Committee, comprising leading figures from various sectors,

aims to establish Hong Kong's position as a commercial and information hub for the Belt and Road by promoting and facilitating investment and business opportunities. Through its five working groups targeting different markets and business sectors, the Committee will implement a comprehensive and targeted programme to engage various sectors to participate in Belt and Road development and share in the potential benefits presented by the Initiative.

Five working groups will be set up under the HKTDC Belt and Road

Committee with business and professional leaders from relevant sectors acting as convenors. The working groups will enhance the promotion of Hong Kong's advantages as a commercial and services hub for the Belt and Road to international, Chinese mainland and ASEAN markets, and raise awareness and increase participation of different sectors, including professional services, SMEs, the younger generation, as well as the local and international community at large in the Belt and Road Initiative.

Working group	International Market	Chinese Mainland & ASEAN	Professional Services	SMEs & Younger Generation	PR and Communications
Convenor	<b>Mr Andrew Weir</b> Regional Senior Partner and Global Chairman of Real Estate and Construction, KPMG	<b>Dr Jonathan KS Choi</b> Chairman, Sunwah Group	<b>Mr Nicholas Ho</b> Deputy Managing Director, hpa	<b>Mr Jason Chiu</b> CEO, cherrypicks Ltd	<b>Prof Frederick Ma</b> Chairman, MTR Corporation Ltd
Areas of focus	To promote Belt and Road opportunities to global investors, project owners and business professionals; to help Hong Kong companies capitalise on Belt and Road opportunities in the international market	To engage Hong Kong businesses (including services providers) to build sector-to-sector connections in ASEAN; to foster cooperation between Hong Kong companies and investors from Guangdong and other mainland provinces and cities	To facilitate the participation of Hong Kong professional services industries in Belt and Road projects through outbound missions, networking-building and the HKTDC Belt and Road Portal; to showcase Hong Kong's professional services advantages to global business communities	To promote and foster participation of young professionals in the Belt and Road Initiative; to help start-ups and SMEs expand their business to Belt and Road markets	To raise awareness and understanding of the Belt and Road Initiative among Hong Kong businesses and the general public; to highlight Hong Kong's role and advantages as a commercial hub for the Belt and Road to the international business audience