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One Belt One Road - OBOR

Where Geopolitics Meets Business

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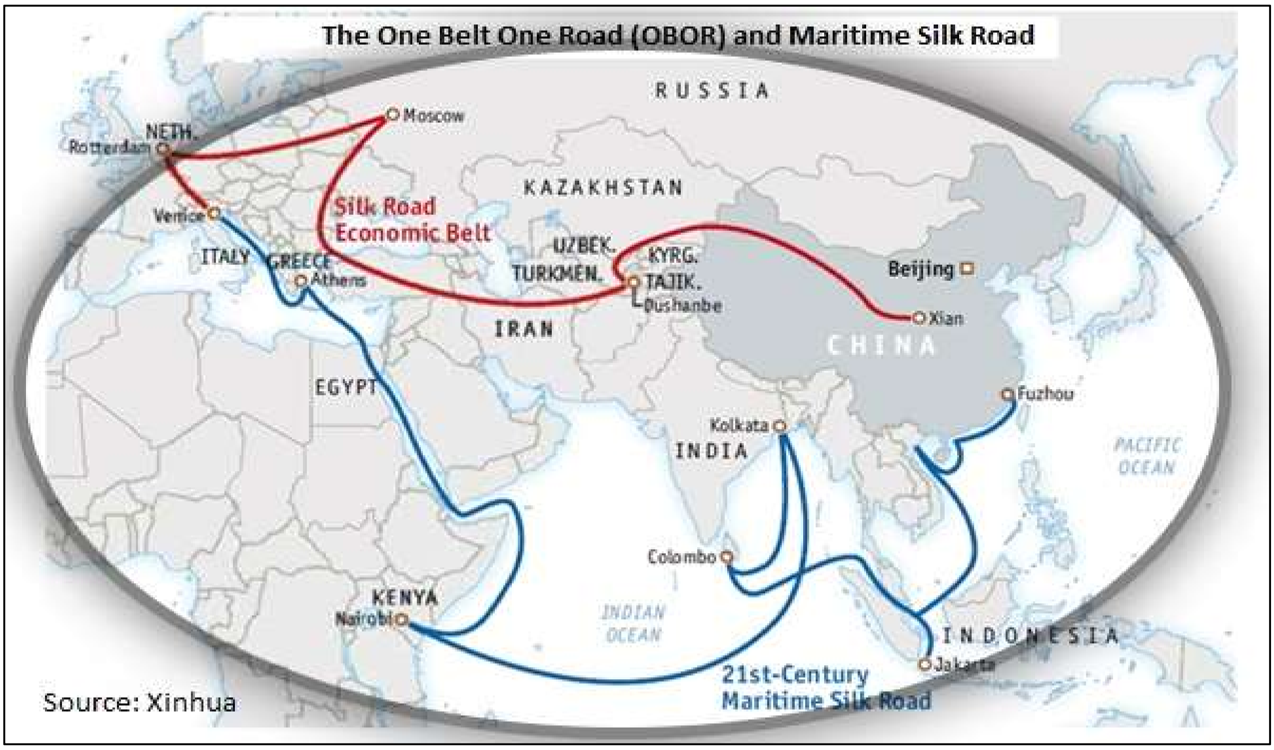
Introduction

The New Silk Road is the label applied to the emerging network of mega-infrastructure projects, enhanced transportation routes, and economic and energy corridors that are designed to increase connectivity between countries from China to Europe -- spanning 65 nations, 65% of the world's population, and 40% of the planet's total GDP.



What started out as little more than a dreamy concept infused with an unlimited supply of soft power, the New Silk Road is now physically rising up from the deserts, borderlands, and coastlines of Eurasia. This new trans-continental economic grid is expected to generate over $2.5 trillion worth of trade each year within the coming decade, and new opportunities for investment are likewise beginning to arise. It would be foolhardy to ignore the geopolitical machinations bound up with the roll out of OBOR but it would be equally unwise for businesses to turn their back on the wide array of opportunities opened up by what has been called the new Silk Road.

