One Belt One Road Initiative
(The Silk Road Economic Belt and the 21st-century Maritime Silk Road)
TABLE OF CONTENTS

Introduction
The six corridors
Infrastructure networks
The infrastructure gap in Asia
Silk Road Economic Belt
Maritime Silk Road
East Africa
Closely related networks
China–Pakistan Economic Corridor (CPEC)
Financial institutions:
  1) AIIB
  2) Silk Road Fund
Geoeconomics changes:
  1) A new kind of multilateralism
  2) Culture and education
Chinese Motivation
Foreign Controversy
  1) Globalization and Europe
  2) India opposition
  3) Australia concerns
  4) Few facts about OBOR which are not very well known
Hong Kong and-vs Singapore in the One Belt, One Road Scenario
Introduction

The Silk Road Economic Belt and the 21st-century Maritime Silk Road, better known as the One Belt and One Road Initiative (OBOR), or also The Belt and Road (B&R) and The Belt and Road Initiative (BRI), is a development strategy proposed by China’s leader Xi Jinping that focuses on connectivity and cooperation between Eurasian countries, primarily the People’s Republic of China (PRC), the land-based Silk Road Economic Belt (SREB) and the oceangoing Maritime Silk Road (MSR).

In other words, the purpose of the initiative proposed by China in 2013 is that of creating a trade and infrastructure network by connecting Asia with Europe and Africa along ancient trade routes.

We remember that the original Silk Road, which extended from China to Europe, was opened up in 140BC by Zhang Qian, a royal emissary who left for a tour of discovery to Europe from Chang'an, the capital of the Han Dynasty.

The new Silk Road was initially called One Belt and One Road, but in mid-2016 the official English name was changed to the Belt and Road Initiative due to misinterpretations of the term one.

Since its unveiled, the countries involved in the initiative have focused their resources and investments mainly on infrastructures, construction materials, railway and highway, automobile industry, real estate, power grid, and iron and steel.

However, although the initiative has been introduced and embraced as one of the most ambitious international projects of the time, and experts have rightly highlighted the great business opportunities for the main-international corporations of each country involved in the initiative, the OBOR has encountered opposition from all those who see very dangerous the central role that China would assume in global business as well as the formation of a China leading trading network.

What will the real benefits be for the other countries and their national and local economies? If the most obvious winners from the BRI are bankers, equity fund managers and exporters, real estate and construction companies, infrastructure investors and professional services firms, all “presumably” international, are the local populations protected by failures or speculations of these international giant corporations?
But a project of this scale and ambition raises other many questions which need answers that cannot just be circumvented by government conferences for propaganda purposes only. Nobody, for example, can be sure or ascertain if the highly indebted Chinese state and overleveraged SOEs really have the financial resources to sustain this project. After forty years of “Chinese” unclear policies, absence or lack of “Chinese” banking transparency policies, how to be sure that this time the terms of the different investments are really attractive and transparent-fair for foreign companies?

In the light of the constant violations of and non-compliance with international trading rules and standards by China and its companies, is it prudent or “wise” to increase China’s international making-decision power, in addition to the economic one?

And how to limit or exclude the very concrete political influence that China “will” gain when it will go on every road and port of the world?

Therefore, along with the economic forecasts and opinions closely linked to the Chinese propaganda which introduce this project as an initiative that will save the world, businesses should take into consideration all the critical aspects of the project, which will most likely remain incomplete, the now well-known Chinese tricks behind the project.

The six corridors

The Belt and Road initiative is geographically structured along six corridors and the maritime silk road.

- **New Eurasian Land Bridge.** It runs from Western China to Western Russia through Kazakhstan;
- **China – Mongolia – Russia Corridor.** It runs from Northern China to Eastern Russia;
- **China – Central Asia – West Asia Corridor.** It runs from Western China to Turkey;
- **China – Indochina Peninsula Corridor.** It runs from Southern China to Singapore;
- **China – Myanmar – Bangladesh – India Corridor.** It runs from Southern China to Myanmar;
- **China – Pakistan Corridor.** It runs from South-Western China to Pakistan;
- **Maritime Silk Road.** It runs from the Chinese Coast through Singapore to the Mediterranean.
Infrastructure networks

The area of the initiative covers primarily Asia and Europe, encompassing around 60 countries, including Oceania and East Africa also.

