ONE BELT ONE ROAD

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November 2015

SINGAPORE

AUDIT. TAX. ADVISORY.

CONTENTS

WHAT IS "ONE BELT ONE ROAD"?

Introduction

The "One Belt One Road" (OBOR) initiative was announced by President Xi Jinping of China in 2013. This initiative was brought forth during his visits to Kazakhstan and Indonesia in 2013, when he formally announced the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives. This subsequently became a vital foreign policy for China in many aspects, mainly with the intention of promoting economic cooperation amongst countries along the "Belt" and "Road" routes.

This initiative will directly affect 4.4 billion people with a collective GDP of US$2 trillion once completed[1].

[1] Source: One Belt, One Road. *DBS Research*. 26 May 2015.

TWO MAIN COMPONENTS

Silk Road Economic Belt

Fundamentally, the land-based Silk Road Economic Belt begins in Xi'an, China, and linking up with the rest of Central Asia, Europe, the Middle East and Russia. The belt includes countries which were once situated on the original Silk Road. In addition, South Asia and South East Asia are also included in the Belt. **The Silk Road Economic Belt focuses on connecting China to Europe through Central Asia and Russia, the Persian Gulf through Central Asia and South East Asia, South Asia and the Indian Ocean.**

21st Century Maritime Silk Road

The Maritime Silk Road will complement the Silk Road Economic Belt, focusing on **utilising sea routes and Chinese coastal ports to link China with Europe via the South China Sea and the Indian Ocean, and the South Pacific Ocean through the South China Sea.**

THE BELT AND ROAD INITIATIVE MAP

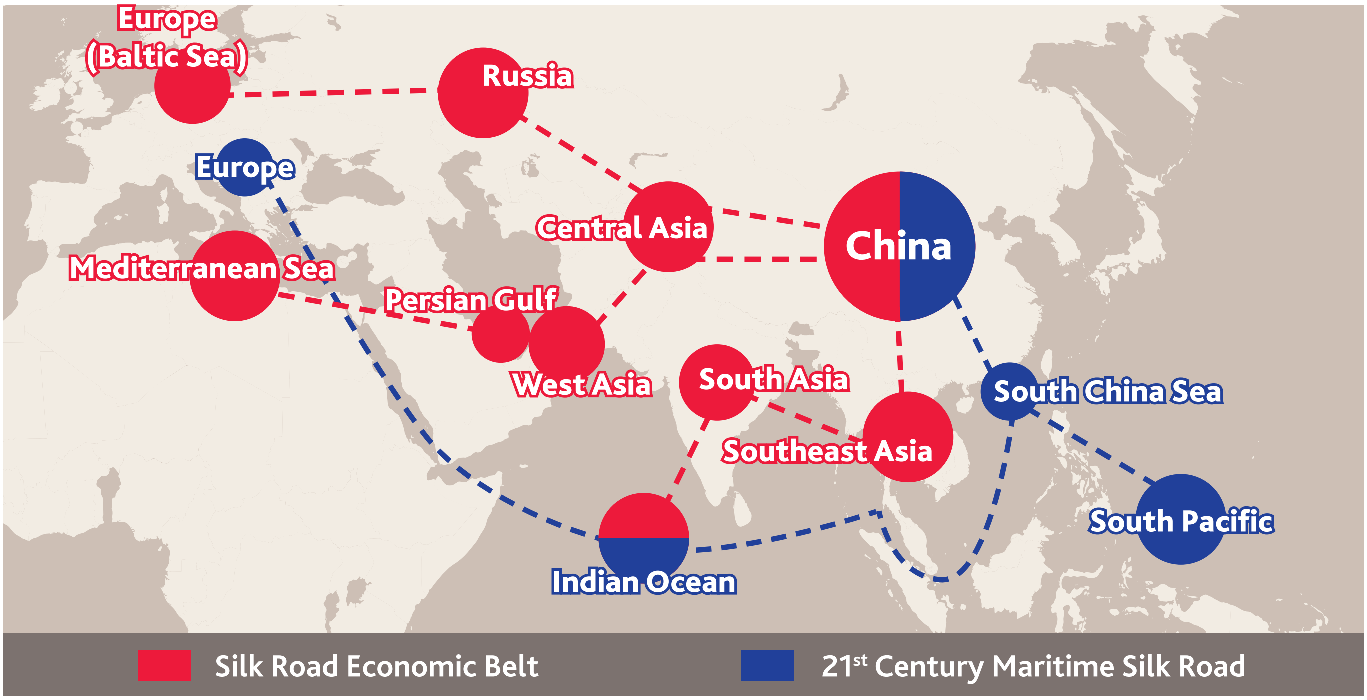


Photo credit: China maps out 'One Belt, One Road' with action plan. *Global Times*. 31 Mar 2015.