The New Silk Road endeavour is spearheaded by big governments and big international development banks. However, without investment from the private sector this project is little more than a naked framework of new highways and rail lines, vacant SEZs and under populated new cities. The resources required to develop OBOR are vast, with estimates between $2 trillion and $3 trillion per year.

Opportunities for private investment are starting to open up, as more profit-driven companies are jumping into the fray as this trans-continental network shows signs of coming to life.

A few big players in the OBOR arena:

China COSCO Holdings Co Ltd

China Ocean Shipping Company (COSCO) has been one of the biggest players along China's Belt and Road, having taken control of Piraeus port in Greece, leading a consortium with China Merchants Port Holdings to purchase 65% of the Kumport terminal in Turkey, partnering with Vale to ship 16 million tons of iron ore per year, and signing an MOU to take a 49% share of the strategic Khorgos Gateway dry port in Kazakhstan.

After operating Pier II of Greece's Piraeus port since 2009, COSCO finalized a deal to purchase a 51% share of the port in August of 2016. Over the next five years, this share is expected to increase to 67%.

COSCO currently owns the world's fourth largest container fleet and is projected to become the top terminal operator in the world by 2020.

China Merchants Port Holdings

China Merchants Port Holdings, the largest public port operator in China, has been actively extending its reach down the tendrils of the Belt and Road. With investments in 29 ports around the world, the shipping giant is planning to move deeper into Southeast Asia, Turkey, Africa, the Baltics, and Russia over the next three years.

"Our development plan mirrors One Belt One Road and this is the primary driver of our expansion strategy," their managing director, Bai Jingtao, recently stated.

Some major international investments of China Merchants Port Holdings are the aforementioned consortium with COSCO which has a controlling stake in Turkey's Kumport terminal as well as the building of a new port at Bagamoyo in Tanzania, which is vying to become the largest port in Africa upon completion.

China Merchants Port Holdings also maintains key investments in Sri Lanka, a key piece of China's Maritime Silk Road endeavour. Colombo's South Container Terminal is currently being run by China Merchants as part of a 35-year build-operate-transfer arrangement and 80% of the highly controversial Hambantota deep sea port is stated to be leased to the Chinese shipping giant for 99 years. However, the later deal looks as if it may be derailed — or at the very least restructured — due to public demonstrations and political disarray.

China Railway Group (CREC) and China Railway Construction Corporation (CRCC)

China Railway Group (CREC) and China Railway Construction Corporation (CRCC) are two of China's heavy hitters when it comes to Belt and Road construction and other development projects. According to ENR, CREC currently ranks second out of the top 250 global contractors, while CRCC ranks third. Both companies engage in a diverse set of endeavours around the world that range from building rail lines, roads, bridges, and other core pieces of transportation infrastructure to developing property and operating mines.

Last year, Moody's estimated that China Railway Group will see their overseas revenue grow to 7-8% of their total earnings within three years, which will contribute to a projected annual revenue growth of 3-4%.

Meanwhile, China Railway Construction Corporation currently has 111 projects underway in 37 countries along the Belt and Road that are worth more than $15 billion combined. The company also recently signed a deal to build a $12 billion rail line in Nigeria, inked an MOU with Thailand for a new railway, is currently working out the details with India for a high-speed rail line that will stretch from Delhi to Chennai, as well as gunning for the proposed $60 billion Moscow to Beijing high-speed rail line.

DP World

The Jebel Ali Free Zone (JAFZA) in Dubai is unequivocally the model that many of the large New Silk Road projects are aiming to emulate. It is therefore no coincidence that DP World — the company that developed JAFZA — is incredibly active along the various new economic corridors that are rising up between China and Europe.

DP World is currently the fifth-ranked port operator in the world, running a network of 77 sea and inland terminals in 40 countries on six continents— many of which fall right along the path of the New Silk Road, including the Khorgos Eastern Gate and Aktau Western Gate ports/SEZs in Kazakhstan and the New Port of Baku's SEZ in Azerbaijan.

