

One Belt One Road

一帶一路

A role for UK
companies in
developing China's
new initiative

**New opportunities in
China and beyond**



China-Britain
Business Council
英中贸易协会



Foreign &
Commonwealth
Office



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HM Ambassador Barbara Woodward CMG OBE

“As the vision for One Belt One Road becomes a reality in years to come... UK business is poised to play an integral part in delivering the global economic growth and connectivity it envisages”

I am delighted that the China-Britain Business Council has prepared this report on the One Belt One Road initiative.

The ancient Silk Road brought benefits to China, Central Asia, the Middle East, Africa and Europe, and we hope this spirit of trade and constructive cooperation can be recaptured through One Belt One Road. The UK-China relationship is one based on our shared commitment to free trade and economic openness. We are also joined in our desire to see greater economic development and connectivity. The UK was delighted to be the first major European country to join the Asian Infrastructure Investment Bank. It is in all our interests to strengthen economic growth in the region given the potential benefits for the global economy as a whole.

One Belt One Road offers great potential opportunities for British business. Partnerships between UK

and Chinese companies could support infrastructure development of this region and collaboration on projects and initiatives in third countries where UK and Chinese strengths are complementary. New markets will open and new supply chains will change the way goods move across the globe.

One of the ambitions of the One Belt One Road initiative is to increase connections between people. This too is an area where our links are stronger than ever before. Connectivity is about more than economic, financial and legal integration; it is also about interrelationships between cultures, and the connections that bind communities together.

The UK-China relationship has entered a golden era. As the vision for One Belt One Road becomes a reality in years to come, as this report makes clear, UK business is poised to play an integral part in delivering the global economic growth and connectivity it envisages.



**Stephen Phillips
Chief Executive, China-Britain Business Council**

“It is vital that British companies take action to position themselves to win business in the years ahead”

Since 2013 when President Xi Jinping first outlined the One Belt, One Road initiative it has attracted a huge amount of attention in political and business circles. But little is known about what it means in concrete, commercial terms whether within or beyond China. This report sets out to begin to identify where opportunities will exist for British companies.

At the China-Britain Business Council we believe that OBOR has the potential to shape – indeed change – global trade and investment well into the future. The ambition is high. The complexity is high. And the geopolitics is potentially challenging. But OBOR has captured imaginations.

It is vital that the British business community understands rapidly what OBOR could mean in the short, medium and long term. More important still is that British companies then take action to position themselves to win business in the years ahead – indeed decades ahead.

This report has been designed and prepared to help businesses gain that understanding. It is not all-encompassing, but aims to give a flavour for where the opportunities may lie both within China and outside China. The report will be supplemented by a series of seminars across key cities in China and the UK to enable businesses to explore in more detail how to access the new opportunities that will exist. We envisage too that more detailed work and analysis will follow as plans become clearer.

Most of all we hope this report will grab the attention of UK businesses and spur them on to learn about what OBOR means for them. OBOR affords businesses the chance to play a key supporting role in the next stage of China's development, and CBBC and the British Government will be working together to support British interests. To learn more, please do get in touch; you will find our contact details in Appendix 3.

1. Executive Summary



Overview

“One Belt One Road” (OBOR) is an initiative, which was launched by President Xi Jinping in 2013, to focus on improving and creating new trading routes, links and business opportunities with China, passing through over 60 countries along the way, across Asia, Europe, the Middle East and Africa. It has two main elements:

One Belt: The Silk Road Economic Belt

Enhancing and developing land routes:

- Building a “Eurasian land bridge” – a logistics chain from China’s east coast all the way to Rotterdam/Western Europe; and
- Developing a number of economic corridors connecting China with Mongolia and Russia, central Asia and South-East Asia.

One Road: The 21st-Century Maritime Silk Road

This is a sea route rather than a road (a reference to the old maritime Silk Road) which runs west from China’s east coast to Europe through the South China Sea and the Indian Ocean.

The aims of the OBOR initiative include:

- developing prosperity for underdeveloped parts of China, particularly in the west of the country
- developing new opportunities for China to partner and co-operate with the various countries along the routes, many of which are developing countries

- increased integration, connectivity and economic development along both routes.

“**The aims of the OBOR initiative include developing prosperity for underdeveloped parts of China**”

New Opportunities in China and Beyond

UK companies can play an important role by supporting the development and connectivity of China and beyond, thereby contributing to continued strong and sustainable growth in China while simultaneously benefiting from new commercial opportunities.

