



BRI CONNECT: AN INITIATIVE IN NUMBERS

2ND EDITION: ASIA IN FOCUS

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BELT AND ROAD INITIATIVE MAINTAINS STEADY PROGRESS

Better economics is reinvigorating China's ambitious plan to connect the world

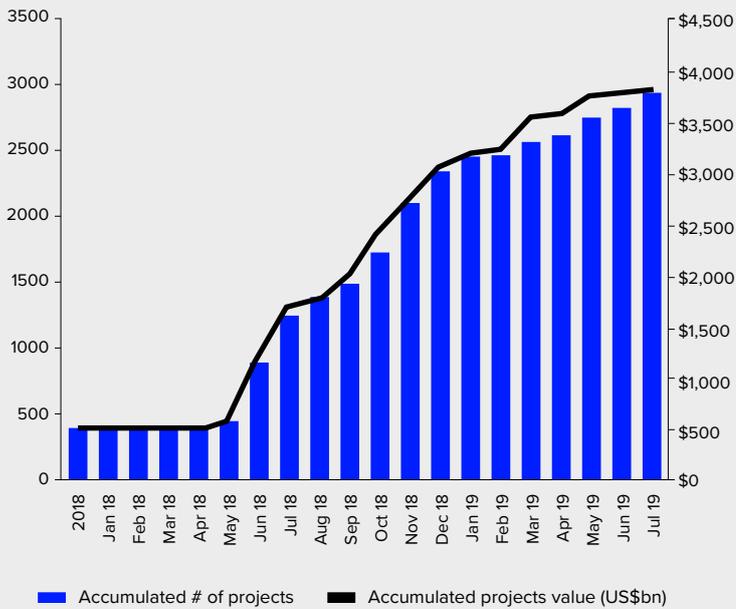
The pace of Belt and Road projects continues unabated with a spate of new projects announced in July alone.

China's mega initiative to link seven key regions within the wider Eurasia-African region began in 2016 and is now emerging as a gargantuan new investment vehicle to upgrade the region's infrastructure.

Refinitiv BRI database shows that the around 84 new projects related to the Belt and Road Initiative (BRI) were unveiled in July, valued at \$52.54 billion.

All told, there are 2,951 projects valued at \$3.87 trillion already underway across the wider Silk Road region, involving 2,630 companies.

PROJECT ACCUMULATIONS (by created date)



Source: Refinitiv BRI database (Up to July 31, 2019)

Impressive as that is, China has even bigger ambitions. Connecting 65 countries via road, rail, sea, air and logistical infrastructure and creating new electricity grids and other key infrastructure, the BRI covers a region that accounts for 30 percent of global nominal Gross Domestic Product (GDP), 40 percent of global GDP growth and 44 percent of the world's population.

Yet, despite its promise, the BRI region requires nearly \$21 trillion in investment over the next few years to ensure it can fulfil its promise and create jobs for the young populations in many of those countries.

Given the two-way need for new projects, both China and regional countries are moving ahead with a number of developments, even as they are looking to improve transparency, and ensure the local stakeholders benefit from the major investments.

“We’re seeing improved economics in Belt and Road countries, alongside supportive government policies in China,” said [Robin Xing, Morgan Stanley’s Chief China Economist](#). “These factors reinforce our view that China’s investment in B&R countries will increase by 14 percent annually over the next two years, and the total investment amount could double to \$1.2-1.3 trillion by 2027.”

Kenya ranked top in the number of new projects added in July, with three projects valued at \$7.86 billion, Refinitiv BRI database shows.

Chinese companies have already been eyeing Kenya’s renewable energy sector thanks to business friendly policy and regulatory environment, according to a report by Chinese news agency Xinhua in July.

Joanne Tan, overseas sales director of Guolong Electric Company said in the report that Kenya presents new opportunities for manufacturers of solar technologies whose uptake in rural areas has spiked.

“We consider Kenya a strategic market for our solar products as the government promotes use of clean energy in homes and industries,” said Tan, adding that her company is sourcing for a local partner to expand presence in Kenya and neighboring countries.

Kenya is also keen to encourage Chinese firms to invest in the country to help the country’s achieve its goal of raising manufacturing’s contribution to GDP to 15 percent by 2022, compared to 8 percent currently.

In July, a Xinhua report quoted Peter Munya, cabinet secretary in the Ministry of Industry, Trade and Cooperation as saying that Kenya welcomes “Chinese firms to increase their investments in Kenya so that they help us accelerate our industrialisation agenda.”

In April, China and Kenya had agreed to build two projects valued at \$2.23 billion. The Konza Data Centre and Smart Cities deal was valued at \$1.72 billion, while the JKIA-James Gichuru expressway project is to be built at a cost of nearly \$500 million, 80 kilometres south of capital Nairobi. Chinese contractors are also expected to complete the 248-kilometre Kenya-South Sudan highway in 2020.

Sri Lanka has emerged as the country with the most number of BRI projects announced in July, with seven developments clocking in a combined value of nearly \$700 million, according to Refinitiv BRI database.

In August, Sri Lanka, China and Ethiopia signed a [trilateral agreement](#) to enhance access to renewable energy technologies in context of Sustainable Development Goals.

The three countries would “seek to promote sustainable energy solutions by focusing on demonstrating the applicability of biogas and solar photovoltaic technologies for communities in Ethiopia and Sri Lanka.”

Financing for the three-year project comes from the Chinese Ministry of Commerce with the provision of \$2 million, which would be equally shared between Ethiopia and Sri Lanka.

Sri Lanka’s key BRI projects include the 26.75-kilometre long China-funded Matara-Beliatta railway extension in the southern part of the island country, that’s seen as the first of its kind project in more than 70 years in the country’s railway system.

Another key project built by Chinese companies is the Puttalam coal-fired power plant, which has boosted the South Asian country’s power generation capacity.

On the other hand, Sri Lanka is also home to the Hambantota port, which had spurred debate about unsustainable lending under BRI after the project passed into Chinese hands following default by the government on debt payments.



SMOOTHENING THE ROAD

BRI has often been negatively portrayed as a platform, which gives China massive access and influence over a number of regional countries. But Beijing had also faced criticism from its BRI partner countries, who believe that some of the projects are trapping them into debt or are too massive to be ever become profitable.

Taking cognisance of the criticism, China is looking to include stakeholders in each of the countries to develop the projects and achieve the social license. Quite crucially, they are taking the time to ensure that the projects meet the needs of the countries.

“The use of public money through government-backed insurance or Chinese development bank financing, which provides implicit or explicit government guarantee, has created a moral hazard in which ‘easy money’ leads Chinese developers to take outsize risks or pursue unprofitable projects,” Asia Society Policy Institute said in a new report.

“This has led to financial losses, political backlash, environmental damage, and other negative outcomes. Projects that are not structured according to commercial lending standards can saddle host governments with unsustainable debt, and lead to politically and economically problematic outcomes, including debt-to-equity swaps and concessions.”

In recent months, Chinese BRI projects have been re-evaluated in Indonesia and Malaysia to create more viable versions of the developments that are also palatable to the public.

For example, Malaysian Prime Minister Mahathir Mohamad criticised the Malaysia East Coast Rail Link project, which used five-year-old exchange rates to calculate the total costs of the project, which ballooned from \$7 billion to roughly \$13 billion. The project is back on track after the Malaysian government negotiated a better deal with China.

“Either way, China successfully put the East Coast Rail Link back on track. And that was important because many saw the railway as the initiative’s largest single project under development - as a bellwether for future BRI projects,” said Felix Chang, a senior fellow at the Foreign Policy Research Institute (FPRI) in an article published on its website in August. He said the project’s revival helped end the stream of bad press that the initiative had received over the prior year but at a price.