A prime example of the network is the Silk Road Railway started in 2013, which goes through China’s Xinjiang Autonomous Region, Kazakhstan, Russia, Belarus, Poland and Germany as a land connection between Asia and Europe.

Some companies are already enjoying the benefits of the relatively new rail freight line between Chongqing in western China and Duisburg in Germany.

The anticipated cumulative investment over an indefinite timescale is variously put at US$4 trillion or US$8 trillion.

The infrastructure gap in Asia

The Belt and Road Initiative is expected to bridge the “infrastructure gap” among the Asian countries and, thus, accelerate the economic growth across the Asia Pacific area and Central and Eastern Europe.

But the infrastructure gap in Asia is huge, and this is maybe one of the most critical-weak point of the entire OBOR initiative which would make it unrealizable or profoundly different from how it is presented.

According to a report-warning of the Asia Development Bank (ADB), Asia needs to invest $26tn by 2030 to resolve a serious infrastructure shortage that threatens to hold back some of the world’s fastest-growing economies.

Always according to the ADB’ report, the countries across the region require to double total annual spending to about $1.7tn in areas ranging from transport to basic sanitation.

The warning signals that even a big improvement in infrastructure in the past two decades has failed to keep pace with the rapid growth of economies, population and urbanization.
The shortfall is most acute outside China, which is already spending at more than 90 per cent of the levels it is projected to need.

Takehiko Nakao, president of the Manila-based ADB, said that “…the demand for infrastructure across Asia and the Pacific far outstrips current supply…” and “…there is a huge gap still to provide power and roads and railways. All these things are missing.”

The 45 countries surveyed in the report, which covers 2016-2030, are forecast to need investment of $26tn over 15 years to maintain growth, cut poverty and deal with climate change.

The region is estimated to spend about $881bn a year at present. This means a gap between actual and required spending of about 2.4 per cent of forecast gross domestic product in 2016-20.

More than half the estimated spending should go to transport and a third to power, the report says, pointing in particular to a lack of ports, railways and highways to link countries to regional and global markets. Another $800bn is needed for projects to help the 1.5bn people who have no access to basic sanitation and the 300m without safe drinking water.

Critics say some ambitious regional infrastructure projects, such as the East-West Economic Corridor spanning the Mekong sub-region between the coasts of Myanmar and Vietnam, have been slow to materialize or failed to yield benefits.

Other ventures, such as a proposed high-speed rail line linking the southern Chinese city of Kunming, the Lao capital of Vientiane, Bangkok and the Thai coast, have been hampered by political tensions or wrangles over financial terms.

The size of the infrastructure gap varies greatly, the report says. The Pacific and south Asian sub-regions are projected to need annual financing equal to about 9 per cent of total 2016-30 GDP, falling to less than 6 per cent in southeast Asia and east Asia.

China accounts for nearly half of the $1.7tn total annual requirement but its infrastructure gap is much smaller than the Asian average after a quarter century of unprecedented investment.

The world’s second-largest economy is estimated to need $754bn in annual investment in the five years through 2020, not far shy of its estimated 2015 investment of $686bn.

Between 2000 and 2012 the annual average increase in China’s electricity generation capacity was 10.7 per cent, creating one of the region’s most reliable networks in terms of limiting outages and transmission losses.

Similarly aggressive investment in mobile telecommunications infrastructure provided the basis for average annual subscriber growth of 19.2 per cent between 2000 and 2015.

But Chinese infrastructure investment has been mostly debt-funded, fueling concerns about rising levels of corporate indebtedness.
Silk Road Economic Belt

The Silk Road Economic Belt (丝绸之路经济带), is the Chinese economic development project for integrating trade and investment in Eurasia, and together with the oceanic Maritime Silk Road forms the OBOR initiative.