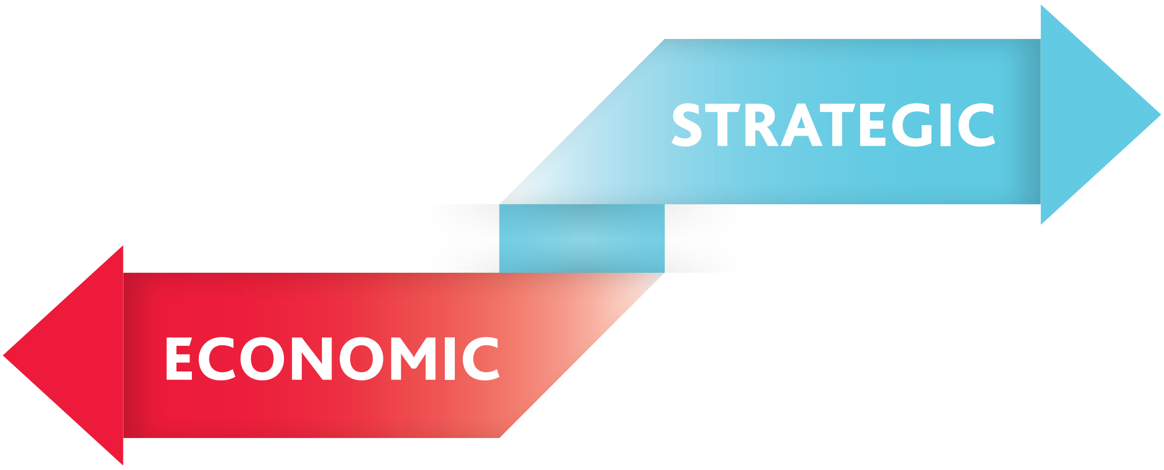
WHY "ONE BELT ONE ROAD"?

This initiative is mainly seen as an attempt to **enhance trade and political relations** amongst China, Europe and Asia, as well as allowing China to boost its growth by exporting its capital, technology and capacity globally. The initiative also leverages on the comparative advantages of the different cities in China. Based on the OBOR implementation guideline released by China's National Development and Reform Commission (NDRC) in March 2015, development plans along the trade route will seek to improve connectivity in five areas: **policy, infrastructure, trade, currency and people**.

- New ways to sustain China's economic growth which is expected to slide to 7 percent in 2015 according to China's National Bureau of Statistics;
- Export of China's production capacity in areas of overproduction including cement, steel and construction materials[2]; and
- A shift from "low-profile" international strategy to take on greater role in global affairs.

Policy Coordination

Implementing the initiative would aid China in promoting intergovernmental cooperation, generating a macro policy exchange and communication mechanism, and enhance sharing of policy ideas and political trust amongst the countries along the Belt and Road. This would help China provide policy support for the implementation of future regional projects and trade cooperation.



[2] Source: China's 'One Belt, One Road' looks to take construction binge offshore. *Reuters*. 6 Sep 2015.

HOW DOES "ONE BELT ONE ROAD" WORK?

Trade and Investment Facilitation Measures

Improvement in trade and investment facilitation via the removal of investment and trade barriers for the optimisation of the potential for expanded cooperation will be made possible with this initiative. Countries along the Belt and Road may explore new growth areas of trade and improve trade structure[3]. Negotiations on bilateral investment protection and double taxation avoidance agreements will be pushed forward in order to integrate investment and trade, and promote trade through investment.

Infrastructure Development

Countries along the Belt and Road would be able to improve the connectivity of their infrastructure construction plans and form an infrastructure network, bringing together all sub-regions in Asia, Europe and Africa, taking into account of each other's security and sovereignty concerns. Key transportation passageways will be improved on, in order to realise international transport facilitation for the different countries through the following areas:

- Railways and highways;
- Sea ports;
- Aviation;
- Energy – Oil and gas pipelines, power supply; and
- Communications – Optical networks.