"We have ports along the [OBOR] route and are working to expand those at the moment," DP World's CEO Sultan Ahmed Bin Sulayem recently stated.

With the backing of DP World, the oft-stated claims of the architects of the New Silk Road that they are "building a new Dubai" take on new significance.

DHL

"Making the Belt and Road accessible for business" may as well be the slogan of DHL in regards to their New Silk Road activities since 2010. The German freight forwarder has been very active in opening up or utilizing new intermodal transportation routes which span across Eurasia, including multiple China-Europe rail lines, the new Southern rail corridor which connects China with Turkey, the linking of Japan, Korea, and Taiwan into the Silk Road Economic Belt, as well as an impending new rail terminal on the Poland / Belarus border.

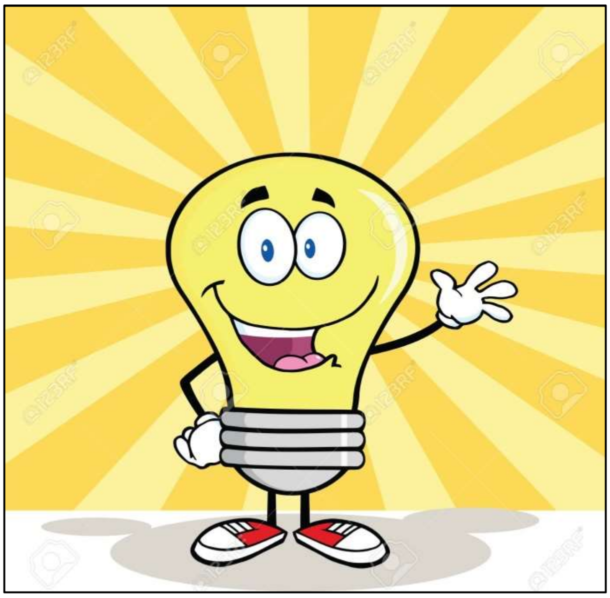
DHL claims that their combinations of sea, rail, road, and air transportation methods can reduce transport costs six-fold while reducing carbon emissions by 90% when compared with air freight.

HP

While much of the talk about the rapidly growing network of China-Europe direct cargo trains has been centred on the efforts of the Chinese government, these trains were actually first started by an American company: HP.

After moving a large amount of their production from coastal Shenzhen to inland Chongqing, HP found themselves in a logistical conundrum: will they ship their products east halfway across China to the coast just to ship them west again to Europe? Will they send everything via costly air freight? Or will they come up with a new solution?

HP's director of global logistics, Ronald Kleijwegt, proposed that new solution: rail. After experimenting with China-Europe direct cargo trains with Hon Hai Foxconn throughout the 2000s, he came to HP in 2009 with a plan to revolutionize a form of transportation that at the time was "perceived as something for old, fat people." After three years of working out the logistical, political, and customs kinks, Kleijwegt had what he was after: a regular rail service from Chongqing in China to Duisburg in Germany that could make the trip in two weeks.



General Electric

"Energy is going to be where a lot of action is in the short and mid-term," GE's Vice Chairman John Rice said at the end of last year in regards to New Silk Road development.

This perspective concurs with the view from the ground, as additional energy capacity is often said to be one of the network's essential needs — especially in less-developed countries along the routes, such as Pakistan and Bangladesh. The building of new ports, SEZs, and transportation infrastructure logically requires more energy, which opens up new markets for energy providers such as GE.