Essentially, the “belt” includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East, and Europe.

Apart the zone largely similar to the historical Silk Road, another area that is said to be included in the extension of this belt is South Asia and Southeast Asia.

There are several nodes, corridors and other elements of the belt. One of the earliest nodes to take shape was the New Eurasian Land Bridge, a railway that connects China to Central Europe through Kazakhstan and Eastern Europe.

North, central and south belts are proposed. The North belt would go through Central Asia, Russia to Europe. The Central belt goes through Central Asia, West Asia to the Persian Gulf and the Mediterranean.

The South belt starts from China to Southeast Asia, South Asia, to the Indian Ocean through Pakistan. The Chinese One Belt strategy will integrate with Central Asia through Kazakhstan’s Nurly Zhol infrastructure program.

Economic corridors extend across the Eurasian land mass including in regions on the periphery like the Russian Far East.

Russia has established the Russian Direct Investment Fund and China Investment Corporation, which is a Chinese government investment agency, partnered in 2012 to create the Sino-Russian Investment Fund, which concentrates on opportunities in bilateral integration.

Many of the countries that are part of this belt are also members of the China-led Asian Infrastructure Investment Bank (AIIB).

Maritime Silk Road

The Maritime Silk Road, also known as the “21st Century Maritime Silk Road” (21 世纪海上丝绸之路) is the complementary initiative of the OBOR, which purpose is that of investing and fostering collaboration in Southeast Asia, Oceania, and North Africa, through several contiguous bodies of water, such as the South China Sea, the South Pacific Ocean, and the wider Indian Ocean area.
The Maritime Silk Road initiative was first proposed by Xi Jinping during a speech to the Indonesian Parliament in October 2013. Like the Silk Road Economic Belt, most countries in this area have joined the China-led Asian Infrastructure Investment Bank.

**East Africa**

In May 2014, Premier Li Keqiang visited Kenya to sign a cooperation agreement with the Kenyan government, and under this agreement, the **Mombasa–Nairobi Standard Gauge Railway** was constructed connecting Mombasa to Nairobi.

After completion, the railroad stretches approximately 300 miles (480 km) costing around 250 million USD.

In September 2015, the China National Machinery Industry Corporation, also known as Sinomach, signed a strategic-cooperative memorandum of understanding with the industrial giant General Electric.

The memorandum of understanding set goals to build wind turbines, to promote clean energy programs and to increase the number of energy consumers in sub-Saharan Africa.

**Closely related networks**

The **China Pakistan Economic Corridor (CPEC)** and the **Bangladesh-China-India-Myanmar Economic Corridor (BCIM)** are officially classified as “closely related to the Belt and Road Initiative.”

However, this distinction is disregarded by media and the networks are counted as components of the initiative.

The CPEC, in particular, is often regarded as the link between China's maritime and overland silk road, with the port of Gwadar forming the crux of the CPEC project.

**China–Pakistan Economic Corridor (CPEC)**

China–Pakistan Economic Corridor (中国-巴基斯坦经济走廊) (CPEC), is a collection of infrastructure projects currently under construction throughout Pakistan.
Originally valued at $46 billion, the value of CPEC projects is now worth $57 billion. CPEC is intended to rapidly modernize Pakistani infrastructure and strengthen its economy by the construction of:

- modern transportation networks;
- numerous energy projects;
- and special economic zones.

On 13 November 2016, CPEC became partly operational when Chinese cargo was transported overland to Gwadar Port for onward maritime shipment to Africa and West Asia.

Financial institutions:

1) AIIB

The Asian Infrastructure Investment Bank (AIIB), first proposed by China in October 2013, is a development bank dedicated to lending for projects regarding infrastructure.

The primary goals of AIIB are:

- support the expanding infrastructure needs across Asia;
- enhance regional integration;
- promote economic development;
- and improve the public access to social services.

On 29 June 2015, the Articles of Agreement of the AIIB, which is its legal framework was signed in Beijing.

The proposed multilateral bank has an authorized capital of $100 billion, 75% of which will come from Asian and Oceania countries.

