# BELT AND ROAD GLOBAL FORUM
# 一帶一路國際聯盟

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News and updates

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# Belt and Road Global Forum inaugurated as Belt and Road Summit entered its third year

The Belt and Road Global Forum was inaugurated with its first annual roundtable in Hong Kong, followed by the third edition of the Belt and Road Summit, where some 5,000 global government and business leaders discussed opportunities to "collaborate for success"


The Belt and Road Global Forum inauguration ceremony was officiated by Chief Executive Carrie Lam and attended by more than 80 member organisations from 24 countries

The Belt and Road Global Forum was officially launched and its first annual roundtable was held on 27 June at the Hong Kong Convention and Exhibition Centre (HKCEC). The inauguration ceremony was officiated by Carrie Lam, Chief Executive of the Hong Kong Special Administrative Region (HKSAR), and attended by more than 80 member organisations from 24 countries.

Formed last October with the Hong Kong Trade Development Council (HKTDC) serving as secretariat, the Forum is a network for chambers of commerce, business associations, investment agencies, research institutes and other related organisations from around the world to exchange information and explore business collaboration under the Belt and Road Initiative through Hong Kong. The Forum currently has a membership of more than 110 organisations from 29 countries and regions.

Topics discussed at the Forum's first annual roundtable meeting include Belt and Road investment trends, infrastructure financing facilitation, as well as project identification and risk mitigation. Going forward, member organisations can continue to exchange insights and market updates through the Forum's online platform.

## REGIONAL OPPORTUNITIES SPOTLIGHTED AT BELT AND ROAD SUMMIT

Another highlight of the week, the third Belt and Road Summit, jointly organised by the HKSAR Government and the HKTDC, was held on 28 June at the HKCEC under the theme "Collaborate for Success".

Featuring more than 80 speakers and attended by some 5,000 participants from 55 countries and regions, this year's Summit was the largest to date, reflecting the rapidly-growing collaboration opportunities under the Belt and Road and Hong Kong's important role as a facilitator and commercial hub for the Initiative.

At the opening session, Hong Kong's Chief Executive Carrie Lam delivered the opening remarks, Deputy Prime Minister of Thailand Dr Somkid Jatusripitak gave the keynote speech, and Xiao Yaqing, Chairman of China's State-owned Assets Supervision and Administration Commission of the State Council, Ning Jizhe, Vice Chairman of China's National Development and Reform Commission, and Gao Yan, Vice Minister of China's Ministry of Commerce, addressed the audience.

In his welcome remarks, HKTDC Chairman Vincent HS Lo said: "In just four and a half years, the Initiative has achieved significant progress. New projects such as railways and roads, ports and power plants have begun in numerous countries around the world. At the same time, new opportunities are opening up, as the Initiative goes beyond infrastructure to technology, manufacturing, logistics, agriculture, tourism and many others. For something as far-reaching in scope and global in scale as the Belt and

Road, we must find the right partners to make the right choices. As the commercial hub for the Belt and Road, Hong Kong is the best place to turn Belt and Road concepts into viable commercial ventures."

The plenary session, entitled "Action through Collaboration: Case Studies on Signature Belt and Road Projects", was moderated by Bernard Chan, President of Asia Financial Holdings Ltd. Guest speakers including Liu Qitao, Chairman of China's Communications Construction Company Ltd, Li Shufu, Vice Chairman of the All-China Federation of Industry and Commerce, Professor Frederick Ma, Chairman of MTR Corporation Ltd, Manuel V Pangilinan, Chairman of Metro Pacific Investments Corporation and Shinta Widjaja Kamdani, Vice Chairwoman of the Indonesian Chamber of Commerce and Industry, shared their first-hand experience and perspectives as investors and project owners on how to achieve an "all-win" outcome through collaboration.

The Summit also catered to the needs of different sectors by offering a number of thematic breakout forums, including "Risk Mitigation in Infrastructure Financing" co-organised with the HKMA Infrastructure Financing Facilitation Office, "Digital Silk Road" co-organised with Hong Kong Cyberport, "Chinese Infrastructure Investment Trends and Opportunities" co-organised with China International Contractors Association, "Green Finance" co-organised with Hong Kong's Financial Services Development Council, and "Hong Kong as the Deal Maker and Dispute Resolver" co-organised with the Department of Justice of the HKSAR Government.

Themed "Collaborate for Success", the third Belt and Road Summit welcomed some 5,000 government and business leaders from 55 countries and regions

Echoing the Summit's theme of collaboration, the Investment and Business Matching Session was extended to a full day this year, allowing project owners, investors and services providers to engage in face-to-face meetings with potential partners. Project pitching sessions covering key sectors including transport and logistics infrastructure, energy, natural resources and public utilities, and rural and urban development were also held.