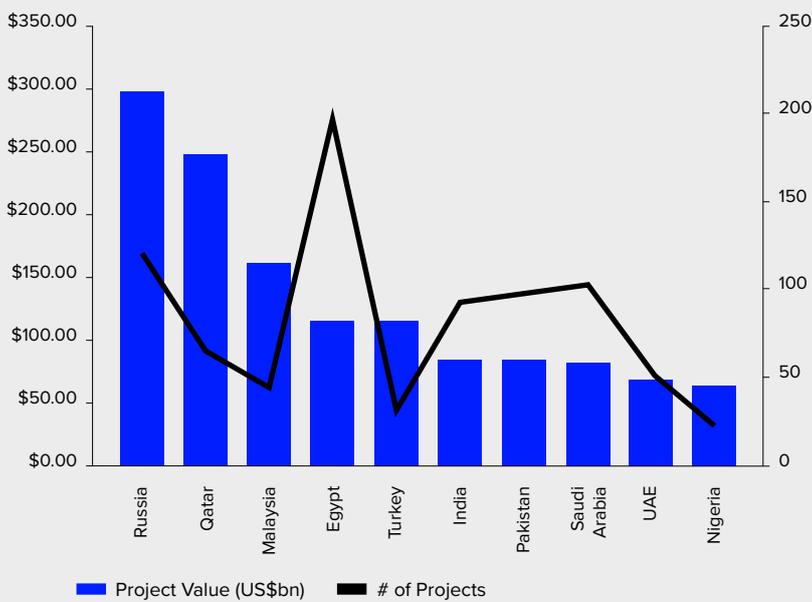
“Not only did Chinese companies have to write down the value of their contracts with Malaysia, but it showed that China was willing to restructure even its biggest deals, setting a precedent for others,” Chang noted.

Similarly, Indonesian president Joko Widodo ordered a re-evaluation of the Jakarta–Bandung Railway’s design and feasibility. That review found a troubling lack of due diligence and described the project as deeply troubled. After securing a better deal by China, the Indonesia President gave the go-ahead to the project in May.

DATA HIGHLIGHTS

Nigeria broke into the list of the top 10 nations that have that have the largest BRI-related investment, ousting Belarus, according to Refinitiv BRI database. The list is dominated by Russia, which boasts \$298 billion worth of projects underway related to the ambitious initiative at the end of July, compared to \$291.4 billion at the end of May.

Top 10 Project Nations (by Project Value - US\$bn)

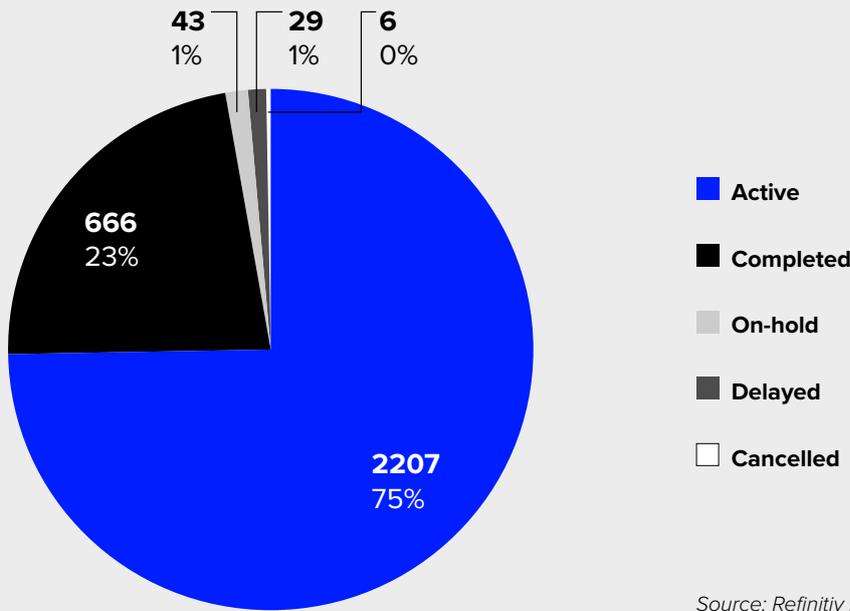


Source: Refinitiv BRI database (Up to July 31, 2019)

Qatar (\$246.9 billion), Malaysia (\$160.76 billion), retained their positions as the second and third largest recipients of Chinese investments in terms of value. In terms of number of projects, Egypt topped the list with 198 projects, followed by Russia (120).

All told, around 86 percent of the \$3.87 trillion of BRI projects announced are underway, compared to 76 percent at the end of April, as China made concerted efforts to push many projects back on track. As much as 14 percent of the projects have been completed while 1.41 percent is on hold, Refinitiv BRI database shows.

Project Status (by number of projects)



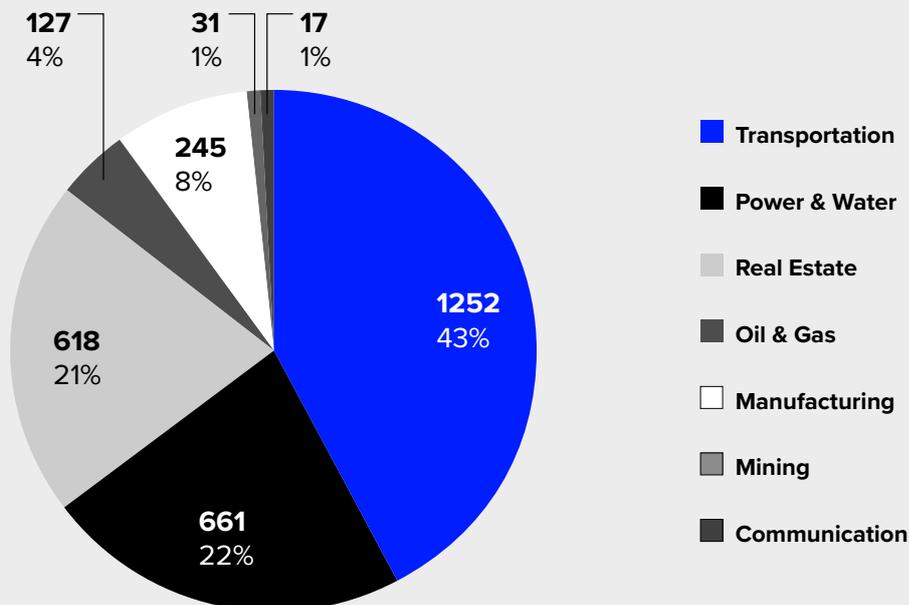
Source: Refinitiv BRI database (Up to July 31, 2019)

Not surprisingly, transportation sector has dominated, accounting for just under 50 percent of all projects or \$1,919 billion. Power and sector is a distant second with \$861.83 billion worth of projects (or 22.27 percent of total), while real estate investments made up \$579 billion or just under 15 percent of all projects announced so far.

Chinese project owners accounted for 39 percent of total number of BRI projects in value terms and 32 percent in terms of number of projects, Refinitiv BRI database shows.

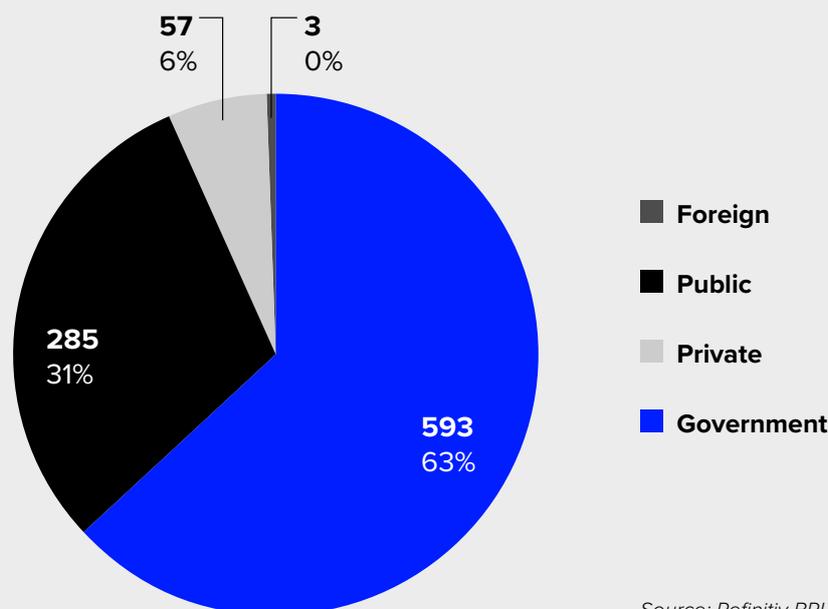
In the Chinese project owner category, government-funded projects continue to dominate with 63 percent of all projects to be developed by government entities as of end-July.

Project Status (by number of projects)



Source: Refinitiv BRI database (Up to July 31, 2019)

Number of Projects



Source: Refinitiv BRI database (Up to July 31, 2019)

Moreover, in what could be seen as a sign of greater transparency in projects, publicly-listed companies managed to steal market share away from private sector, and now make up 10.7 percent of total projects, compared to 5 percent in May, according to Refinitiv BRI database. Chinese private sector companies now account for only 26 percent of projects compared to 31 percent in May.