China will be the single largest stakeholder, holding 26% of voting rights.

Board of Governors is AIIB’s the highest decision-making body under the Asian Infrastructure Development Bank Articles of Agreement.

2) Silk Road Fund

The Silk Road Fund is a state-owned investment fund of the Chinese government to foster increased investment in countries along the One Belt, One Road. As a fund, its role will be to invest in businesses rather than lend money for projects.

The Silk Road Fund is semi-directly under the supervision of People’s Bank of China. Its Party Organizational Relations are under the management of PBOC. For instance, on Jan.
18th 2016, the Governor of PBOC, Zhou Xiaochuan participated in the Meeting of Democratic Life with the Party Committee of Silk Road Fund and gave instructions on Fund operation and Party building after the management team reported the work and their criticism and self-criticism. In the Chinese political system, participation in Meeting of Democratic Life means supervision and superiority.

The senior executives of the Silk Road Fund are all from 4 shareholders and Officials from People’s Bank of China have taken most of the posts as the biggest holder, whilst the State Administration of Foreign Exchange, is a subordinate body of the Central Bank.

The Chairman of Board of Directors, JIN Qi, was formerly the Assistant Governor of the People's Bank of China, and the most important executive post of General Manager, was assigned to WANG Yanzhi, the Director of Foreign Exchange Reserves to Entrust Loan Office of State Administration of Foreign Exchange.

The structures of board of directors and supervisors represent the balance of power between OBOR related institutions.

In the board of directors, 4 relevant ministries of Central Government, including Ministry of Foreign Affairs, National Development and Reform Commission, Ministry of Finance and Ministry of Commerce, and 4 shareholders respectively send one midlevel official to delegate in the board.

In the board of supervisors, with Yang Zejun, former Secretary-general of the Office of the Central Financial Leadership Group, acting as Chairman, senior executives from CIC, CDB and IEBC share the seats with 2 other staff representatives.

Unlike other funds, whose organizational forms are mainly limited partnership, private equity (PE) in particular, Silk Road Fund is a limited liability company (Silk Road Fund Co., Ltd). Its 4 shareholders are:

- State Administration of Foreign Exchange (65%);
- China Investment Corporation (15%);
- Export-Import Bank of China (15%);
- China Development Bank (5%).

The Fund has a total capital of 40 billion, and the first round of capital installment is 10 billion USD, contributed by the shareholders accordingly.

Until August 2017, the committed investment of Silk Road Fund is 680 million USD and equity investment accounts for nearly 80%, according to the Chairman JIN Qi, and the number of its invested projects was 15 by May 2017.

The Karot Hydropower Project in Pakistan is the first investment project of the Silk Road
Fund, followed by part of the initial fund invested in the construction of a Mombasa–Nairobi Standard Gauge Railway. Then, an acquisition of 9.9% of Yamal LNG project, a liquefied natural gas project in Sabetta, located north-east of the Yamal Peninsula, from Novatek. The Dubai Hassyan Clean Coal Powerplant, co-invested with Harbin Electric International of China, and an acquisition of 9.9% of PJSC Sibur Holdings, a giant energy company of Russia.

Geoeconomics changes:

1) A new kind of multilateralism

In his 29 March 2015 speech at the Boao Forum for Asia (BFA) annual conference, President Xi Jinping said:

“The Chinese economy is deeply integrated with the global economy and forms an important driving force of the economy of Asia and even the world at large. [...] China’s investment opportunities are expanding. Investment opportunities in infrastructure connectivity as well as in new technologies, new products, new business patterns, and new business models are constantly springing up. [...] China’s foreign cooperation opportunities are expanding. We support the multilateral trading system, devote ourselves to the Doha Round negotiations, advocate the Asia-Pacific free trade zone, promote negotiations on regional comprehensive economic partnership, advocate the construction of the Asian Infrastructure Investment Bank (AIIB), boost economic and financial cooperation in an all-round manner, and work as an active promoter of economic globalization and regional integration”.