# ASEAN opportunities: proving attractive to investors

The incredible scale of the Belt and Road Initiative is creating opportunities for global investors seeking long-term asset classes in infrastructure and energy in ASEAN. For Macquarie Group, investment also includes a focus on renewables

Macquarie Infrastructure and Real Assets (MIRA), one of the world's leading infrastructure investors, last year became a 31.7% shareholder of renewable energy producer Energy Development Corporation (EDC), creating a strategic partnership with First Gen Corporation, a local company which holds a majority stake in EDC.

EDC is the world's largest geothermal company and the largest producer of geothermal energy in the Philippine archipelago. Projects are based in central and southern areas in Bicol region, Leyte province, Negros Island and Kidapawan, Mindalao. It produces around 9% of the nation's power using thermal heat, wind generation and hydroelectricity.

MIRA Co-head and CEO of Macquarie Group Asia, Ben Way, said the deal is still the largest take-private in the Philippines, thanks to MIRA's successful privatisation bid for the previously listed company.

"If someone had asked me five years ago whether we would have done a deal with an enterprise value of US$4 billion in the Philippines, in the geothermal sector, my answer would have been no. It shows how quickly the region is evolving, and the scale and increasing maturity of the opportunities. It's really astounding," Way said.

Ben Way, Macquarie Infrastructure & Real Assets

The US$1.36 billion deal saw MIRA tap a pool of cash in alternative asset classes, sourced from pension and insurance funds in partnership with Singapore-based Arran Investments (an affiliate of the Singaporean sovereign wealth fund GIC), to create a new consortium, Philippines Renewable Energy Holdings Corporation (PREHC).

ANZ bank handled the project's underwriting, financial and FX hedging solutions. The transaction also involved three global legal firms, Hogan Lovells, King & Wood Mallesons for MIRA and Allen & Gledhills for the Singaporean partners.

Since privatisation, EDC has displayed a growing ambition to upgrade and expand. In April 2018, it signed a 15-year loan agreement with the International Finance Corporation (IFC) worth US$90 million.

## BUILDING BELT AND ROAD RELATIONSHIPS

Macquarie Group has built a relationship with the Philippines

government over a number of years. During this time, it helped set up a Philippines fund, financed primarily from the national pension fund. Capital from that fund is helping to build local infrastructure, often under a public-private partnership (PPP) framework.

"The Philippines is a good example of an ASEAN country that has a modern PPP framework. It has very good regulation and tender processes, very clear rules of engagement and has freed up local capital and regulations. This has made it attractive for foreign and national institutional capital, and now the Philippines government has made it a destination for infrastructure investors. It's a real success case among ASEAN nations, and a good example of a country implementing new policies and investment frameworks, leading to success," Way said.

## STRATEGIC STEPS

Trust and enduring relationships are key to Macquarie Group's success. According to Way, responsible owner-operators build trust by maintaining high standards while delivering returns to investors. For Way, success comes down to a simple adage "doing well and also doing good".

To achieve results like EDC, potential investors need to do their homework. While capital raising is required from institutional investors globally, it's up to the expertise of local teams to build a strategy from the ground up, since they understand local nuances, stakeholders, governments and regulations.

Regional governments also need to do their bit, shouldering their share of risk, while guaranteeing a minimum level of returns, to encourage investors to take the first step in the development of a PPP.

## STRATEGIC THINKING

MIRA projects in ASEAN focus on two countries; Singapore and the Philippines. Its Singapore partnerships include chemical and oil storage with local strategic partners, supporting trade flows (e.g. shipping) and the movement of commodities.

Way thinks ASEAN nations need to broaden the pools of funds available for infrastructure, where capital held by insurers and pension funds could be repurposed for development and infrastructure.

For example, Thailand still needs regulatory reforms around pension funds and investing, but there are some positive signs this will occur. In the case of Indonesia, Vietnam and Cambodia, he predicts the most successful one will be the nation that follows the Philippines' path to economic prosperity, welcoming development and enacting regulatory and financial reforms needed in the first phase of a PPP project.

ASEAN nations are central to the growth of the Initiative's land and sea corridors. As they work towards economic maturity, demand for infrastructure and PPP projects is likely to grow, opening more opportunities for investors.

"The exciting thing about ASEAN is its demographics and scale. Over time, more capital will become interested and comfortable in investing in that part of the world," Way said.