Project finance continues to be the favoured funding vehicle, with 316 of 326 projects linked to deals, taking the project finance option. Only 5 percent were equity-funded and three were bond-funded. Two have been financed via mergers and acquisitions.

DEAL TYPE	NUMBER OF DEALS
PROJECT FINANCE	316
EQUITY	5
Bond	3
M&A	2
TOTAL	326

Source: Refinitiv BRI database (Up to July 31, 2019)

Given the scope of the projects, as many as 1,181 construction companies are involved in BRI projects announced to date, with 327 government institutions, 327 power and utility companies and 185 transport firms. Other companies involved are from the areas of industrial manufacturing, services, oil and gas, financial services and real estate, according to Refinitiv BRI database.

TOP 10 SECTOR	COUNT
Construction	1,181
Governmental Institutions	327
Power and Utilities	327
Transport	185
Industrial Manufacturing	136
Services	123
Oil and Gas	91
Financial Services	78
Real Estate	60
Mining and Metals	41

Source: Refinitiv BRI database (Up to July 31, 2019)

The database shows that Chinese companies continue to dominate the projects, with as many as 1,141 Chinese institutions involved. The number of non-Chinese companies is also increasing as China responds to criticism that BRI projects crowd out the host country's companies. Interestingly, 42 companies from US, which has been critical of the initiative, are also engaged in various BRI projects.



FINANCING BRI PROJECTS: THE NEXT WAVE

By opening doors to third-party financing, China is signalling its willingness to share the rewards emanating from BRI projects

China's mammoth Belt and Road Initiative (BRI) has the potential to lift the economies of its neighbouring regions but one of its key criticisms is the exclusion of host country companies from financing and building opportunities. But that's about to change.

Belt and road projects are often multi-billion developments that are bankrolled by deep-pocketed Chinese financial institutions such as Industrial and Commercial Bank of China (ICBC), China Construction Bank Corporation (CCB), Agricultural Bank of China (ABC) and China Development Bank (CDB).

According to HSBC, various Chinese financial services entities have provided funding of \$138.7 billion, including \$36.5 billion in various initiatives like multi-currency lending schemes by CDB and nearly \$29 billion by Export and Import Bank of China in various other ventures and financing operations.

CDB has set up a project database for more than 900 projects in 64 countries along the BRI, with required investment totalling \$890 billion.

Separately, The Silk Road Fund, entirely funded by China, has a war chest of \$14.5 billion to finance projects.

Impressive as those numbers are, the total infrastructure investment requirement in Asian countries is expected to be \$26 trillion over the next 15 years, according to the Asian Development Bank (ADB).



And while the first wave of investments came from Chinese banks, there is recognition that given the massive scope of development, there is room for local and other non-Chinese financial service players to take advantage of the financing opportunities on offer.

The evolution of financing of projects is vital as one of the criticisms against BRI is that it often excludes local financial services to participate in major projects, depriving the local economy of the benefit of these large scale projects.

“Given the sheer size of the infrastructure demand, we believe a market-oriented, multi-tier system of financing is the only feasible way to provide sustainable funding for cross-border infrastructure projects involved in the BRI,” [HSBC said](#) in a report.

China understands the imperative of sharing risk and reward of the BRI projects.

“We welcome the participation of multilateral and national financial institutions in BRI investment and financing and encourage third-market cooperation. With the involvement of multiple stakeholders, we can surely deliver benefits to all,” President Xi Jinping said in a speech at the Second Belt and Road Forum for International Cooperation in April in Beijing.

AIIB STEPS UP

The Asian Infrastructure Investment Bank (AIIB) is the first major Chinese initiative that seeks to include other countries and multilateral organisations in the Silk Road initiative.

Launched in 2016 and led by China, the AIIB had 57 founding members and now counts 100 members, including Australia, China, France, Germany, India, Italy, South Korea and the UK.

The multilateral institution has approved 45 projects in 18 member countries valued at \$8.5 billion. These include \$210 million for the second round of an solar energy projects in Egypt, \$329 million to build access roads to approximately 4,000 villages in all 33 districts of Gujarat in India and \$165 million to boost power distribution capacity and increase the number of rural and urban electricity consumers in Bangladesh.

AIIB has also signed co-financing framework agreement with the World Bank, and memoranda on joint cooperation and co-financing with multilateral agencies such as the African Development Bank, the African Development Fund, the Asian Development Bank, the Eurasian Development Bank, the European Bank for Reconstruction and Development, the Eurasian Development Bank, and the Islamic Development Bank Group, among others.

Management consultancy Deloitte notes that while Chinese funding has focused on debt financing and, in some cases, private equity financing, Chinese firms are keen to reduce their interest risk, exchange risk and the financing interest associated with long-term loans.

“This is particularly true for companies operating in countries regarded as high risk, as this brings higher costs and greater uncertainty over aspects such as exchange controls and remittances,” [Deloitte said](#) in a report.

The management consultancy expects greater involvement of Western banks and financing companies, and a more balanced portfolio of funding to include equity financing as well as from sources such as the Silk Road Fund, the China Development Bank, active funds and Private Equity (PE) funds.

“The third trend will be local banks in BRI countries providing debt financing. This is attractive for a number of reasons, not least in minimising exchange risk and helping to localise the financing of BRI projects.”

China also scored a coup of sorts by getting endorsement from Switzerland, a major banking and financial services powerhouse, for its BRI developments. Earlier this year, Switzerland signed a MoU with China to boost collaboration on BRI projects.

“The aim of the memorandum is for both parties to intensify cooperation on trade, investment and project financing in third markets along the routes of the Belt and Road Initiative,” the Chinese finance ministry said.

China’s decision to allow other financial institutions to participate in its BRI projects will reduce risks for Chinese institutions, provide greater transparency on projects, and ensure countries are not stuck in debt traps at the mercy of a single large sovereign. It would also reduce suspicion around many of the BRI project and allow local financial service firms to participate in major transformative projects in their own countries.

Writing in *Nikkei Asian Review* in June, David Liao, CEO and President of HSBC Bank (China) said, “Chinese government guidelines on the financing of BRI signed by countries as varied as the UK, Switzerland, and half the members of ASEAN lay out a shared role for governments, policy banks, and crucially, the private sector. Private sector involvement will help ensure that projects conform to global standards of viability, transparency and governance.”



IS BELT AND ROAD BENEFITTING SMALLER ENTERPRISES?

China has new initiatives to help small and medium enterprises leverage on BRI projects

The perception that the Belt and Road Initiative (BRI) is the domain of deep-pocketed multinationals, state-owned enterprises and sovereign wealth funds have meant that small to medium enterprises (SME) sector doesn't get too many mentions in the grand scheme of things.

But there are opportunities for innovative small to medium enterprises to offer their services and products, especially if they can keep their eyes open for opportunities.

Earlier this year, [Bank of China](#) held a "matchmaking" fair for small and medium-sized enterprises in China and Central and Eastern European countries during a summit between China and Central and Eastern European countries in Dubrovnik, Croatia.

"Bank of China's cross-border matchmaking service is widely acclaimed because it can help Chinese companies find the potential overseas partners they need most. It reduces the cost of communication for these companies and improves communication efficiency," said Zhu Jun, general manager of the bank's finance department.

In addition, the opportunities in a Digital Silk Road are plentiful for SMEs.

“Through increased connectivity from the Digital Silk Road, emerging companies and markets will generate basic data from their businesses and operations, which, as it matures and gets structured, could become big data on, for example, their product supply and demand dynamics and the history of prices and their trends,” according to a report published by the [World Economic Forum](#). “By going digital, small and medium enterprises (SMEs) can make more agile adjustments to improve their operations, develop new services and upgrade their business models for greater success.”

In the UAE, Dubai and China are developing projects valued at \$3.4 billion, focused on shipping and food, which could be the domain for SMEs.

The first project is a \$2.4 billion investment by Chinese wholesale company Yiwu to build a 5.5 million square metres logistics station, the ‘Traders Market’, close to the Expo 2020 Dubai site, to store and ship Chinese goods from Jebel Ali port to the rest of the world.

The second deal is focused on \$1 billion food manufacturing and processing plant called ‘Vegetable Basket’ in Dubai, to import, process, pack and export agricultural, marine and animal products to the world.