Xi also insisted that, from a geoeconomic standpoint, the Silk Road Fund and the Asian Infrastructure Investment Bank would foster “economic connectivity and a new-type of industrialization in the Asia Pacific area, and thus promote the common development of all countries as well as the peoples’ joint enjoyment of development fruits.”

The underinvestment in transportation infrastructure in the industrialized world after 1980 and the pursuit of short-termist export-oriented neoliberal development policies in most Asian and Eastern European countries has allowed China to develop quietly its preeminence in civil works and modern land transportation technology including high speed rail.

Some experts have argued the Belt and Road initiative constitutes a natural international extension of the infrastructure-driven economic development framework that has sustained the rapid economic growth of China since the adoption of the Chinese economic reform under chairman Deng Xiaoping, which could eventually reshape the Eurasian economic continuum, and, more generally, the international economic order.
Between 2014 and 2016, China’s total trade volume in the countries along Belt and Road exceeded $3 trillion, created $1.1 billion revenues and 180,000 jobs for the countries involved.

However, the worries in partnering countries are whether the large debt burden on China to promote the Initiative will make China’s pledges declaratory.

But backing to Xi’s efforts to convince countries to join “his” initiative, many nations are actually try to understand the hegemonistic designs hidden behind the rationality of connectivity and trade.

The policy initiative aims to enhance China’s centrality in the global economic unilateral approach in how the project is conceived and implemented so far belies the rhetoric of multilateralism emanating from Beijing.

2) Culture and education

The University Alliance of the Silk Road (UASR) (丝绸之路大学联盟), is a university alliance formed by Xi’an Jiaotong University, for the purpose of developing People’s Republic of China’s One Belt, One Road foreign policy initiative.

The UASR was founded on May 22, 2015, with approximately 100 universities from 22 countries. With the addition of Washington University in St. Louis in April 2016, the UASR has expanded to 132 universities across 32 countries and regions on 5 continents.

The UASR aims to support training, research, policy, cross-cultural understanding, and medical service.

Many critics point out that even this initiative, is almost entirely for the exclusive benefit of China.

What exactly will China, and the countries even further behind in terms of civil rights, opinion and religious freedom, gender equality, respect for international standards, technological development (etc. etc.), teach to Western students from the most advanced and civilized Western countries? Will China or Russia or Pakistani become democracies (in the meaning of the term given by the truly democratic countries)?
Of course not, and as it is already happening, since the beginning of what we call globalization, China and the other developing countries will acquire Western knowledge and skills, without giving anything to Western countries. The Westerns “have to respect” the other cultures, the other cultures “have to be respected” by the Westerns.

**Chinese Motivation**

Exhorting all countries to join the OBOR initiative, Chinese President Xi Jinping suggested that “what we hope to create is a big family of harmonious co-existence.”

Of course, the Chinese purpose of this project is far away from that of creating a big family, whilst their real motives are very clear.

First of all, China is using the Belt and Road Initiative to address excess capacity in its industrial sectors, in the hopes that whole production facilities may eventually be migrated out of China into BRI countries.

Additionally, the OBOR investments include many significant government-to-government projects. This allows Chinese construction companies such as CCC to get work without having to bid against international companies in tenders.

Always for the OBOR initiative, China's overseas direct investment in the form of cross-border M&A, joint ventures and greenfield investments, have also risen to $US170 billion in 2016, up 89 per cent from $US90 billion in 2013. While Donald Trump has boasted of a $US1 trillion infrastructure investment plan over a decade, projects bearing the OBOR won about $US500 billion in Chinese funding guarantees between 2014 and 2016.

In order to increase its strategic military influence, and enforce its trade regime, China has already invested billions of dollars in several South Asian countries like Pakistan, Nepal, Sri Lanka, Bangladesh and Afghanistan, by improving their basic infrastructure.

Political motivation is also “one of the main” reasons for building ports, roads, railways, and other forms of infrastructure in under-developed Eurasia and Africa.

**Foreign Controversy**

1) **Globalization and Europe**

Obviously, foreign oppositions and concerns arise from Chinese motives and ambitions.