There will be new and exciting commercial opportunities both within China and in countries along the routes. These opportunities will be in the short, medium and long term, and many of the more immediate opportunities will be within China itself as it gears up to deliver on the OBOR initiative.

We believe the potential exists for powerful partnerships between British and Chinese companies, playing to respective strengths. A wide range of business models may be deployed, including:

- Joint partnerships;
- Technology transfer;
- Investment funding;
- EPC;
- PPP;
- Changing supply chains.

These models are explained in Section 3 under “Effective Business Models”.

Sector opportunities will initially be in the major sectors of:

- Infrastructure,
- Financial and professional services,
- Advanced manufacturing,
- Transport and logistics.

Infrastructure projects will play an important role in connecting China

with countries along the routes. Most Chinese provinces along the routes are also developing their own OBOR infrastructure plans. Further secondary opportunities will be found in many other sectors, such as agriculture, energy and environment, e-commerce, healthcare and life sciences. Each major sector has been considered in more detail in the Sector Opportunities sheets included as part of this report.

Certain provinces such as Xinjiang and Fujian are positioned as “core areas” of the OBOR initiative due to their geographical locations. Xinjiang aims to become a financial hub in West China and Fujian will focus on the further development of its logistics, shipping and marine sectors.

Many western regions, such as Chongqing, Shaanxi, Sichuan, Xinjiang and Yunnan will be chiefly focused on infrastructure and urbanisation projects and expanding international trade opportunities. Some underdeveloped western provinces that have excellent natural and agricultural resources, such as Gansu, Ningxia and Xinjiang, will need to upgrade their technology and improve productivity and efficiency. Eastern coastal provinces such as Fujian, Guangdong, Jiangsu and Zhejiang are expected to present new opportunities in more advanced sectors, such as financial and professional services, shipping and logistics, advanced manufacturing, e-commerce, healthcare and life sciences.

The report focuses on 13 key provinces along the OBOR routes and highlights some specific opportunities in each province.

“**The potential exists for powerful partnerships between British and Chinese companies**”

Risks and Challenges

Projects associated with OBOR will not be without challenges and risks. **Businesses should make a thorough risk assessment.**

OBOR is not only an economic initiative, but also a major geopolitical one. The different economic and political situations of countries along the routes inevitably means there are inherent risks, ranging from legal and financial challenges to political or social instability and regional disputes.

Careful planning and due diligence beforehand are strongly recommended. The China-Britain Business Council, together with UK Trade & Investment, supports UK companies in this process based on in-market experience and knowledge of suitable partners.

2. Overview of the One Belt One Road Initiative

The “One Belt One Road” (OBOR) implementation began in 2015 and the opportunities for overseas businesses in China and along the routes are now becoming apparent as it continues to evolve sector by sector and province by province – a process which is expected to last for several decades. OBOR has two main elements:

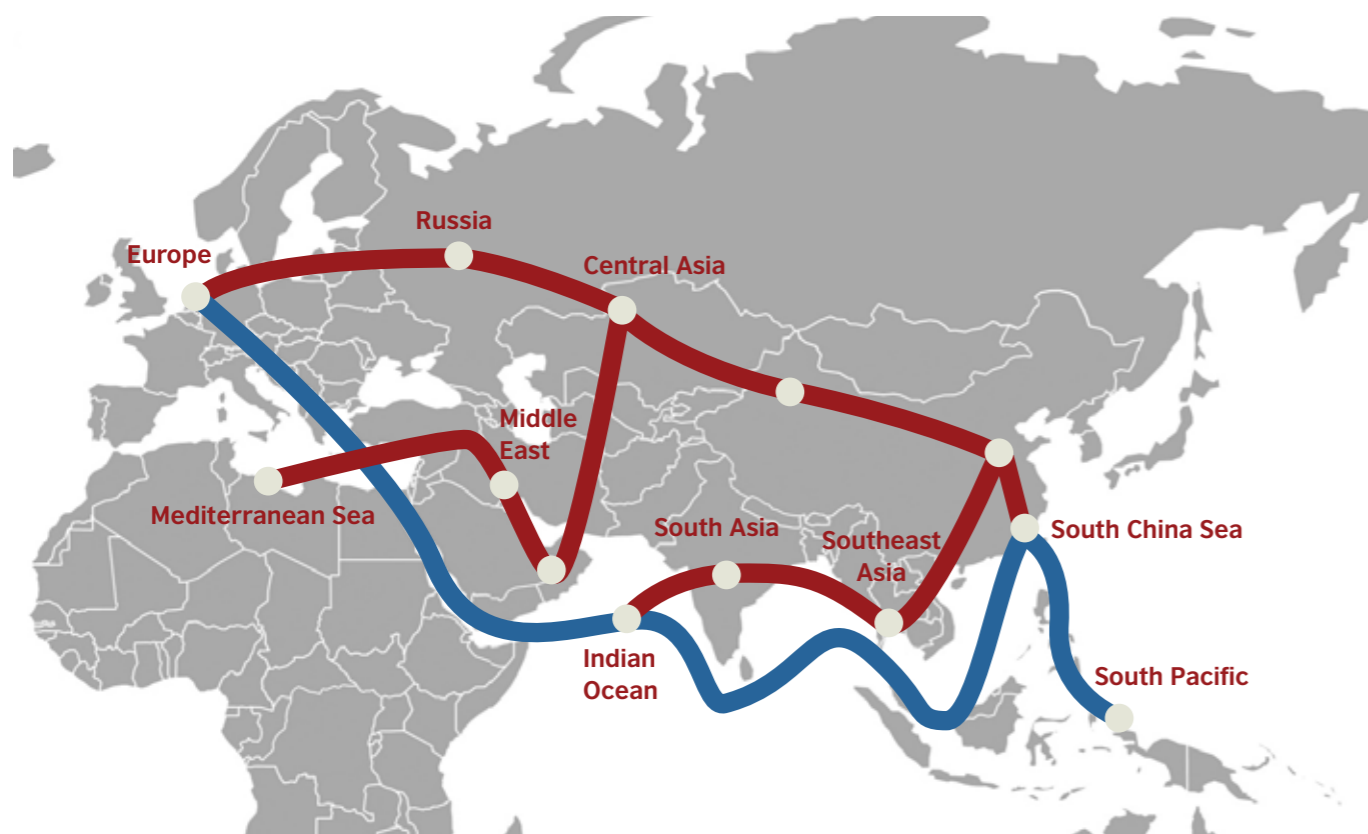
The Silk Road Economic Belt is a land route designed to connect China with Central Asia, Eastern and Western Europe. It will link China with the Mediterranean Sea, the Persian Gulf, the Middle East, South Asia and South-East Asia.

The aim of the land route is twofold:

- to build a “Eurasian land bridge” – a logistics chain from China’s east coast all the way to Western Europe; and
- to develop the economic corridors connecting China with Mongolia and Russia, central Asia and South-East Asia.

The 21st-Century Maritime Silk Road – a sea route rather than a road – runs west from China’s east coast to Europe through the South China Sea and the Indian Ocean, and east into the South Pacific.

The aim of the sea route is to build efficient transport routes between major ports in various countries, including the development of an economic corridor through the Indian Ocean, better connecting China with South Asia, the Middle East, Africa and the Mediterranean.



The blue route is the “21st Century Maritime Silk Road”, and the red routes are the “Silk Road Economic Belt”

OBOR Vision and Objectives

The OBOR initiative is being managed by a small group under the chairmanship of Vice-Premier Zhang Gaoli. In the Chinese government, the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs and Ministry of Commerce have been tasked to deliver OBOR, with the NDRC playing a coordinating role.

The official blueprint is for a circular route “connecting the vibrant East Asia economic circle at one end and the developed European economic circle at the other, and encompassing countries with huge potential for economic development”¹.

It has been described by the Chinese government as the third round of China’s opening up after the development of Special Economic Zones and China’s accession to the World Trade Organisation.²

President Xi Jinping has said that OBOR “should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the routes. It is not closed but open and inclusive; it is not a solo by China but a chorus of all countries along the routes.”³

Explicit objectives:

- Prosperity for underdeveloped parts of China, particularly in the west of the country.
- Increased connectivity and economic development along both routes through the movement of goods, services, information and people and the exchange of culture.
- Greater integration between China and its neighbours.
- Energy security through diversification of import sources.