Dubai is also aiming to leverage its position as a regional hub and emerge as a gateway for Chinese goods to the wider region and also emerge as a hub for Chinese companies to source regional goods. Access to China could emerge as another strong incentive for SMEs to set up shop in the UAE.

CHALLENGES FOR SMES

But in many parts of the region, it has been a challenge to for SMEs to participate in BRI given their low access to funding and lack of expertise.

The Institute for Democracy and Economic Affairs (IDEAS) in Malaysia notes that it is important to look beyond major infrastructure construction projects, to promote investment in sectors where more local SMEs stand to benefit, such as in Information Technology, e-commerce or retail.

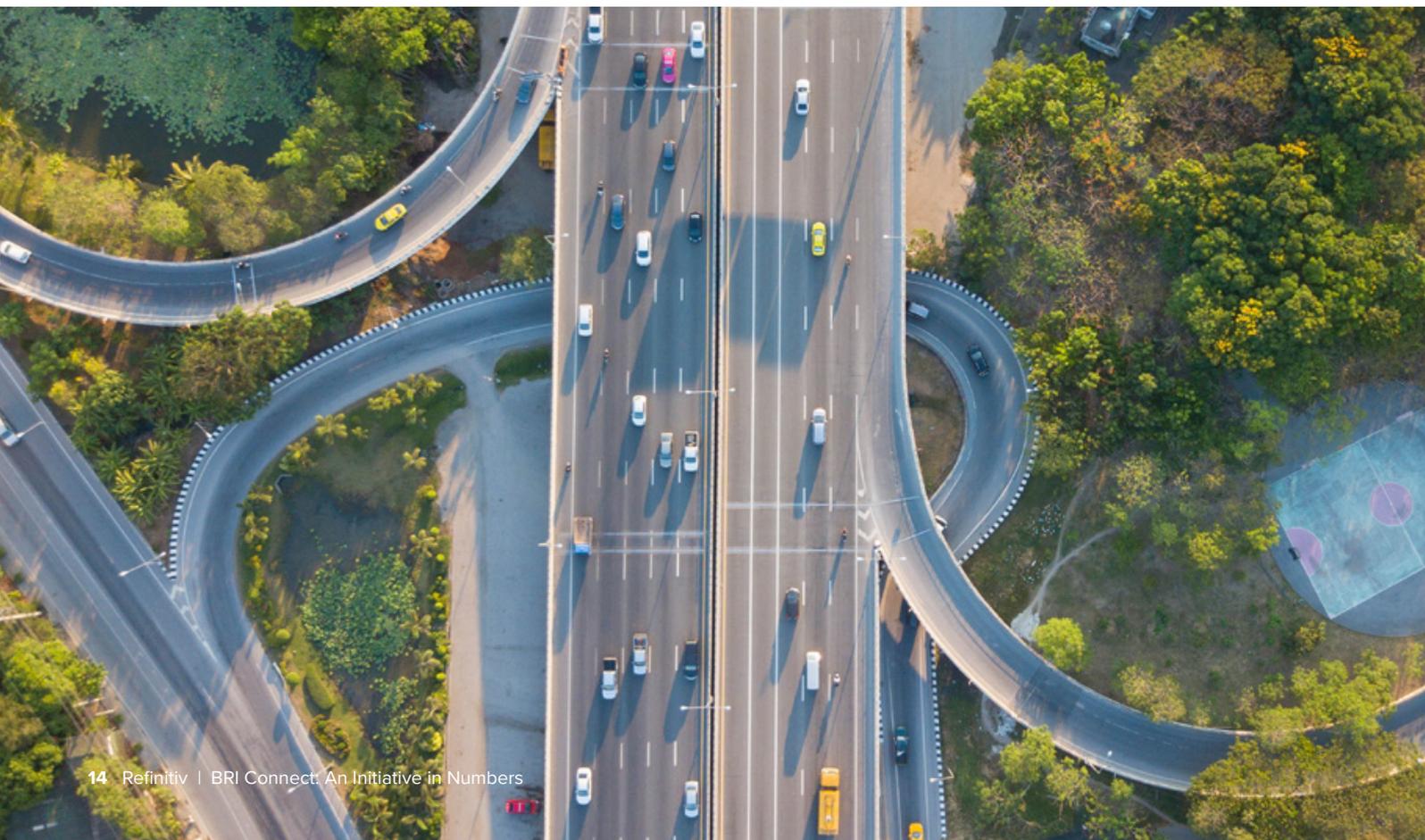
“The Digital Free Trade Zone, being developed in partnership with (Chinese technology giant) Alibaba is a good example of this, but the government should look to encourage more and again, promote local participation where the scope for knowledge and technology transfer is greatest,” according to the [IDEAS report](#).

[Dezan Shira & Associates](#), a law and consultancy firm which assists foreign investors throughout China, says Beijing’s recent efforts to open the market to foreign products, and its decision to reduce the “negative list” of goods and services open to foreign investment is a boon for international businesses.

“SMEs, as long as they know the HS [Harmonised System] code for their products, can easily find out what tariffs apply as these will impact upon the cost of sale in China, which obviously affects local competitiveness,” Dezan Shira said.

[HSBC](#) believes more opportunities may emerge in “soft sectors” where foreign companies have an advantage over Chinese ones.

“As Chinese firms expand overseas, there will be a growing need for legal and cultural consulting, country risk analysis, and public relations (PR) management services. This may create business avenues for foreign players, especially in countries where Chinese companies are still acclimatising,” the banking giant said in a report.





BRI IN SOUTHEAST ASIA: THE PROXIMITY ADVANTAGE

China's growing engagement with Southeast Asia could herald the next phase of growth for the region

The Southeast Asian countries, with a combined population of more than 600 million and \$2.4 trillion in GDP, form a key component of China's Belt and Road Initiative (BRI) but the road to bilateral trade has quite a few twists and turns.

Southeast Asia is one of the six corridors that cover the Greater Mekong Sub-region. In the early stage, Guangxi, an autonomous region in southern China, opened an international rail line running from its capital Nanning to Hanoi, Vietnam, as well as introduced air routes to several major Southeast Asian cities.

In 2014, China upgraded its trade agreement with ASEAN (Association of South East Asian Nations) countries, comprising Brunei, Cambodia, Indonesia, Lao DPR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, one of its first major agreements with a regional group.

The two parties had identified key priorities such as agriculture, information and communication technology, human resource development, investment, Mekong Basin development, transportation, energy, culture, tourism, public health and environment.

The two parties aim to achieve two-way trade goal of \$1 trillion by 2020, as well as achieving two-way investment of \$150 billion by 2030. The two parties are also keen to proceed with the Regional Comprehensive Economic Partnership (RCEP) which would build upon the ASEAN-China Free Trade Agreement (ACFTA).

Combined, the 16 countries negotiating the RCEP encompass about one-third of global GDP and almost half the world's population.

Trade between the two regions in the first six months of 2019 rose 4 percent year-on-year to \$291.8 billion, and that's expected to surge under RCEP, but the agreement has been stuck in seven years of protracted negotiations. The proposed trade deal is expected to rival the TransPacific Partnership.

BRI IMPACT ON SOUTHEAST ASIA

With \$171 billion in capital flow from China, Indonesia is the biggest beneficiary of the BRI, followed by Vietnam which has garnered \$152 billion. Cambodia with \$104 billion, Malaysia's \$98 billion and Singapore's \$70 billion are the other major recipients of BRI-related capital flows.

Some of the biggest BRI projects include the \$14.3 billion Kuala Lumpur-Kota Bahru Rail in Malaysia, the \$9.6 billion Preah Vhihear-Koah Kong Railway project in Cambodia, the \$9.1 billion Vanke Hope Hillhouse, Bank of China logistics project in Singapore. Other major projects planned and/or under way include the \$7.3 billion Kyaukpyu Deep Sea Port in Myanmar, and the \$5.96 billion China General Nuclear project in Malaysia.

The infrastructure projects are vital as the ASEAN region's total infrastructure investment needs from 2016 to 2030 are forecast to as much as \$3.1 trillion, according to the Asian Development Bank (ADB).

China's FDI inflows into ASEAN have been growing from about \$3.5 billion in 2010 to about \$11.3 billion in 2017, primarily in energy, infrastructure and real estate.

“China’s investments in BRI projects provide an avenue for ASEAN and its member states to overcome the problem of inadequate infrastructure, which is a major obstacle for both short-term and long-term ASEAN economic growth,” according to CIMB Asean Research Institute.