A first important consideration made by many experts and critics is that, de facto, the belt and road initiative is a continuation and consolidation of the economic model of globalization.

The economic model of globalization, as we know, can be summarized in the migration of industrial production from the richest and most advanced countries to the poorest and developing countries.

If for migrant companies, globalization means exponential growth in profits thanks to the lower wages of workers and favorable tax treatment, for the economies and local populations of the nations of migrant companies, globalization simply means loss of work and worsening of working conditions.
However, Western countries, and above all the European Union, have tried to limit or mitigate the negative effects of globalization through different common policies, making the globalization open, market-oriented, based on and enforced by treaties equally applicable and negotiated by all, ensuring the free flow of goods and services, information and ideas.

But what would a globalization with “Chinese characteristics” be?

Until now, Western countries and the European Union, have been tolerating Beijing’s arrogance in circumventing international treaties as well as the Chinese informal-secret bilateral agreements, which are not supported by a legal system or “serious” legal commitments that can assure their effective implementation or execution, but that may be withdrawn at any time “at the whim” of China.

Therefore, the first concern of Europe is the lack of transparency and collegiality of the exclusive and confidential bilateral deals, for example on public tenders, in Chinese style which surely not meet and violate the EU standards.

Europe is putting all its efforts to guarantee, among the members of the union, open tenders where through a transparent bid, the best offer wins. Will China agree with and respect this rule?

Always as Europe’ concerns, there are the labour safety, environmental standards and a fair and sustainable financing.

European experts also warned of risks due to an uncertain investment environment.

Companies should be aware of the lack of legal protection for investors, uncertainties in local regulations, and protection in some countries.

Many times China has showed any respect for international regulations or the WTO, and without respect for WTO procurement rules, the initiative risks to become a vehicle for more protectionism, with SOEs as gatekeepers in third markets, and only for foreign firms which are willing to accept preset conditions, such as forced technology transfer.

Lastly, Europe and the other Western counties are also worried about ethnic and religious factors, the changing geopolitical landscape, as well as weak and unbalanced global economic growth as major challenges.

2) India opposition

Probably India is the most determined opponent to the OBOR initiative, and its bitter opposition, which still continues, is culminated with the boycott of the first international summit on Belt and Road Initiative Forum hosted by China on May 2017.

As an emerging economy that shares a contested border with China, India is worried about containment and new pathways for aggression from Pakistan.

India, boycotting the event, announced in an official statement: “No country can accept a
Indian Foreign Secretary Subrahmanyam Jaishankar articulated this position at the 2017 Raisina Dialogue: “China is very sensitive about its sovereignty. The economic corridor passes through an illegal territory, an area that we call Pak-occupied Kashmir. You can imagine India’s reaction at the fact that such a project has been initiated without consulting us.” Prime Minister Narendra Modi reinforced this point, asserting that “connectivity in itself cannot override or undermine the sovereignty of other nations.”

Yet against the backdrop of deteriorating Sino-Indian ties, India cannot feasibly join the OBOR project without challenging the very foundations of its foreign policy. The $55 billion CPEC would link China’s Muslim-dominated Xinjiang Province to the Gwadar deep-sea port in Pakistan. Despite the rhetoric, Beijing’s priority in pumping huge sums into a highly volatile Pakistani territory is not to provide economic relief for Pakistan’s struggling economy or to promote regional economic cooperation.

The long-term strategic consequences of OBOR for India could also allow China to consolidate its presence in the Indian Ocean at India’s expense. Indian critics contend that China may use its economic power to increase its geopolitical leverage and, in doing so, intensify security concerns for India. CPEC gives China a foothold in the western Indian Ocean with the Gwadar port, located near the strategic Strait of Hormuz, where Chinese warships and a submarine have surfaced. Access here allows China greater potential to control maritime trade in that part of the world – a vulnerable point for India, which sources more than 60 percent of its oil supplies from the Middle East. What’s more, if CPEC does resolve China’s “Malacca dilemma” – its over-reliance on the Malacca Straits for the transport of its energy resources – this gives Asia’s largest economy greater operational space to pursue unilateral interests in maritime matters to the detriment of freedom of navigation and trade-energy security of several states in the Indian Ocean region, including India.