Promotion of People-to-People Relations

There will be a focus on people-to-people relations upon implementing this initiative, allowing for extensive cultural and academic exchanges. Such endeavours will help to strengthen public support, and deepen bilateral and multilateral cooperation. These aim to increase personnel exchange and cooperation between countries along the Belt and Road[4].

Financial Integration

A vital part of implementing the Belt and Road initiative would be to enhance financial integration between countries. There are plans to build a currency stability system, investment and financing system, and credit information system in Asia. There will also be other financial initiatives in the pipeline for the deepening of financial cooperation. Financial institutions such as the Asian Infrastructure Investment Bank and BRICS New Development Bank are established to expand the scope of multilateral financial cooperation. Also, financial regulation cooperation is addressed through increased cross-border exchange and cooperation between credit rating institutions and systems.

[3] Source: Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road. *National Development and Reform Commission*. 28 Mar 2015.
[4] Source: The Belt and Road initiative. *HKTDC Research*. 19 Aug 2015.

What is the Asian Infrastructure Investment Bank?

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank (MDB) realised for the 21st century, in which an estimated 60 countries have expressed their willingness to participate in a variety of content along the way, including policy communication, unity of facilities, trade flow, financial inter-mediation and people connection. The AIIB will target the development of infrastructure and other productive sectors in Asia, and also work with the existing MDBs to jointly address Asia's daunting infrastructure needs.

Why the need for the 'AIIB'?

In order to fulfil the One Belt One Road initiative, a huge amount of capital injection is necessary, hence the AIIB came into being. The AIIB is seen as an important strategy to support the implementation of this initiative.

The key reason behind the setting up of AIIB is to expand the development of partnerships amongst emerging nations – to build political mutual trust, economic integration, and bring together communities of cultural interests.

The AIIB was first unveiled by President Xi Jinping in Jakarta during talks with President Jokowi Widodo of Indonesia in 2013. He expressed interest to provide infrastructure support in financial and construction services for developing countries in the ASEAN region.

The AIIB serves as an important backing for the economic development of Asia by supporting developing countries to achieve common growth. According to the Asian Development Bank's report, the Asian infrastructure requires a funding of approximately US$8,000 billion for the stimulation of Asia's economic recovery and development. There are existing major institutions in the world, such as the World Bank and the Asian Development Bank, where there are very strict requirements and conditions for investing and borrowing, especially in obtaining funding for infrastructure projects. Therefore, there has to be an appropriate adjustment to better suit the reality of developing countries' actual conditions.

By 31 March 2015, there were a total of 57 founding members according to chronological order in the chart below.

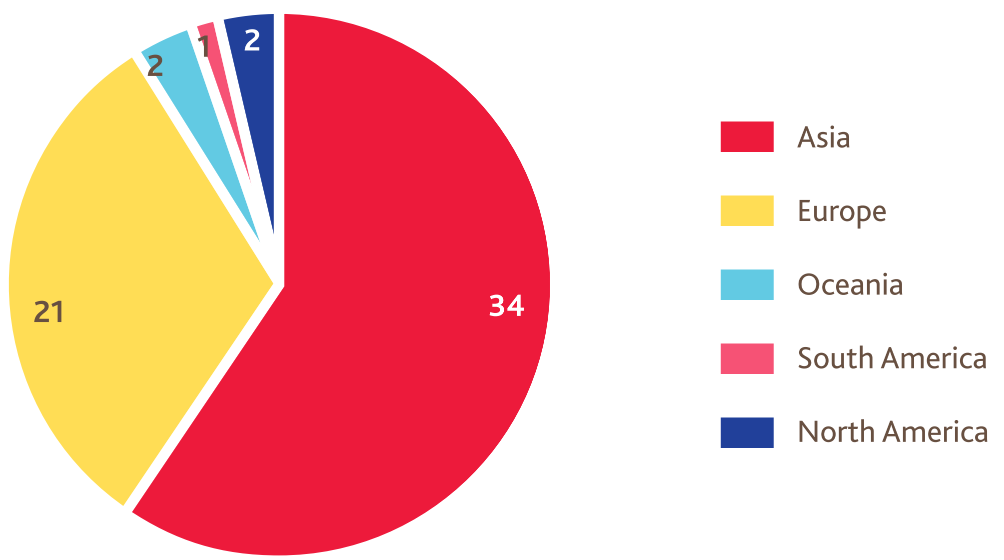
Stage One (24 October 2014)	Stage Two (before 3 March 2015)	Stage Three (12-20 March 2015)	Stage Four (26-31 March 2015)
China, India, Bangladesh, Brunei, Cambodia, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Ukraine, Vietnam, Indonesia	Maldives, New Zealand, Tajikistan, Saudi Arabia, Jordan	United Kingdom, Luxembourg, Switzerland, Russia, Germany, Italy, Iran, United Arab Emirates	Malta, Spain, Austria, Netherlands, Brazil, Finland, Urum, Denmark, Australia, Egypt, Norway, Russia, Sweden, Israel, South Africa, Azerbaijan, Iceland, South Korea, Turkey, Kyrgyzstan, Portugal, Poland