However, BRI projects could also contribute to the trade imbalance between ASEAN and China. Trade in goods and services between ASEAN and China will continue to be in China's favour, the CIMB Institute said.

Indonesia, which has been the biggest ASEAN recipient of Chinese capital in the past few years, has some concerns of opening its economy to China. A key worry is the influx of Chinese workers in Indonesia, at a time when the south-east Asian nation needs to create two million jobs annually.

“The second concern is about the creditworthiness of Chinese companies that would invest in Indonesia. This concern has been driven primarily by Indonesia’s past experience with Chinese investors,” according to CIMB.

Indonesia, and other ASEAN nations, are also concerned about rising trade imbalance with China, which currently stands at \$40 billion, according to International Trade Centre, a joint agency of the World Trade Organisation and the United Nations.

Sri Lanka's Hambatota Port, which was leased to China in December 2017 for 99 years after Colombo fell into heavy debt to Beijing, is also viewed with caution by many Asian nations worried of falling into debt trap.

Many domestic ASEAN businesses and banks are also worried that Chinese companies and financial institutions will crowd out the local sector, reducing the benefits of the infrastructure projects. China, which is suffering from overcapacity, is using its excess construction materials, raw materials, and products, denying local businesses from supplying local materials and services.

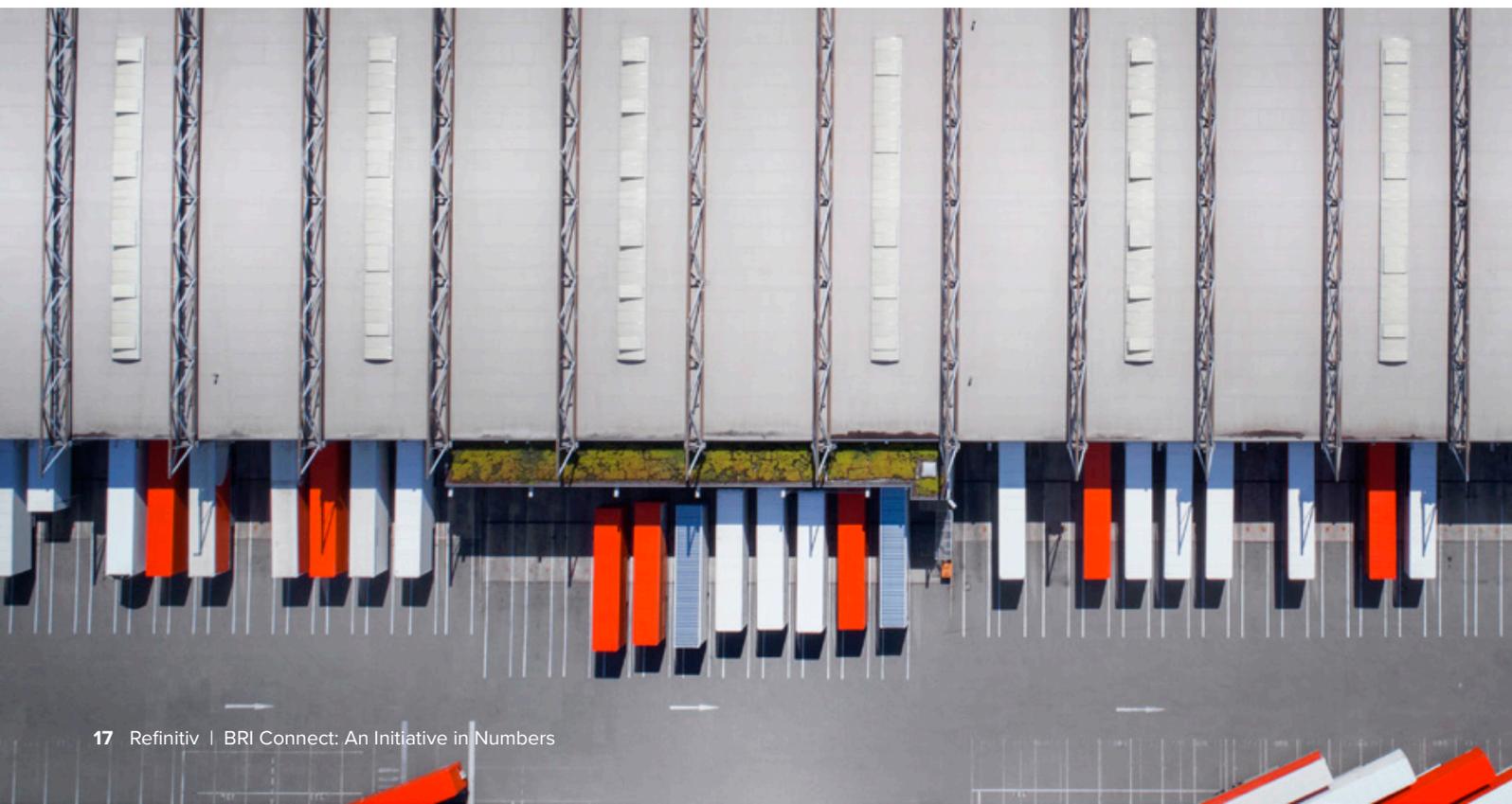
In some cases, ASEAN countries are pushing back. Malaysia, for instance, resumed a railway project linked to BRI project in April 2019, after securing lower cost for the projects by China.

Malaysian Prime Minister Mahathir Mohamad had criticised the infrastructure plans and refused to get on board with China's BRI agenda.

ASEAN states can benefit greatly from China's BRI, but they must assess every project on its merit and consider the social, environmental, and financial implications for each project.

"China's economic rise and initiatives such as BRI, reflect the new regional geopolitical reality. What remains is for individual ASEAN states to make sure that with the BRI they do not fall into a client-master relationship with China," CMIB noted.

“Malaysia has managed to obtain from Chinese companies a 30 percent rebate with now total costs to be RMB 44 billion (€9.4 billion) instead of RMB 65.5 billion (€13.9 million). The planned line will also be 40 km shorter with a total length of 648 km,” according to a report published in April by public affairs consultancy [Cooperans](#).





PROPERTY DEVELOPMENT POISED TO WIN BIG WITH BELT AND ROAD

BRI investments in Southeast Asia are giving rise to huge opportunities in construction and real estate sectors

China's ambitious Belt and Road Initiative (BRI) embarked on a new phase with the unrolling of BRI 2.0 by Chinese president Xi Jinping during 2nd BRI Forum in April. As China promises to address transparency concerns and open BRI to wider participation, one of the regions that can immensely benefit from this revamped programme is Southeast Asia.

BRI investments in new ports, railroads and highways in the region are expected to drive construction and real estate (CRE) developments in logistics, manufacturing and industrial sectors along those routes.

The biggest beneficiaries in BRI-related investments over recent years have been Thailand, Malaysia, the Philippines and Cambodia, said real estate consultancy Knight Frank in its report 'New Frontiers 2019.'

“For these markets and China, a capital injection brings mutual benefit: with infrastructure funding, the host country speeds up its economic expansion, while China gains new trading partners,” said Justin Eng, Associate Director at Knight Frank Asia Pacific.

The report noted, over the past five years since the BRI's launch, \$59.25 billion in Chinese-linked capital has been invested across the Southeast Asian transportation, real estate and logistics sectors; almost 3.5 times the \$17.1 billion invested in the five years prior to BRI.

Accounting firm KPMG agrees that countries across Southeast Asia are experiencing rapid economic growth and high levels of public infrastructure expenditure.

“These dynamics are leading to an attractive and diverse range of opportunities in the construction and real estate sectors,” said Andrew Weir, Regional Senior Partner, KPMG Hong Kong and Vice Chairman, KPMG China.

He said specific countries which are expected to see strong volumes of real estate development and construction activity in coming years include Vietnam, Thailand, the Philippines and Indonesia.

Within the real estate sectors, the logistics and industrial sectors will be the biggest initial beneficiaries, according to Knight Frank.

When a new port is built, Eng explained, there is a corresponding rise in demand for warehouses to store incoming goods prior to being transported inland.

“We are witnessing an uptick in client interest - especially from the global 3PLs - in exploring build-to-suit opportunities within these markets, especially around current major BRI projects,” he said.