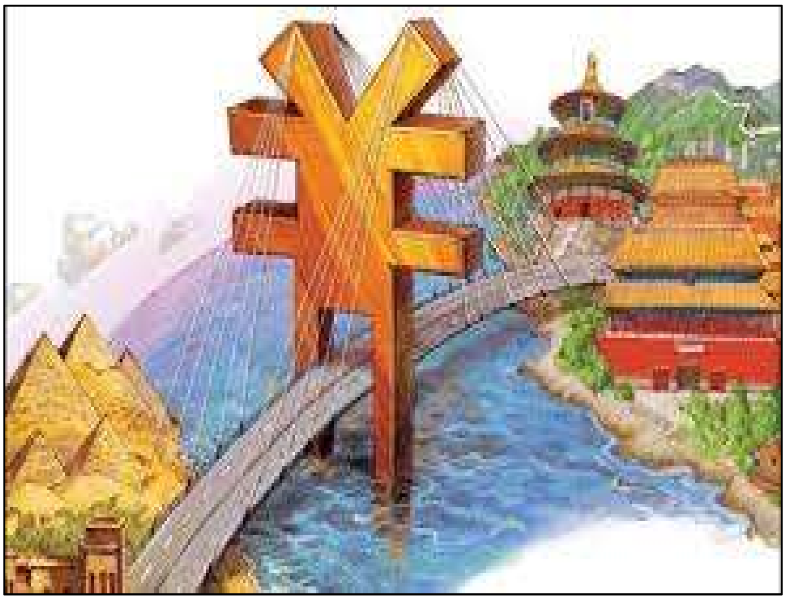
According to their vice chairman, GE hopes that the New Silk Road will boost their third-party country sales from $1 billion to $10 billion per year, as the corporation seeks enhanced synergy with Chinese companies that are operating along the various routes.

Financing

Currently, the policy banks that would be involved in the financing of belt-road projects are China Development Bank and Export-Import Bank of China. Belt-road investments could also turn to three special financial institutions initiated by China. These institutions are:

Silk Road Infrastructure Fund

Launched in February 2014, this China-led US$40bil (RM173bil) Silk Road Infrastructure Fund invests in OBOR infrastructure projects. The fund is capitalised mainly by China's forex reserves and is intended to be managed like China's sovereign wealth fund.



Asian Infra Investment Bank (AIIB)

Founded in October 2014, the AIIB aspires to be a global development bank with 21 Asian member countries (China, India, Thailand, Malaysia, Singapore, the Philippines, Pakistan, Bangladesh, Brunei, Cambodia, Kazakhstan, Kuwait, Laos, Myanmar, Mongolia, Nepal, Oman, Qatar, Sri Lanka, Uzbekistan and Vietnam). It has a registered capital of US$100bil (RM434bil).

New Development Bank (NDB)

The NDB is a multilateral development bank set up on July 15, 2014, by Brazil, Russia, India, China and South Africa (BRICS). The bank was seeded with a US$50bil (RM217bil) initial capital, with the intention to increase it to US$100bil (RM434bil). The bank is headquartered in Shanghai.

IFFO - Hong Kong Monetary Authority (HKMA)

IFFO is a platform established in July 2016 by the Hong Kong Monetary Authority (HKMA) to facilitate infrastructure investments and their financing.

Hong Kong is an international financial centre with well-developed capital markets. The opening up of Mainland China is accelerating and Hong Kong has seized the opportunity to develop into the largest centre for offshore renminbi (RMB) business. Hong Kong is also the springboard for many Chinese companies expanding overseas, and similarly, an attractive destination for overseas corporations wanting to gain a foothold in the Mainland market.