The Maritime Silk Road also reinforces New Delhi’s concerns about encirclement. Beijing’s port development projects in the Indian Ocean open the possibility of dual-use facilities, complicating India’s security calculus.

India has its own set of connectivity initiatives such as Myanmar’s Kaladan project, the Chabahar port project with Iran, as well as the north-south corridor with Russia which could be potentially leveraged. The proposed 7200-kilometer International North South Transportation Corridor is a ship, rail and
road transportation system connecting the Indian Ocean and Persian Gulf to the Caspian Sea via Iran to Russia and North Europe.

The Indian and Japanese governments are also working on a “vision document” for developing an Asia-Africa Growth Corridor largely meant to propel growth and investment in Africa, in part a response to China’s ever-growing presence on the continent.

3) Australia concerns

Australia has also clearly expressed its concerns about the massive infrastructural plan of the Silk Road.

It is clear that OBOR has become a catalyst for profound change in China and Central Asia. So, while it would be foolish not to consider the great opportunities for some companies, on the other hand, the Australian government must necessarily consider the implications that the OBOR would have on the Australian comprehensive business strategies.

One Australian company that is a clear beneficiary of the Chinese push into infrastructure investment across Asia is John Holland Constructions, a subsidiary of China Communications Construction Company. Its chairman, Liu Qitao, is believed to be close to President Xi. CCC’s purchase of John Holland provided the company with a platform for expansion in Asia.

However, Australia has not signed a memorandum of understanding with the Chinese government on OBOR, and this has irritated Beijing that would like to connect OBOR with Australia’s $5 billion northern Australian infrastructure development plan.

There are several reasons why Australia has stood back from any concrete involvement in OBOR.

First of all, Australia like many other counties does not trust China due to, as always, the lack of transparency about the real implications of formal relationships involved in the initiative and on global scale.

Secondly, as a deficit country with a stable political system, growing economy and attractive investment climate, Australia will set to benefit from China’s recycling of its trade surplus, even without signing up for OBOR.

Also, there is an obvious reluctance to have the northern Australia project in some way captured by a Chinese quasi-strategic
expansion policy at a time when the electorate is hyper-sensitive to Chinese investment in property and agriculture.

4) Few facts about OBOR which are not very well known

Chinese President Xi Jinping’s new Silk Road to Europe traverses territory where most bond investors fear to tread.

Of the 68 nations China lists as partners in its Belt and Road Initiative, the sovereign debt of 27 are rated as junk, or below investment grade, by the top three international rating firms.

Another 14, including Afghanistan, Iran and Syria, are either not rated or have withdrawn their requests for ratings.

President Xi’s vision, first proposed in 2013 and elevated to an official policy enshrined in the Communist Party’s constitution, involves spending as much as $1.2 trillion on railways, roads, ports and power grids over the next decade. The intent is to open new business opportunities for domestic companies and extend China’s reach — even though the route cuts through multiple conflict zones and some of the world’s most corrupt countries.

The National Development & Reform Commission, China’s top planning body, and the Ministry of Commerce didn’t respond to written requests for comment on the financial risks in the Belt and Road Initiative.

In the meantime, Chinese companies are more aware of country risks than in the past.

China Export & Credit Insurance Corporation., the SOE insurer which covers government seizures, nationalization, political violence and other risks, said it has insured $480 billion of exports and investments in Belt and Road nations, and paid out $1.73 billion in claims since 2013.

While the risks may be high, the investments could have long-term benefits for China if they succeed, and in the meantime could help utilize China’s excess industrial capacity and expand the use of the yuan abroad, according to Michael Taylor, Moody’s chief credit officer for APAC.

Many experts doubt Chinese banks’ ability to control risks, as they do not have a good record of allocating resources efficiently at home, which may lead to new asset-quality problems for Chinese banks that most of funding is likely to come from.