Trade connectivity

A major theme that is being observed right now in several Southeast Asian markets is investment in infrastructure that enhances people and trade connectivity to increase the scope for growth in domestic trade as well as industrial and agricultural exports.

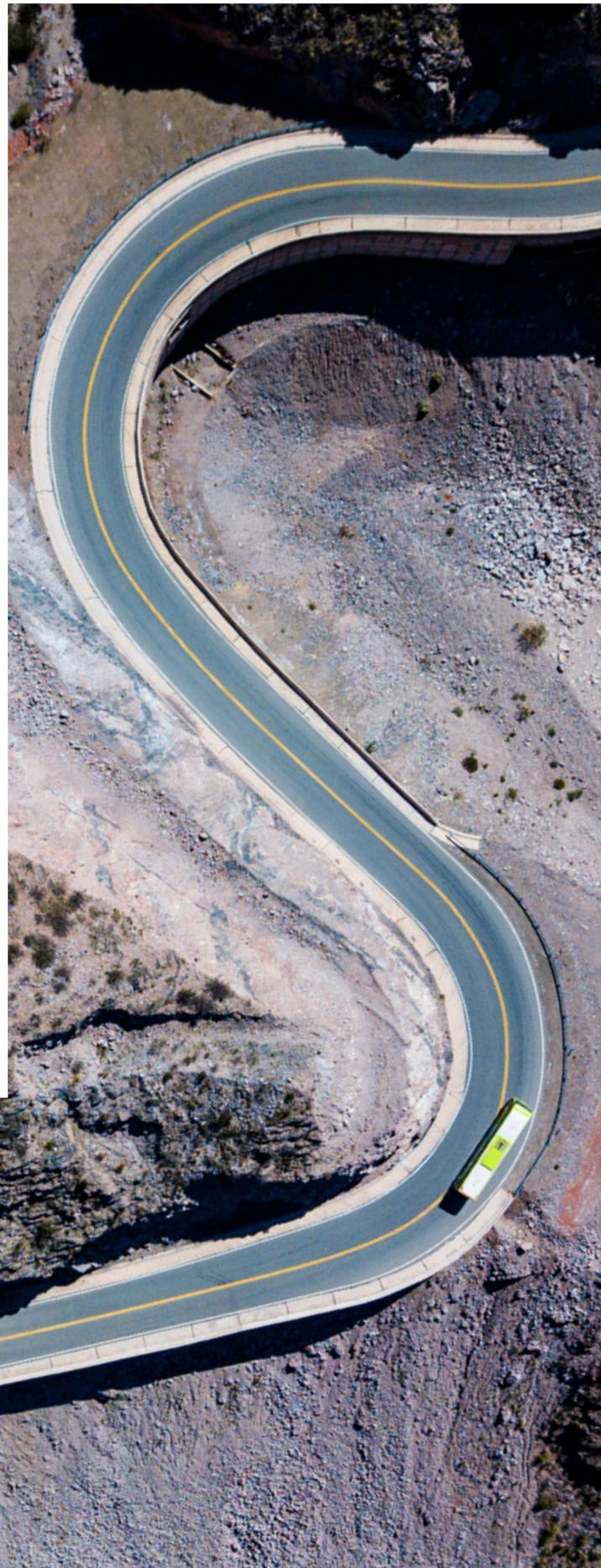
“Thailand and the Philippines are good examples of this dynamic,” said Michael Camerlengo, Partner, Infrastructure Advisory at KPMG Transaction Advisory Services.

In Thailand, he said, the Eastern Economic Corridor (EEC) is a special economic zone development initiative that is attracting a lot of attention. There are plans underway to connect the country with China, via Laos through high-speed rail infrastructure as well as the expansion of the U-Tapao airport and Laem Chabang Port.

“These connectivity projects will lead to significant industrial and logistics development and construction opportunities along the corridor,” said Camerlengo.

Whereas, in the Philippines, he said the government has been embarking on its ‘build, build, build’ programme which is directed at improving and expanding infrastructure across the country. This includes a high volume of expressway and bridge projects related to better connecting the archipelago as well as reducing flood-related risks across the country.

“Similar to Thailand, these projects will lead to increasing transaction volumes in industrial and agricultural real estate in areas that are proximate to these enhanced and new networks,” said Camerlengo.



Real estate investment

Over the last couple of years, Chinese real estate investors have shifted their focus away from the US to Europe and Asia as the country's economy and currency gained strength.

Chinese investment in US property assets dropped 64 percent in 2017 from 2016, to \$5.9 billion, according to Real Capital Analytics (RCA) data, highlighted by Colliers in its report titled: The Dragon Spreads its Wings over Asia, released last year.

Conversely, the report added, Chinese investment in Asian property assets increased 34 percent to \$12.5 billion, while Chinese investment in European property assets surged 336 percent to \$18.7 billion, during the same period.

The report further noted that Chinese investment in Southeast Asia and South Asia reached \$2.5 billion in 2017, nearly four times the level of 2016 and the second highest level ever (after \$4.1 billion in 2013).

Looking ahead over five years, Colliers said China's ambitious "One Belt, One Road" project, coupled with the firm Chinese economy and RMB (Renminbi) strength, ought to drive Chinese investment in emerging Southeast and South Asian markets.

This was reflected in CBRE's China Investor Intentions Survey 2019 which revealed that Chinese buyers retain strong intentions to invest within Asia, partly due to opportunities to purchase assets in sectors expected to benefit from the BRI.

"Emerging Asian countries, such as Vietnam and Thailand, registered increasing interest from Chinese investors. The survey found 46 percent of respondents chose Emerging Asia as a most preferred investment region, 4 pts higher than last year," said Sam Xie, Head of Research at CBRE China.

He said Southeast Asia continued to benefit as labour intensive manufacturers relocate supply chain out of China.

Meanwhile, he added, the residential markets in many Belt and Road countries are emerging to be preferred destinations for Chinese investors.

While there's currently no forecast or projection in terms of investment volumes (as all outbound investment activities are subject to state approvals), Zhang of Cushman & Wakefield pointed out that China outbound real estate investment into belt and road averaged around \$3 billion (excluding infrastructure) for the past six years.

Daniel Yao, Head of Research East China at JLL agreed that there are increasing interests from Chinese developers (but not many from domestic institutional funds so far) seeking opportunities of buying land plots over the past couple of years in Southeast countries, including Vietnam, the Philippines, Cambodia, and Indonesia.

According to RCA data, Chinese real estate investment volume for development sites in Malaysia and Thailand has been \$73.84 million and \$25.78 million respectively in the first half of 2019.

This comes after Chinese investors spent \$87.69 million and \$27.62 million in Cambodia and Indonesia respectively for real estate transactions for the whole of 2018, according to RCA.

"China, and its key cities, in particular, are growing connections with other countries and cities, not only under the umbrella of BRI but also in more organic ways," said Yao.

For Chinese developers, he said, residential and commercial (especially for office-use) land plots in both mature and emerging locations are the most sought-after.

"Riding on this trend, Chinese logistics developers and investors continue to develop logistics infrastructure and build supply chains in emerging Southeast Asia in anticipation of growing demand," said Xie.

Mitigating risks

While most of the concerns about BRI including debt trap are primarily related to mega infrastructure projects involving government entities, real estate projects executed through joint ventures (JV) between Chinese and local companies are also prone to risks.

“One major risk we see is political in nature such as a change in government,” said Eng of Knight Frank.

Richard Fu, Senior Associate Director, Belt and Road Outbound Consulting Team, Consulting Department, Cushman & Wakefield, said political risks are difficult in BRI investments.

“Getting China investors and local partner to reach an effective partnership is also difficult. To ensure economic feasibility, we would suggest investors to have deep and systematic study before conducting actual investment,” he said.

Eng pointed out that the ‘debt trap’ concern mainly involves local governments who undertake the project with a Chinese state-owned enterprise partner.

In order to safeguard themselves, he suggested that local companies undertaking BRI projects should conduct their proper due diligence before making major capital expenditure decisions.

“While major projects are unlikely to be cancelled once announced, they could face major delays in completion which in turn will lower returns to investors,” warned Eng.

KPMG’s Weir pointed out that there are always risks associated with development projects, BRI included.

“Whether construction-related, regulatory, commercial or people related, all risks need to be carefully identified, assessed, quantified and mitigated before proceeding with a new development,” he said.

By way of example, Weir said, a common people-related risk on BRI projects includes navigating cultural differences and similarities as a foreign investor into a new market.