Implicit objectives:

- An outlet for domestic overcapacity and overseas investment:
 - o China has overcapacity in several sectors, owing to the economic drive and building boom of recent decades. OBOR is seen as a viable outlet for excess production capacity.
 - o China has also accumulated a large amount of foreign exchange reserves and capital. OBOR presents channels for outward investment and the diversification of foreign exchange reserves.
- New markets for Chinese products and services:
 - o Diversifying export markets, especially in developing countries, will extend the lifecycle of Chinese products and will lay the ground domestically for the upgrading of traditional industries and the development of emerging industries.

“The Silk Road Economic Belt will connect China with Central Asia, Eastern and Western Europe”

Six Economic Corridors, Over 60 Countries

The OBOR blueprint encompasses over 60 countries, which account for 60% of the world's population and a collective GDP equivalent to 33% of the world's wealth. ⁴

It focuses on connectivity and partnerships with neighbouring countries and builds upon existing multilateral mechanisms (see Appendix 2).

Six economic corridors are proposed as the framework of the OBOR initiative outside China:

1. New Eurasian Land Bridge
2. China - Mongolia - Russia Corridor
3. China - Central Asia - West Asia Corridor
4. China - Indochina Peninsula Corridor
5. China - Pakistan Corridor
6. Bangladesh - China - India - Myanmar Corridor

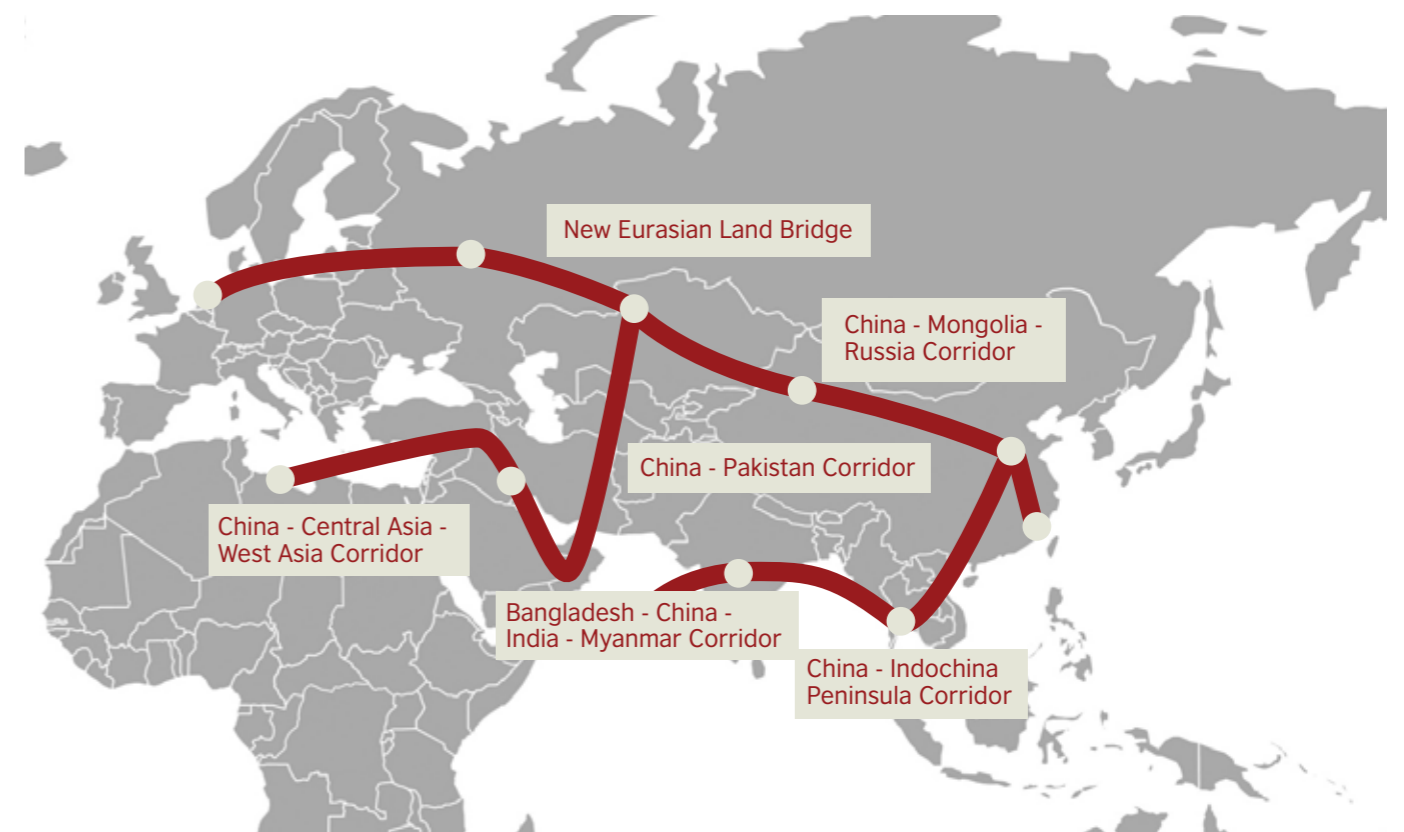
The location and structure of the corridors are shown in the map below, which also outlines the route of 21st Century Maritime Silk Road.