Countries to be part of the China – OBOR project

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

FDI from China in European Countries

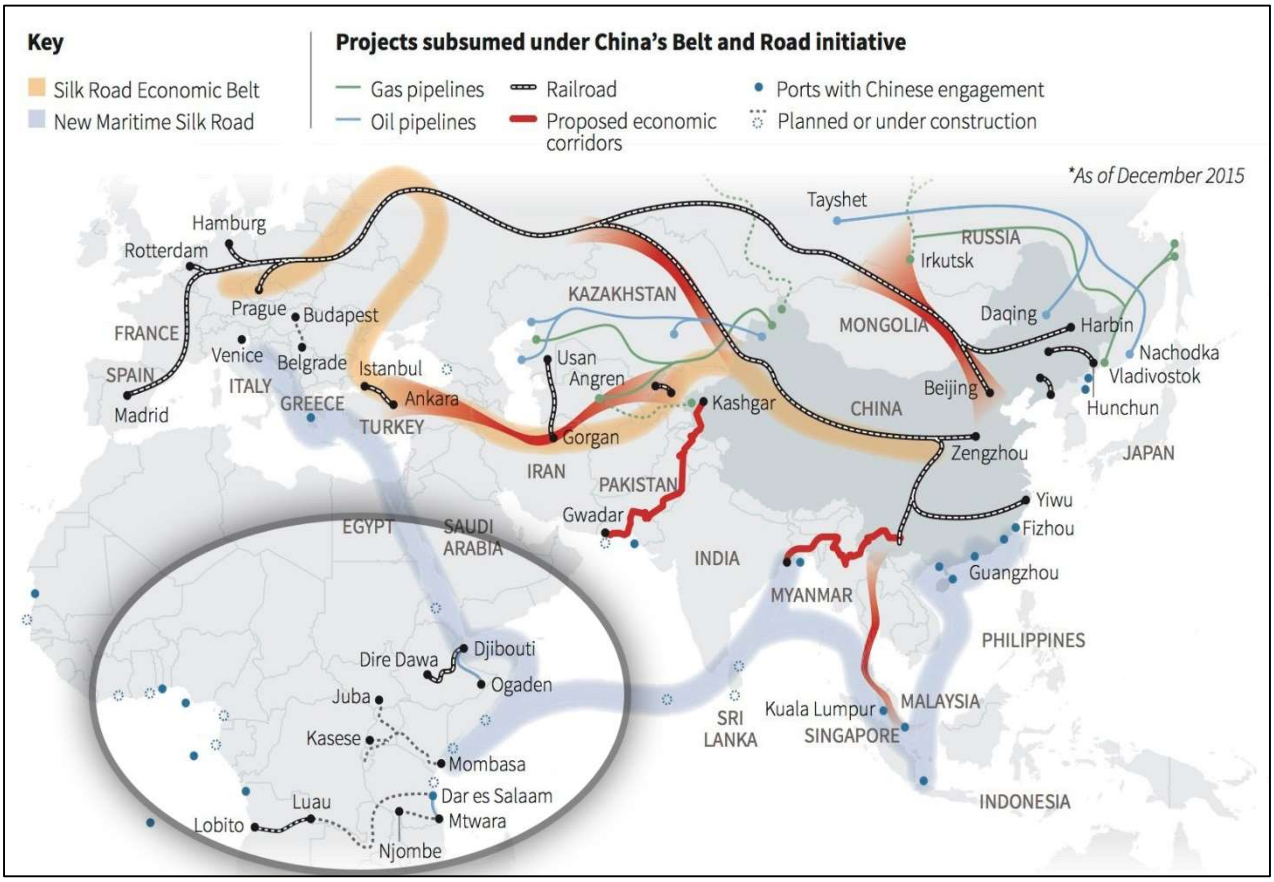
S. No	Country	OBOR involvement
1	**Albania**	China's total stock of FDI to Albania amounted to US$7 million, up from US$0.5 million in 2006. Investment from Hong Kong, though, is far from significant.
2	**Armenia**	China's total stock of FDI to Armenia topped US$7.5 million, up from US$1.3 million in 2006.
3	**Azerbaijan**	2015, China's total stock of FDI to Azerbaijan exceeded US$63 million, up from US$11 million in 2006.
4	**Belarus**	2015, China's total stock of FDI to Belarus topped US$475 million, up from US$0.3 million in 2006.
5	**Bosnia and Herzegovina**	The inflows of foreign direct investment (FDI) to B&H amounted to US$270 million in 2015, with China contributing US$1.6 million. As of the end of 2015, China's total stock of FDI to B&H topped US$7 million
6	**Bulgaria**	FDI) to Bulgaria amounted to US$2.8 billion in 2015, with China contributing US$59 million.
7	**Croatia**	China's total stock of FDI to Croatia totalled US$12 million
8	**Czech Republic**	China's total stock of FDI in the Czech Republic exceeded US$224 million As an important step in accommodating greater synergies, Hong Kong and the Czech Republic signed a Comprehensive Agreement for the Avoidance of Double Taxation (CDTA) on 6 June 2011, which came into force on 24 January 2012. Hong Kong's Trade with the Czech Republic Hong Kong's total exports to the Czech Republic rose by 20% to US$386 million in the first half of 2017, after sliding by 19% to US$717 million in 2016. Major export items in January-June 2017 included telecommunications equipment & parts (shared 40% of the total), computers (17%), electric power machinery & parts (7%), electrical apparatus for electrical circuits (6%), parts & accessories of office machines/computers (4%), optical instruments & apparatus (4%) and electrical machinery & apparatus (3%).