# Fund raising: SFC's new approach will **benefit infrastructure in ASEAN and beyond**

Changes to Hong Kong Securities and Futures Commission's approach to certain listings will help raise capital and mitigate risk for investment in Belt and Road projects

The massive scale of the Belt and Road Initiative creates an obvious need for large pools of cash to fund infrastructure projects. Capital raising on such a grand scale has led to Hong Kong authorities making significant changes in their approach to certain listings, in order to accommodate a broader range of project companies.

In April 2017, Hong Kong's Securities and Futures Commission (SFC) announced* changes to its approach to scrutinising applications to list on the Hong Kong Stock Exchange (SEHK). The changes set out a more flexible approach to approving listings of certain infrastructure project companies.

As one of the world's leading financial and arbitration centres, Hong Kong is ideally placed to facilitate Belt and Road investment, supported by its internationally-respected legal and regulatory regime, free flow of capital, simple tax system and experienced professionals who understand the risks associated with investing in Belt and Road countries.

Currently, only businesses incorporated in 25 jurisdictions are eligible to list on the SEHK, of which only five are ASEAN members. However, the SFC's new direction means that ventures in ASEAN nations as well as those outside the region can now proactively seek to list in Hong Kong. This is because the SFC has signalled its willingness to take into account a range of risk mitigation factors relevant to many Belt and Road projects. Key factors now being considered during the SFC's assessment of applications to list in Hong Kong include:

Teresa Ko, Freshfields Bruckhaus Deringer

- A large shareholding by a relevant Chinese mainland state-owned enterprise, sovereign wealth fund, substantial listed company or global institutional investor
- A sizeable mainland, development or international bank committed to providing ongoing project finance
- A direct involvement or shareholding by the national government of the jurisdiction in which the project assets are located

### IPOs AND THE BELT AND ROAD

Describing the SFC's changes as a breakthrough, Teresa Ko, Partner and China Chairman at international law firm Freshfields Bruckhaus Deringer and Non-Executive Director of the SFC, said the move gives Hong Kong an edge when it comes to infrastructure investment in ASEAN and other Belt and Road countries.

"As a fund-raising venue for specific Belt and Road projects, our exchange dovetails very nicely with the Hong Kong government's role as a facilitator and promoter of this important national strategy," Ko said.

"An IPO listing is a great opportunity for a project to take itself to the next level in terms of transparency, governance and best practices. Everyone will know you have been subjected to the scrutiny of regulators, intermediaries, and institutional and retail investors," she said.

## HOW IT WORKS

While, to date, no IPOs have been listed as a direct result of the SFC's move, the changes have nevertheless significantly increased the number of jurisdictions that could potentially invest in Belt and Road projects and made it easier to raise funds for infrastructure projects via an IPO.

"If a project is not in an approved jurisdiction, even if that location doesn't have regulatory cooperation with the SFC, you could hold the project company through a Hong Kong incorporated company to satisfy one of the SFC's new considerations for listing, so long as you have a set of books or records in Hong Kong, or have Hong Kong resident individuals as directors of that company. Regulators will take these factors into account when considering the listing of that infrastructure project on the SEHK," Ko said.

"Hong Kong is also the only major international exchange with provisions relating to project companies. It even has a definition of what constitutes a project company," she said.

Ko believes the SFC's decision to harness growing interest from investors in infrastructure projects will not affect its reputation for having stringent listing rules or its clear aim to mitigate potential investment risks.

"The SEHK listing process is renowned for being demanding, with rigorous vetting of due diligence, internal controls and suitability of the business," she said.

## GATHERING PACE

The rapid pace of growth in the Chinese mainland and ASEAN is presenting Hong Kong with so many opportunities that Ko senses the level of demand may be somewhat overwhelming for investors.

"It's almost as if we are bombarded by so many opportunities that we lack focus. The market has been gripped by new biotech listings and there are plenty of opportunities arising from the Guangdong-Hong Kong-Macau Bay Area development."

While these opportunities are competing to win over investors in search of quick returns, Ko believes Belt and Road opportunities are attractive to different types of investors, such as sovereign wealth funds. She states the new channel that has been opened up by the SFC is not for speculators, rather it provides an option for seasoned investors to make long-term investments in Belt and Road infrastructure.

"Belt and Road projects tend not to be low hanging fruit in terms of ease of execution, and they tend to be in locations with a lot of legal and political uncertainty. This means that they are complex, long-term and high-risk endeavours. But the SFC's new approach is a shot in the arm for Hong Kong's ability to attract listings related to the Initiative," Ko said.

*You should pay careful attention to the Legal Information section on the homepage of the SFC's website when referring to information using this link.