After the United Kingdom announced her intention to join the AIIB on the 12 March 2015, there was a chain effect which triggered other European countries to join the AIIB when the deadline of 31 March 2015 approached (Stage 4). Of the 57 founding members, there are 10 members, including China whose respective economy aggregate amounts to more than US$1,000 billion at the end of 2014. Also, based on the 2014 International Monetary Fund published data, of the top 10 global economic countries, other than USA and Japan, the remaining 8 countries have become AIIB's founding members. Similarly, of the world's top 10 most populous nations, 7 of them have become founding members, namely China, India, Indonesia, Brazil, Pakistan, Bangladesh and Russia[5].

Geographic Distribution of the 57 Founding Members of AIIB

Out of the total 34 Asian countries participating in the AIIB, 22 countries are part of the initial founding members of this initiative. Other than Indonesia, the remaining 21 nations signed a "Build AIIB Memorandum". Due to the change of government, Indonesia delayed the formal signing of the memorandum until the 25 November 2014, and officially became part of the first 22 founding members of AIIB. There are 18 European nations, and the rest are from Oceania, South America and Africa[6].

GEOGRAPHIC DISTRIBUTION OF AIIB'S FOUNDING MEMBERS



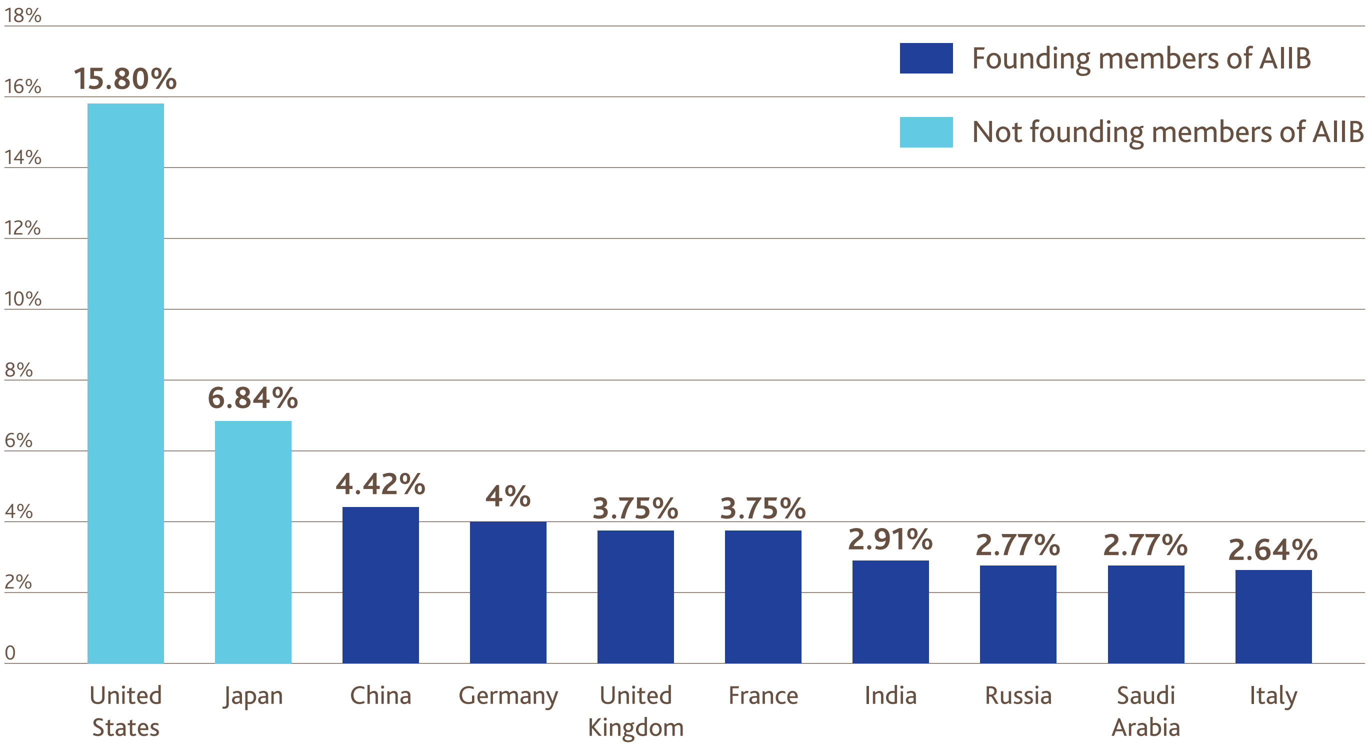
[5&6] Source: Promoting the pioneer strategy of 'One Belt One Road'. *The Longus Review*. Jun 2015.