		On the other hand, Hong Kong's imports from the Czech Republic grew by 10% to US$98 million in the first half of 2017, Leading import items in January-June 2017 included electrical machinery & apparatus (shared 32% of the total), telecommunications equipment & parts (16%), glassware (10%), semi-conductors, electronic valves & tubes (8%), electrical apparatus for electrical circuits (8%), optical instruments & apparatus (3%) and optical goods (3%).
9	**Estonia**	FDI from China to Estonia reached US$3.5 million. While investment from Hong Kong is far from significant, Hong Kong signed the Air Services Income Agreement with Estonia in April 2001, which is pending entry into force.
10	**Georgia**	The inflows of foreign direct investment (FDI) to Georgia amounted to US$1.6 billion in 2015, with China contributing US$44 million
11	**Hungary**	Hong Kong's total exports to Hungary rose by 1% to US$872 million in the first half of 2017, while its imports from Hungary grew by 2% to US$129 million. A number of Chinese mainland-origin products are subject to EU's anti-dumping duties. Hong Kong and Hungary signed a Comprehensive Agreement for the Avoidance of Double Taxation (CDTA) on 12 May 2010, which came into force on 23 February 2011.
12	**Latvia**	The inflows of foreign direct investment (FDI) to Latvia amounted to US$668 million in 2015, with China contributing US$0.5 million. Although Hong Kong's investment in Latvia is far from significant, the city concluded the Double Taxation Agreement (DTA) negotiation with Latvia in April 2016 (now pending ratification) in a bid to accommodate greater synergies.
13	**Lithuania**	The inflows of foreign direct investment (FDI) to Lithuania amounted to US$874 million in 2015. As of the end of 2015, China's total stock of FDI to Lithuania exceeded US$12 million.
14	**Macedonia**	

		Although Hong Kong's investment in Macedonia is far from significant, the city started and completed the first round of Double Taxation Agreement (DTA) negotiation with Macedonia in June 2015 in a bid to accommodate greater synergies. Foreign direct investment (FDI) to Macedonia amounted to US$240 million in 2015, with China contributing US$11 million.
15	**Moldova**	It is a member of the Central European Free Trade Agreement (CEFTA) FDI to Moldova amounted to US$182 million in 2015. As of the end of 2015, China's total stock of FDI to Moldova topped US$2.1 million
16	**Montenegro**	Montenegro has concluded free trade agreements with the EU, the European Free Trade Association (EFTA), the Central European countries (CEFTA) and Russia. China's total stock of FDI to Montenegro totalled US$0.32 million.
17	**Poland**	As Poland is a member of the European Union (EU), its trade relations with Hong Kong/the Chinese mainland are affected by EU's common external trade policy and measures. The inflows of foreign direct investment (FDI) to Poland amounted to US$13.4 billion in 2015, with China's contributing US$25.1 million
18	**Romania**	Hong Kong's investment in Romania is far from significant, the city started and completed the first round of Double Taxation Agreement (DTA) negotiation with Romania in October 2014. FDI to Romania amounted to US$3.8 billion in 2015, with China contributing US$63 million. China's total stock of FDI to Romania topped US$364 million till 2015.
19	**Russia**	The inflows of foreign direct investment (FDI) to Russia exceeded US$11.8 billion in 2015, with China contributing more than US$2.9 billion.
20	**Serbia**	The Air Services Income Agreement effective since June 2010, Hong Kong signed a Comprehensive Double Taxation Agreement (CDTA) with Russia on 18 January 2016, which entered into force on 29