# Belt and Road & ASEAN: can PPPs bridge the capital gap?

Standard Chartered predicts public-private partnerships (PPPs) are the way forward for Belt and Road-related investment in the ASEAN region

Given the ambitious scope of the land and sea trade corridors proposed under the Belt and Road Initiative, ASEAN countries wishing to participate in the plan will need more than their local banks' balance sheets to support infrastructure development.

Tapping the wealth of Chinese financial institutions and multilaterals, such as the Asian Infrastructure Investment Bank (AIIB), investment cooperation funds (e.g. the Silk Road Fund) and global commercial banks, is all part of the Belt and Road Initiative game plan, but even they won't be enough to see all these projects through. There is a growing consensus that private investors must come to table.

However, this is easier said than done. Most nations within ASEAN are today focused on upgrading or creating new infrastructure with roughly 40% allocated to power and railways. Naturally sizeable projects come with wide-ranging risks. Whether it is a change in government to minor irritations such as noise compensations claims – the costs and barriers to success inevitably stack up.

One way to bring in private capital is to package risk in a way that offers suitable incentives and safeguards. Peter Burnett, Managing Director and Regional Head of Corporate Finance, Greater China and North Asia at Standard Chartered Bank, believes public-private partnerships (PPPs) hold the key to unlocking this potential.

Peter Burnett, Standard Chartered

"If you invest in infrastructure, you magnetise the economy and you get all the spin-off benefits but you have to make sure they are commercially viable. There has to be a purpose to these projects," Burnett said. "PPPs are the way to go."

PPP deals involve private investors joining with government agencies in large-scale projects such as port infrastructure, toll roads, bridges and railways with returns benefitting local communities, shareholders and investors. Their long-term nature suits sovereign wealth, insurance and pension funds. Hong Kong's free flow of capital, banking, legal and regulatory bodies and international reputation as a centre for arbitration makes it ideally suited to support those wishing to invest in PPPs associated with Belt and Road projects.

## PPP MUST HAVES

For those seeking PPPs in ASEAN, Burnett's advice is to make sure concession agreements are bankable, warning that allocating risk to the

wrong party increases the likelihood the project will fail.

Individual ASEAN nations vary considerably in their ability to work with PPPs. Thailand, for example, has a long record of PPP toll roads and its government understands the importance of having a bankable and workable concession agreement in which risks are allocated correctly.

"With tariff risk, for example, it's no good saying it's the responsibility of the operator when they have no control over tariffs," said Burnett. "That's subject to the regulator or the government authority that sets tariffs. Equally, you can't go to the government and say it's responsible for the construction risk. They may have some control in some circumstances but they've passed that to the contractor who is running the project."

## PROCEED WITH CAUTION

Issues affecting PPPs mainly revolve around risk, standards, transparency and foreign ownership. The Chinese mainland, for example, recently cancelled approvals for thousands of local PPPs. Such a crackdown just four years after it gave the green light to PPPs highlights a need for caution and clear standards.

Despite this setback, Burnett said he sees an interesting trend in Hong Kong, where mainland operators, who originally set up regional treasury centres in the city for trade, are increasingly using these treasuries to raise capital for Belt and Road projects.

## MORE TO DO

Without centralised data, potential ASEAN investors find it hard to get detailed information and access to local knowledge.

"Trying to prioritise, say a rail project in Indonesia over a power project in the Philippines, is very hard. How do you assess one against the other, in terms of viability, and see a commercial return? This frustrates Chinese authorities as well. They want a plan," Burnett said.

But right now, the Initiative's ASEAN focus is on infrastructure. In the next five to ten years, large infrastructure projects are scheduled for Thailand, with similar ones in Indonesia. Power and metro deals in the Philippines are moving ahead and new toll roads will help improve Vietnam's transport links. Many of these sizeable constructions will be aligned with PPPs.

## HONG KONG OPPORTUNITIES

With high-quality professional services able to support PPP development, regulated banking, strong governance and internationally-recognised legal and taxation systems, Hong Kong is strategically placed to take advantage of the outflow of capital from the Chinese mainland for Belt and Road projects in ASEAN.

"The Belt and Road Initiative presents an opportunity to participate in greater wealth and prosperity that infrastructure brings, but the projects must be commercially viable," Burnett concluded.

# New directions: ASEAN moves beyond infrastructure

Although infrastructure dominates China's outbound Belt and Road investment, investors are increasingly looking at ASEAN market deals for services and resources

Since it was announced in 2013, the Belt and Road Initiative has brought about profound and positive impact on ASEAN countries, transforming their ports, rail, road and power infrastructure at a phenomenal rate.