The economic corridors effectively constitute the framework of the OBOR initiative beyond China's borders. The China Development Bank has reportedly reserved more than US\$890 billion (£571 billion) for their development.

British businesses are urged to explore opportunities for cooperation along these economic corridors. In addition to contacting CBBC or British Embassies and UKTI offices along the route, companies may also consider speaking to Chinese Embassies about potential opportunities under OBOR. The Chinese government has instructed its embassies to promote OBOR.

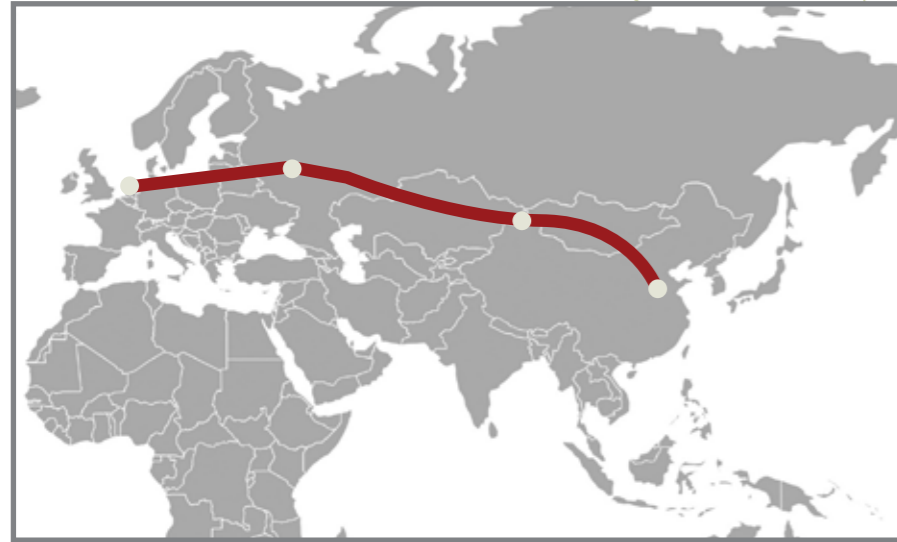
Trading companies can take advantage of logistics routes along the New Eurasian Land Bridge, for example, to deliver goods to countries along the route, while firms in energy and infrastructure may find opportunities in their field along the China-Central Asia-West Asia corridor.

Experienced UK firms offering tendering, management and professional services should find demand from Chinese investors on all routes, especially in the Middle East.



The six economic corridors designed to link China with developing countries

The New Eurasian Land Bridge



Also known as the Second or New Eurasian Continental Bridge, this runs from the port of Lianyungang in Jiangsu province, all the way to Rotterdam in Western Europe.

It is expected to become a major logistics passageway from China to Europe. Faster than sea transport and cheaper than air routes, it crosses seven provinces within China and arrives at its destination via three railways.