Other International Financial Institutions

According to the latest World Bank allocated voting rights statistics, the past ranking of countries are as follows: United States (15.85%), Japan (6.84%), China (4.42%), Germany (4.00 percent), the UK (3.75 %), France (3.75 percent), India (2.91%), Russia (2.77 percent), Saudi Arabia (2.77%) and Italy (2.64%).

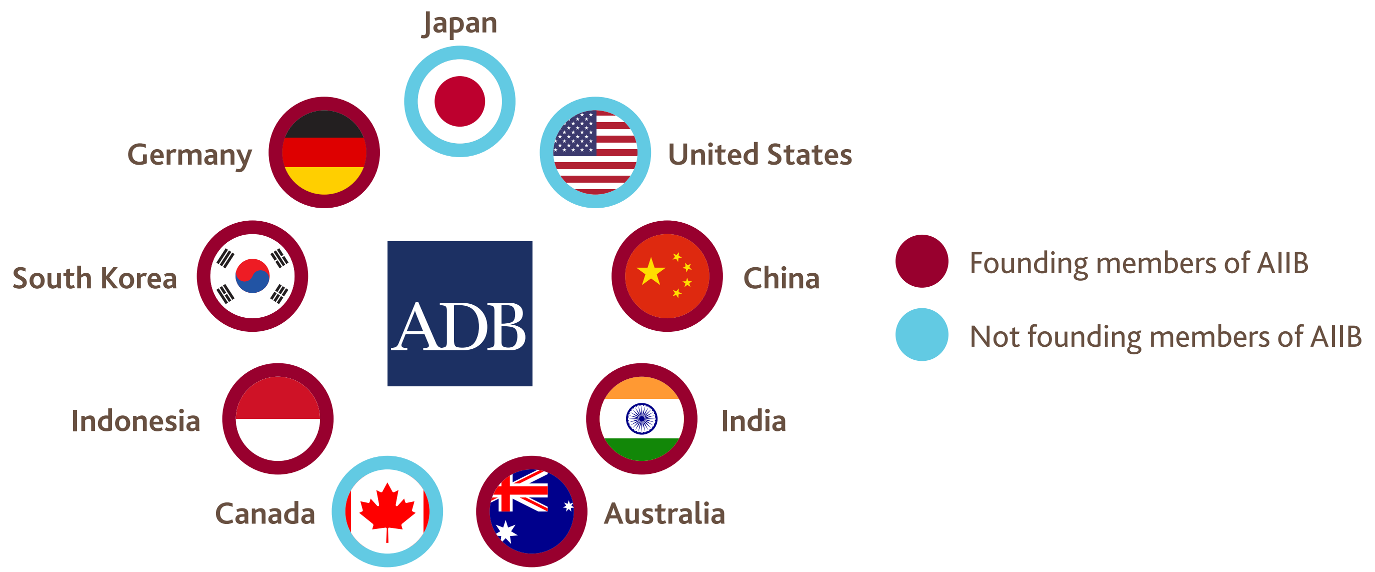
The Asian Development Bank includes the following countries with voting rights: USA, Japan, China, India, Australia, Canada, Indonesia, Korea and Germany. Other than the USA and Japan, most of the major countries involved in the World Bank and Asian Development Bank are also involved as the AIIB founding members. Amongst the 57 founding countries of AIIB, there are 10 countries with a total economic output of below USD$20 Billion, ranking amongst the lowest in the world. Such data shows the disparity between the founding members in the AIIB. Hence, this further supports the cause for the AIIB to provide the developing nations with the relevant support and infrastructure, with the aim to reduce the disparity gap between the top 10 and bottom 10 countries in the committee. However, a huge disparity could become a potential challenge in the future as decision-makers have to consider a more comprehensive policy plan to account for the developing countries[7].