More recently, responding to the Initiative's objectives to facilitate connectivity among Belt and Road countries and to achieve diversified and balanced development, the scope of China's ASEAN investments has expanded beyond infrastructure into mergers and acquisitions (M&A).

According to global accounting and consulting firm EY, the real value of China's M&A in Belt and Road countries rose to US$48.2 billion in 2017, an increase of 81% year-on-year, while investment in ASEAN reached a new high, accounting for a 25% share of China's M&As for that year – one marked by generally lower Chinese outbound M&A activity.

As statistics compiled by Thomson Reuters show, China's investors are increasingly viewing ASEAN as offering more than just returns linked to infrastructure and have already sealed deals involving energy, finance, technology and telecommunications.

The region's natural attributes – a young labour force, rising education levels, growing middle class and abundant natural resources such as metals, minerals and geothermal energy – all add to ASEAN's attractiveness as an investment destination.

By deal volume, technology, media and telecommunications investment together with diversified industrial products, have topped investment for two consecutive years (2016-2017).

## DEALS MAKING THE NEWS

Notable ASEAN M&A deals involving Chinese investors in 2017 included Nesta Investment Holding's acquisition of warehouse and storage service Global Logistics Properties for US$1.64 billion and Alibaba's US$2 billion majority stakeholder takeover of online retailer Lazada South East Asia.

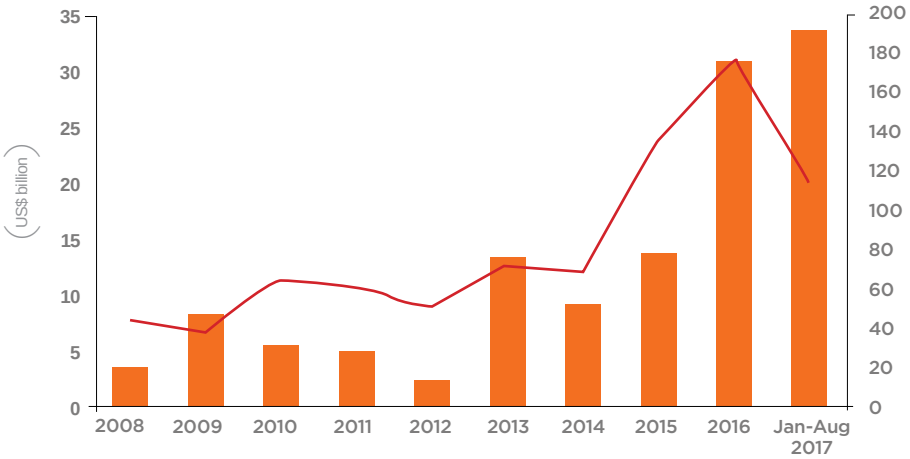
The Alibaba Group's interests also extended to Indonesia with a US$1.1 billion minority share of Jakata-based retail unicorn PT Tokopedia. Other key investments involved the Bank of China (Hong Kong)'s acquisition of the Jakarta branch of Bank of China, with a price tag of US$224 million, and a majority stake in a lead and zinc mine for US$198.8 million.

Energy and power continues to attract Chinese investors. Last year, CGN bought the assets of Edra, a Malaysian state-owned power distributor, for US$2.29 billion while Shanghai Pharma secured local healthcare equipment supplier Cardinal Health in a deal worth US$576 million.

Finance, telecommunications and semiconductor technology attracted significant deals in the Philippines with power, electronics, forestry products and banking dominating deals in Thailand. Food, financial, technology and real estate were just some areas targeted by Chinese outbound investors in Vietnam.

Indications are positive that this widening sphere of investment will continue well beyond 2018 running tandem with ongoing Belt and Road infrastructure projects.

**Chinese acquisitions in Belt and Road Countries**

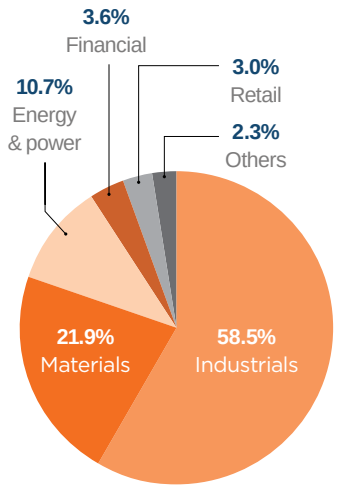



*Source: Thomson Reuters*

Value

Deals (right axis)

**Target sector YTD**




*Source: Thomson Reuters*

**ASEAN deals making headlines**

*Source: Thomson Reuters*