About a third have been oil and gas related and with countries outside of OPEC. This has helped China with its objective of energy security by reducing its reliance on Middle East oil and gas.

Another criticism is that the funds available to invest in projects across Asia are now much less than in 2013 because the country's foreign exchange reserves have shrunk from $US4 trillion to $US3 trillion. But this ignores the funds that will be harnessed from the balance sheets of a range of domestic and multi-lateral institutions including the Export-Import Bank of China, the World Bank, the Asian Development Bank and the newly established Asian Infrastructure Investment Bank.
AIIB’s vice-president and corporate secretary in Beijing, Danny Alexander, says six multilateral banks had signed up to finance OBOR projects including the European Bank of Reconstruction and Development and the European Investment Bank.

Alexander, who set up the Green Investment Bank in London when he was a minister in the British government, says AIIB will only fund projects that are economically beneficial, environmentally sustainable and socially acceptable.

China has emerged as one of the fastest-growing sources of Foreign Direct Investment (FDI) into India – it was the 17th largest in 2016, up from the 28th rank in 2014 and 35th in 2011, according to India’s official ranking of FDI inflows.

Analysis by the Jamestown Foundation suggests that the BRI also serves Xi Jinping’s intention to bring about “top-level design” of economic development, whereby several infrastructure-focused state-controlled firms are provided with profitable business opportunities in order to maintain high GDP growth.

Through the requirement that provincial-level companies have to apply for loans provided by the Party-state to participate in regional BRI projects, Beijing has also been able to take more effective control over China’s regions and reduce “centrifugal forces”.

Hong Kong and-vs Singapore in the One Belt, One Road Scenario

The belt and road strategy should transform the nature of logistics, and transport and maritime routes, in South and Southeast Asia.

The new opportunities and problems will affect also the positions of the two undisputed queens of this area, Singapore and Hong Kong.

It has always been very hard to state which city is the best place to do business in Asia. Both jurisdictions are top international business hubs with world-class infrastructure and facilities and ideally located to facilitate access to other Southeast and North Asian markets.

The legal and financial frameworks of both cities are embedded in the traditions of English common law. Practice and process are therefore similar, yet Singapore rated higher due to a more international feel in terms of the mix of arbitration and legal proceedings.

Singapore is more English-based whereas Hong Kong uses Cantonese and Putonghua more.
However, as it is currently structured, and in absence of substantial changes, the OBOR initiative seems to favor Hong Kong.

Experts point out that the “maritime” silk road will determine the increasing demand for professional services, which better allow access to China.

Hong Kong achieves this with a greater case load as well as a greater Chinese focus.

The kind of legal services that would be best located in Hong Kong to meet the requirements of the belt and road include shipping, rail, road and air, as well as tariff compliance, corporate compliance and tax law.

In terms of size, the level of investment that is likely to take place as a result of infrastructure spending through the region also points to Hong Kong as a preferred option. The city has in excess of 1,880 listed companies with a turnover of US$18.4 billion, compared to Singapore, with its 769 listed companies with a turnover of just over US$800 million.

This partly explains why it is quicker to do business in Singapore, but it also raises questions about Singapore’s structure to manage the volume of work.

Reports by the World Bank, IMD, Monitor Deloitte and McKinsey offer reasons to support the notion that Hong Kong would be better placed than Singapore, especially given the context of the new transport network being introduced by the belt and road plan.

The nature of shipping and maritime routes are also shifting. Recent developments suggest Singapore is being sidelined as China seeks alternative and more secure maritime routes.

Recent port developments and proposals that support this notion include: Darwin in Australia; Tanjung Priok, Indonesia; Port Klang in Malacca; Kyaukphyu, Mawlamyine and Dawei in Myanmar; Gwadar in Pakistan; Sri Lanka’s Hambantota; and Kra Canal in Thailand.

While the world has looked to Shanghai as the challenger to Singapore, the distraction will allow Hong Kong to consolidate its credentials and fill the service gaps. This focus has the city well-placed to take the leading role in business service provision to support the economic growth associated with the belt and road initiative.