WORLD BANK ALLOCATED VOTING RIGHTS (TOP 10 COUNTRIES)

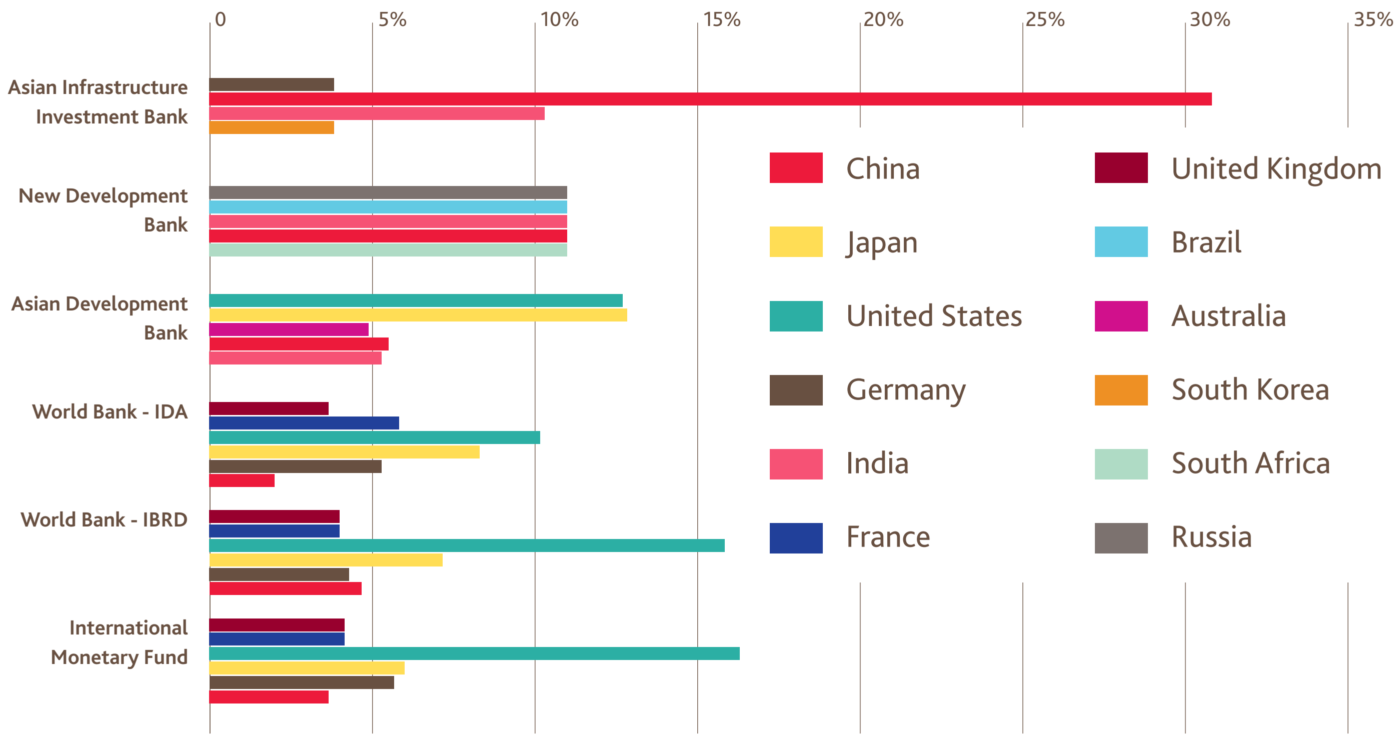


[7] Source: Promoting the pioneer strategy of 'One Belt One Road'. *The Longus Review*. Jun 2015.

COUNTRIES WITH ASIAN DEVELOPMENT BANK VOTING RIGHTS



DISTRIBUTION OF SUBSTANTIAL SHAREHOLDERS AMONG INTERNATIONAL FINANCIAL INSTITUTIONS



OPPORTUNITIES FOR SINGAPORE

China is Singapore's top trading partner. In 2014, bilateral trade between China and Singapore amounted to S$121.5 billion[8]. Given Singapore's roots as a regional financial and trading hub, she stands to benefit from this Belt and Road initiative by allowing businesses to operate out of Singapore and tap on growth opportunities in the region.