When it comes to commercial risks, he said identifying the customer demand profile for the project is key – whether it be office, residential, hotel or retail development, adding that identifying who the end-users will be, what their requirements are and expected demand levels will ultimately determine the prospects for financial success and key risk factors to address.

“Once this dynamic is well understood, assessing the optimal debt and capital structure that will be sustainable in the long run becomes a more straightforward proposition,” said Weir.

From an investment perspective, said Zhang of Cushman & Wakefield, forming a JV with the local developer seems to be a most effective way of adapting to local markets and mitigating potential risk in planning, construction and sale/lease.

Additionally, Knight Frank’s Eng said they are starting to see greater scrutiny now on how the BRI label is being used on projects across the region and how their structures (both debt and partnerships) are being assembled.



DIGITAL SILK ROAD: BUILDING THE TECHNOLOGY INFRASTRUCTURE FOR BRI

China's ambitious Silk Road programme is not just about hardware and concrete; it also includes a robust information technology component

Modern-day infrastructure has strong software and digital dimensions that run across projects. As such, a number of China's Belt and Road Initiative (BRI) projects currently underway have built-in data centres and fibre optics, and also boast of the latest cross-sector technological innovations that China has to offer.

A key reason for the focus on technology including software in BRI is that China's large technology companies have exhausted growth in domestic markets and need new avenues for growth.

Beijing's 'Made In China 2025' and Internet Plus strategies rely heavily on digital innovation, high-end manufacturing, 5G, robotics, rail transport equipment, high-tech shipping and information services that are being geared up for exports.

MIC 2025's key goal is to increase local content of core components and materials to 40 percent by 2020 and 70 percent by 2025, reduce dependence on imports, and develop a technology market that rivals the best in the world.

"Changes to MIC 2025 will support recent microeconomic reforms that seek to improve investor sentiment in the country," said pan-Asia law and consultancy firm [Dezan Shira & Associates](#). "New policies touted by China aim to open market access for foreign firms, reduce the social insurance burden, boost private sector participation, strengthen protection for intellectual property, and make it easier to do business."

China is investing heavily in different areas of technological innovation. For instance, training new talent is a prioritised sphere of action, according to [Mercator Institute of China Studies](#).

“In AI, China intends to establish at least 50 academic and research institutes by 2020. China’s government hopes to gain substantial economic benefits by pushing digital innovation within and beyond its borders: for instance, it is estimated that products and developments for the Internet of Things (IoT) alone could add up to \$1.8 trillion in cumulative GDP growth for China by 2030.”

As such the Silk Road is a natural market to export some of China’s home-grown, technological and information expertise, challenging the dominance of the US. So much so that US President Donald Trump has identified MIC 2025 as one of the key reasons he is worried about Beijing’s rise and has slapped tariffs on sectors that are expected to advance MIC 2025 programmes.

“Given that many BRI projects are directly funded by Beijing-backed financial institutions that often explicitly or implicitly require receiving countries to outsource projects to Chinese companies, China-based Internet firms see the digital Silk Road as an opportunity to seek state largesse and political support for their own decapacity needs,” writes [Hong Shen, a professor at Carnegie Mellon University](#) in his report Building a Digital Silk Road? Situating the Internet in China’s Belt and Road Initiative.

The professor cited the example of China Development Bank and Industrial and Commercial Bank of China issuing a \$2.5 billion credit line to Bharti Airtel, the largest telecom operator in India, for its domestic infrastructure projects. Bharti Airtel then outsourced part of its network equipment to Huawei and ZTE, boosting the external markets of the two Chinese equipment makers.

The China-Pakistan Economic Corridor, widely seen as one of most ambitious BRI undertaking, will also feature strong information and technological infrastructure.

The series of projects that aim to connect Kashgar in west China all the way to a deep-sea port in southwest of Pakistan will include efforts to construct a basic information-exchange platform, improve cross-border e-commerce, and develop digital investment and financing services.

A Digital Silk Road can also go a long way in making BRI infrastructure projects more sustainable by embedding new technologies that promote efficiency and optimisation. The 1.3 MW gas-based Jhang power plant in Pakistan, developed under the aegis of CPEC, incorporates high-efficiency gas turbines from Siemens. The service agreement with Siemens also includes power diagnostics.

Indeed, the Digital Silk Road is set to usher rural areas across the region into the modern age with advanced Information Technology (IT) infrastructure such as broadband networks, e-commerce hubs and smart cities.

“For example, the mobile internet creates jobs in rural areas, turning farmers into online vendors. When new channels are created to transport farm produce to cities, every farmer can be an online merchant as the demand in cities for fresh, safe agricultural products grows rapidly,” said Winston Ma Wenyan, CEO of China Silkroad Investment & Development (Beijing) in an article published on the [World Economic Forum](#) website.

Another area is the use of big data to enable countries to better respond to water security issues, climate change and natural disasters.

“A body named the Digital Belt and Road has reportedly set up a \$32 million programme, involving experts from 19 countries and seven international organisations to tackle such challenges and also natural disaster risks and natural heritage protection,” the WEF article said.

Any 21st century infrastructure project has to include a strong technological component, so we can expect more BRI projects embedded with digital infrastructure.



MOTIVATIONS FOR BELT AND ROAD

BRI promises mutual benefits and sustainable development but partner countries would do well to manage their debt-to-GDP ratios

The Belt and Road Initiative (BRI) has come a long way since Chinese President Xi Jinping outlined his vision of reviving the fabled Silk Road in a speech in Astana in September 2013.

“To forge closer economic ties, deepen cooperation and expand development space in the Eurasian region, we should take an innovative approach and jointly build an ‘economic belt along the Silk Road’,” [Jinping](#) said. “This will be a great undertaking benefitting the people of all countries along the route. To turn this into a reality, we may start with work in individual areas and link them up over time to cover the whole region.”

Since then, the BRI wave has spread to 70 countries, from Australia to Italy, Egypt to Indonesia, with China ploughing billions of dollars to create a patchwork

of roads, railways, sea and air routes and major infrastructure projects in order to create a corridor of multilateral trade for the benefit of all countries and especially for China.

The BRI region earmarked by China is home to a population of 4.4 billion with a combined GDP of \$21 trillion that makes it a very lucrative opportunity to lift the region’s economy and create jobs.

According to Moody’s Investors Service, China has made BRI investments and construction contracts worth \$614 billion since 2013, accounting for 5 percent of the value of all such transactions by China globally from 2013 to 2018, and 61 percent of the number of such contracts.

The ratings agency used its Analytics Global Macroeconomic Model to estimate the potential impact of BRI-related investments on Southeast Asian countries, and found that the higher the investment level, the greater is the impact on economic growth and productivity.

BOOSTING INCOMES, REDUCING POVERTY

A [World Bank](#) analysis shows that Belt and Road transport corridors have the potential to substantially improve trade, foreign investment, and living conditions for citizens in its participating countries, provided China itself and its BRI partners also proceed with adopting deeper policy reforms that increase transparency, expand trade, improve debt sustainability, and mitigate environmental, social, and corruption risks.

The Bank estimates that BRI projects could lift nearly 40 million people out of poverty (those earning less than \$3.20 a day). Real incomes could be boosted by as much as 3.4 percent across the six BRI economic corridors, comprising Eurasia, Pakistan, southeast Asia, Europe, Africa and the Middle East.

The World Bank argues that many of the countries located along the corridor are ill-served by existing infrastructure and by a variety of policy gaps, which has led to under-trading of 30 percent and a shortfall of 70 percent of foreign direct investment (FDI) of what they are truly capable of absorbing.

“Along economic corridors, we estimate that travel times will decline by up to 12 percent once completed,” said the bank. Travel times with the rest of the world are estimated to decrease by an average of 3 percent, showing that non-BRI countries and regions will benefit as well. Trade will also increase sharply, if unevenly, for Belt and Road corridor economies. We estimate that trade will grow from between 2.8 and 9.7 percent for corridor economies and between 1.7 and 6.2 percent for the world.”

BRI nations that enjoy a comparative advantage in time-sensitive sectors, such as fresh fruits and vegetables, or that require time-sensitive inputs, such as electronics, will be among the biggest winners. Importantly, low-income countries are expected to see a significant 7.6 percent increase in foreign direct investment due to the new transport links, the bank noted.

However, the surge in GDP and investment would also be moderated by higher debt levels.