		July 2016. To accommodate greater synergies, Hong Kong and Russia are also in the process of negotiating an Investment Promotion and Protection Agreement (IPPA).
21	**Slovakia**	China's total stock of FDI in Slovakia topped US$127 million in 2015. Memorandum of Understanding between Slovakia and China for Common Support of the Silk Road Economic Belt and 21st Century Maritime Silk Road Initiatives in the field of transport and logistics, which was signed on 26 November 2015 in Beijing, Slovakia is also looking to expand its activities to Asia. One example of this includes the possibility to start negotiations on a double tax treaty with Hong Kong.
22	**Slovenia**	Slovenia is the economic front-runner of the Central and Eastern European countries that have joined the EU since 2004. The two Pan-European transport corridors (Corridor V linking Barcelona and Kiev, and Corridor X from Salzburg to Thessalonica) intersect at the Slovenian capital, Ljubljana. Shipping to Slovenia's only cargo port, Port of Koper, means gaining 7 to 10 days for ships arriving from Asia compared with sailing to Europe's northern ports. FDI from China so far is USD 5 million until 2015.
23	**Turkey**	Hong Kong's total exports to Turkey slid by 20% to US$423 million in the first half of 2017, while imports from Turkey soared by 88% to US$319 million. The inflows of foreign direct investment (FDI) to Turkey exceeded US$17.2 billion in 2015, with China contributing US$628 million. Hong Kong and Turkey are in the process of negotiating a Comprehensive Double Taxation Agreement (CDTA).

Africa's Role in China's One Belt, One Road Project



Africa is also a player at the periphery of OBOR, touching only a few but important countries in East Africa.

Billions of dollars in new gas & oil pipelines, rail, shipping and airport infrastructure are underway in countries, including **Egypt, Djibouti** and **Kenya**, which are among a small group of African countries that are expected to benefit most from OBOR.

Egypt is a particularly crucial part of the Maritime Silk Road, with the Suez Canal functioning as the main transit point between the Indian Ocean and the Mediterranean Sea. That makes Egypt one of the few indispensable partners for the Belt and Road Project — simply put, the route as currently envisioned cannot exist without Egypt's participation.

Kenya's presence was particularly significant because East Africa has been the main focus of the initiative on the continent. Kenya's $4bn railway gains traction from Chinese ambitions. Chinese-built railway will run 300 miles between the Kenyan capital and the Indian Ocean port.

Djibouti aims to become a gateway not only to Ethiopia but to South Sudan, Somalia and the Great Lakes region. China's largest public port operator, Dalian Port Corporation Limited, is building the free trade zone. The Djibouti Ports and Free Zone Authority will operate it in a joint venture with China Merchants Holdings. The agreement calls for the zone to handle $7 billion in trade within two years.

Chinese companies are also expanding Djibouti's Doraleh Multipurpose Port, estimated to cost $590m and scheduled to be operational in 2017, and building two new airports with a combined cost of $599m.

Chinese investment in Africa has increased dramatically, making the country the single largest contributor of foreign direct investment (FDI) capital and jobs in Africa in 2016 (Africa Attractiveness report).

According to the report, China has invested in 293 FDI projects in Africa, totalling an investment outlay of $66.4 billion and creating 130,750 jobs.

China's exports to Africa in 2016 stood at 82.9 billion dollars while imports from the continent were valued at 54.3 billion dollars.