The Belt and Road initiative has gained significant traction over the past few months, after the announcement in March 2015 that "Vision and Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" by the Chinese National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce. This initiative would benefit Singapore as a whole through various aspects.

Infrastructure and Logistics Industry

Being well positioned in the heart of South East Asia and the gateway of the Strait of Malacca, Singapore is poised to benefit from this initiative. Singapore, a city-state nation with excellent infrastructure and competence in the logistics industry, would play a significant role in helping neighbouring countries develop their trading and logistics infrastructure. Because of this significant influence that Singapore has, Chinese enterprises have increased their investments into Singapore's infrastructure.

Tourism Industry

As countries in the region become more interconnected under this initiative, there will also be a greater increase in the number of people travelling for leisure or business. This initiative would enable greater ease of tourist visa applications between the countries along the Belt and Road. Singapore would stand to gain from the expected increase in the number of tourist arrivals.

Clean Energy Industry

Singapore can also leverage on its competitive advantages as the leading clean energy hub for the region in attracting foreign businesses to adopt Singapore as a reference market for the trial of their products and services before expanding to neighbouring countries in the region.

Financial and Professional Services

As one of the world's premier financial centres, Singapore has a strong network of financial institutions with excellent governance. The Belt and Road initiative would further increase the opportunities for professional services firms in Singapore to raise and distribute equity and debt capital to facilitate investment around the region. Singapore is also the largest offshore hub for RMB trading outside Hong Kong[9].

8 Source: China's One Belt, One Road initiative could usher in new growth: Josephine Teo. *Channel NewsAsia*. 27 Jul 2015.
9 Source: Opportunities for Singapore from the One Belt, One Road initiative. *King & Wood Mallesons*. 27 May 2015.

BENEFITS TO ASEAN

A recent unveiling of announcements by the Chinese government in 2015 places a strong emphasis on directing the Maritime Silk Road towards the Association of South East Asian Nations (ASEAN). Even though South East Asia is rich in resources, it lacks construction funds to develop its infrastructure and suffers from low levels of industrial development and other issues. **Hence, strengthening the infrastructure of the ASEAN countries would allow such resources to be tapped upon**. This initiative strives to promote Chinese capital and technology investment into these ports, transport routes and other infrastructure in order to improve the circulation of resources, market integration and allow for better facilitation of trade and investment within South East Asia[10].

[10] Source: Opportunities for Singapore from the One Belt, One Road initiative. *King & Wood Mallesons*. 27 May 2015.

POSSIBLE CHALLENGES AHEAD

Interconnectivity and Credit Risk

Chinese companies operating abroad will face a series of challenges consequent to the enactment of this initiative. Firstly, as companies expand their global operations, there would be a rise in the risk of disruption in a particular country. This may affect the quality control or working capital issues. Credit risk would be the next concern as foreign customers may operate on different credit and payment terms. Chinese companies would then have to insure against such credit risks and counterparty defaults, participating in insurance programmes[11].

Political Risk

With the increase in cross-border activities, there will be a rise in political uncertainty, relating to trade embargos, infrastructure impediment and corruption, especially amongst the developing nations. Countries along the Belt and Road would then have to consciously work together to prevent such risks and organise a well-planned insurance program[12].

Social Implications

As China shifts its overcapacity to the countries along the Belt and Road, there would be a reduction in jobs, and the closing down of plants and factories in affected countries. This might lead to social implications amongst the large proportion of people in export related industries. The China Labor Bulletin reported earlier in 2015 that worker strikes and labour unrest in China increased significantly in 2014 as compared to the previous year, with the increase linked to the economic slowdown[13].

[11&13] Source: The trouble with China's 'One Belt One Road' strategy. *The Diplomat*. 26 Jun 2015.

[12] Source: Challenges and risks of 'One Belt, One Road'. *Shanghai Daily*. 27 July 2015.

CONCLUSION

In conclusion, the "One Belt One Road" initiative would result in many more investment opportunities for Chinese companies expanding overseas, as well as providing the countries along the Belt and Road with a myriad of benefits. However, such opportunities may bring along with them the inevitable challenges and risks faced by the relevant parties. What is important to note is for China to have the right governance and framework to help these companies and countries navigate through the bumpy global landscape.

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