“Large debt overhangs could undermine spending on other areas of the economy that are also in need and hurt growth prospects in the process,” according to Moody’s. “Instead of benefiting from the infrastructure investments made by China, they could end up treading water in economic development and serving more as a way station for transient goods destined for richer, and perhaps less indebted, countries.”

While most of the funding is provided by Chinese state-owned enterprises who often don’t disclose funding agreements, AidData notes that of the more than 4,000 projects funded by Beijing, close to 40 percent are provided on an interest rate exceeding 5 percent, while 25 percent of the loans have been offered with an interest rate of between 2-5 percent.

Faster GDP growth engenders more trade and investments from abroad, which, while beneficial, can then feedback into a higher debt load, Moody’s noted.

“For most countries, debt-to-GDP growth remains manageable throughout the forecast period. In the case of Myanmar, which enters 2019 with moderate debt levels, debt-to-GDP under the BRI is actually lower for most of the investment period than the non-BRI debt-to-GDP estimate due to higher GDP levels. Indonesia exhibits a similar trend.”

An aerial, high-angle photograph of a modern transit station. The image shows a wide, light-colored tiled floor. In the center, there are two parallel escalators with glass railings. Several people are seen walking on the floor and using the escalators. The lighting is bright, creating a clean and open atmosphere. The image is partially obscured by a large blue rectangular overlay on the left side, which contains the main title and sub-headline.

PUSHING BELT AND ROAD: UAE AND CHINA STRENGTHEN STRATEGIC PARTNERSHIP

UAE and Chinese state entities signed 16 Memoranda of Understanding (MoU) at the UAE-China Economic Forum in July

Over the past few years, the United Arab Emirates (UAE) has emerged as China's second-largest trading partner and biggest export market in the Middle East and North Africa (MENA) region.

More than 22 percent of Arab-Chinese trade and 30 percent of China's exports to the Arab world goes through the UAE, according to a report by the UAE Ministry of Economy in 2018.

In the past five years, there have been several high-level exchanges between the two countries, including President Xi Jinping's visit to the UAE in July last year and the UAE leaders' state visits to China in April and July. These visits have upgraded strategic relations and kept bilateral ties running at a high level.

The strategic relationship between the two countries has been further cemented with the UAE joining China's ambitious Belt and Road Initiative (BRI)

following President Xi's visit.

With large ports, sophisticated infrastructure and a geographical location which serves as a strategic gateway between the Far East and Europe, the UAE is well-suited to be a global trading hub under the BRI. A great example is the 2.6 million TEU CSP Abu Dhabi Terminal, which started trial operations in April this year. In 2016, China's COSCO Shipping Ports had entered into a 35-year concession agreement with Abu Dhabi Ports to develop the \$300 million terminal and \$130 million Container Freight Station (CFS) in the Middle East, the largest in the Middle East.

The UAE-China Economic Forum, held in Beijing from July 21 to 23, witnessed the signing of 16 Memoranda of Understanding (MoU) across varied sectors from technology to space, development, and education, industry and commerce, energy, and culture. The MoUs were signed on the sidelines of the state visit by China by Sheikh Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces.

Key signings included:

1. Agreement on defence and military cooperation between the two countries signed by Sheikh Abdullah bin Zayed Al Nahyan, Minister of Foreign Affairs and International Cooperation, and Wang Yi, State Councillor and Foreign Minister of China.
2. MoU on environment protection and conservation signed between the UAE's Ministry of Climate Change and Environment, and China's Ministry of Ecology and Environment.
3. MoU on scientific and technological cooperation, with a focus on artificial intelligence technologies, between the UAE's Office for Artificial Intelligence and China's Ministry of Science and Technology.
4. The UAE Office for Future Food Security and China's Ministry of Agriculture and Rural Affairs in the Inner Mongolia Autonomous Region signed an MOU to cooperate on two projects to ensure food security advancement, and integrated farming systems.
5. Sultan bin Saeed Al Mansouri, Minister of Economy, and Zhong Shan, Minister of Commerce, signed a MoU to encourage UAE and Chinese enterprises to engage in trade and economic cooperation endeavours with the African continent.
6. The UAE Ministry of Energy and Industry and China's National Energy Administration (NEA) signed a MoU for the peaceful use of nuclear energy
7. Hussain bin Ibrahim Al Hammadi, Minister of Education, and the Confucius Institute's Deputy Chief Executive Ma Jianfei signed a MoU to introduce the Chinese language in UAE education curricula.
8. The Department of Culture and Tourism - Abu Dhabi signed an agreement with the National Museum of China
9. Abu Dhabi National Oil Company, ADNOC, signed a Strategic Framework Agreement with China National Offshore Oil Corporation, CNOOC.
10. The UAE Federal Customs Authority and General Administration of Customs of the People's Republic of China, GACC signed a Mutual Recognition Agreement
11. The Abu Dhabi Global Development Market (ADGM) and China's National Development and Reform Commission (NDRC) signed a MoU to encourage Chinese and UAE enterprises' trade and investment opportunities.
12. ADGM also signed a MoU with China Everbright Group to explore and develop a joint platform that focuses on key areas including real industries and financial investments.
13. ADGM and the China National Nuclear Corporation (CNNC), signed a cooperation agreement to facilitate BRI in the UAE and MENA region, and help grow CNNC's globalisation plans.
14. A MoU was signed between Abu Dhabi Ports, Jiangsu Provincial Overseas Cooperation and Investment Company and the Industrial and Commercial Bank of China to facilitate investments by Chinese companies in KIZAD.
15. Emirates Nuclear Energy Corporation (ENEC) signed a MoU with CNNC to promote cooperation between China and the UAE in nuclear technology.
16. A joint research cooperation agreement between Khalifa University of Science and Technology and Tsinghua University was signed by representatives of the two universities.

In April 2019, Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai had announced \$3.4 billion worth of UAE-China investment deals during a state visit to China.

The projects included:

1. **A megaproject to build a ‘traders market’ spread over an area of 60 million square feet along Sheikh Mohammed bin Zayed Road, adjacent to the Expo 2020 site. Chinese company Yiwu has agreed to invest \$2.4 billion in the project, which will store and ship Chinese products from Jebel Ali to the world.**
2. **China-Arab investment Fund will invest \$1 billion to launch a ‘Vegetable Basket’ project in Dubai to import, process, pack and export agricultural, marine and animal products to the world through the new Silk Road.**
3. **Additionally, cold storage warehouses and huge complexes would be built for importing, processing, packaging, storage and re-export of agricultural, livestock and fish products.**

Beyond government-to-government relations, the private sector in the UAE has taken the lead in forging business ties with their Chinese counterparts. In July, on the sidelines of the state visit, Dubai-headquartered master developer Emaar Properties signed a MOU with Beijing Daxing International Airport to implement an \$11 billion mixed-use project including residential and leisure facilities at the airport. Chinese ride-hailing giant Didi Chuxing and regional investment firm Symphony Investment signed an agreement at the economic forum to set up a joint venture to promote sharing economy and Internet consumer services across the MENA region and China.

In July, UAE official news agency WAM reported that bilateral trade between China and the UAE reached \$11.2 billion in the first quarter of 2019, a 16.21 per cent increase compared to the same period in 2018. The report, quoting Ni Jian, the Chinese Ambassador to the UAE, said in 2018, China’s exports to the UAE grew by 3.2 per cent to \$29.66 billion while China’s imports from the UAE went up by 32.8 per cent to \$16.26 billion.



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BRI Connect is part of a suite of evolving tools that provides access to comprehensive information including macroeconomic, market, financing, geopolitical and operational risk data on BRI related countries, organizations and projects.

Available exclusively through Eikon, BRI Connect helps financial professionals to:

- monitor a database of BRI related projects, updated in real-time
- access unparalleled coverage of financing deals and primary capital markets
- better understand where to invest in BRI opportunities
- secure accurate, up-to-date country risk ratings
- details on over 3500 BRI related organizations

BRI METHODOLOGY

Our methodology for identifying projects related to BRI is as follows:

BRI Connect includes projects that have been identified as such by the Chinese government or Chinese State Departments; or where project contractors have signed agreements with the government departments of the relevant country along BRI Corridors and have obtained relevant regulators' approvals required for Belt & Road initiatives; or which are published on the BRI official website: yidaiyilu.gov.cn/ or projects that have direct Chinese participation at a consultant, owner, contractor and financier level or are of strategic interest located along a BRI Economic Corridor.

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