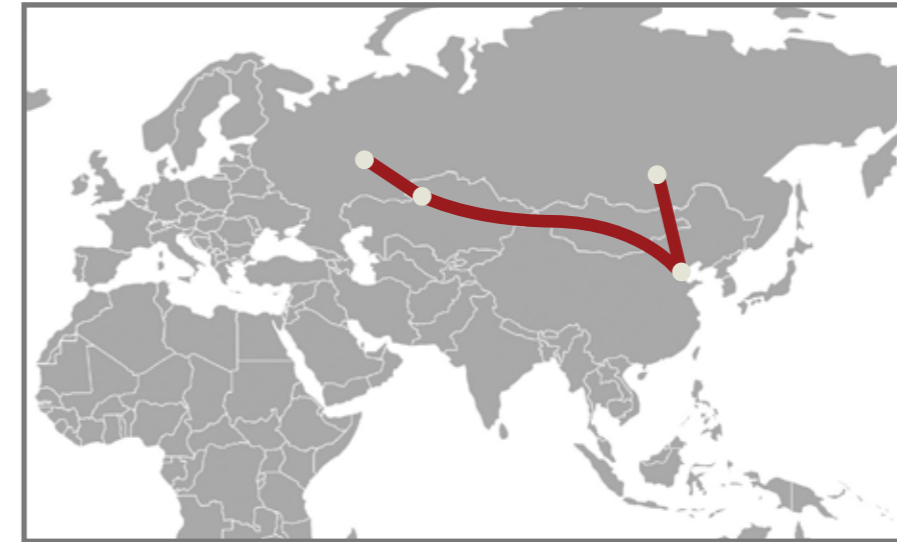
An international freight train from Lianyungang, in Jiangsu province, to Kazakhstan via Xinjiang province began running in February 2015, complementing existing lines. Other freight trains start in different locations in China, such as Chongqing and Xian, and join this route.

China is also working with customs departments in countries including Kazakhstan, Poland and Russia to reduce the cost of customs clearance along the route.

“ The New Eurasian Land Bridge is faster than sea and cheaper than air ”



The China - Mongolia - Russia Corridor



This route involves high-speed rail and road links and is divided into two lines:

- **Beijing/Tianjin/Hebei to Russia** (via Hohhot, Inner Mongolia)
- **Dalian to Chita in Russia** (via Shenyang, Changchun, Harbin, Manzhouli and Inner Mongolia)

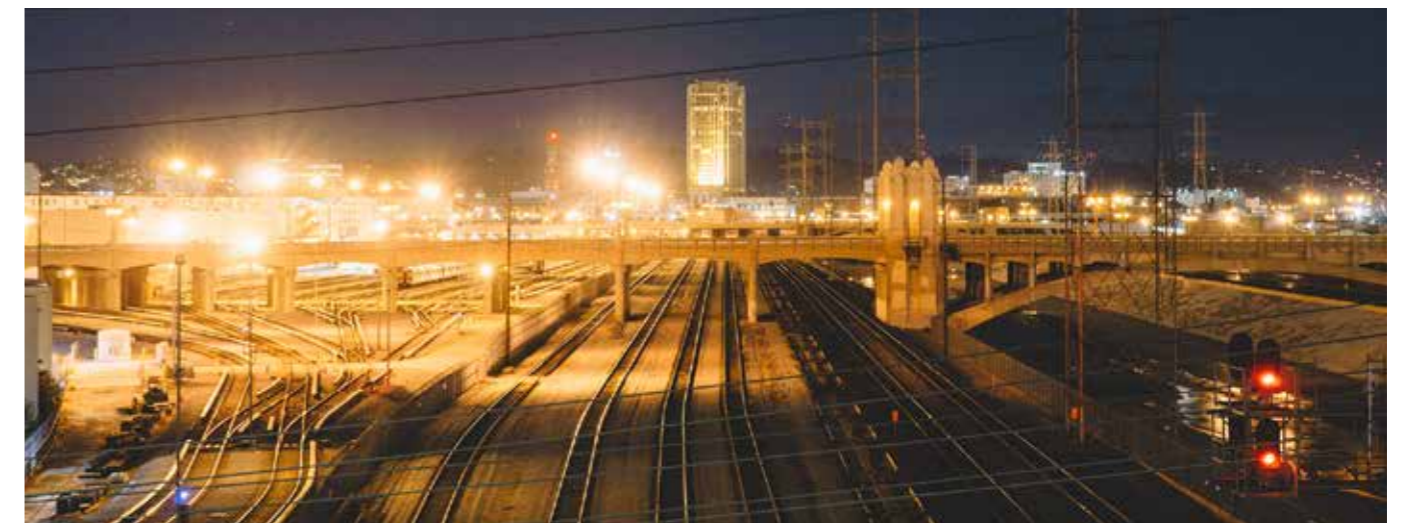
International freight trains are already operating on this route, connecting major cities across China including Guangzhou, Shenyang, Suzhou and Tianjin with international destinations.

A northern passageway will be built through the China-Mongolia-Russia Corridor to connect the Bohai Bay Economic Circle, including the major cities of Beijing, Dalian and Tianjin, with Western Europe.

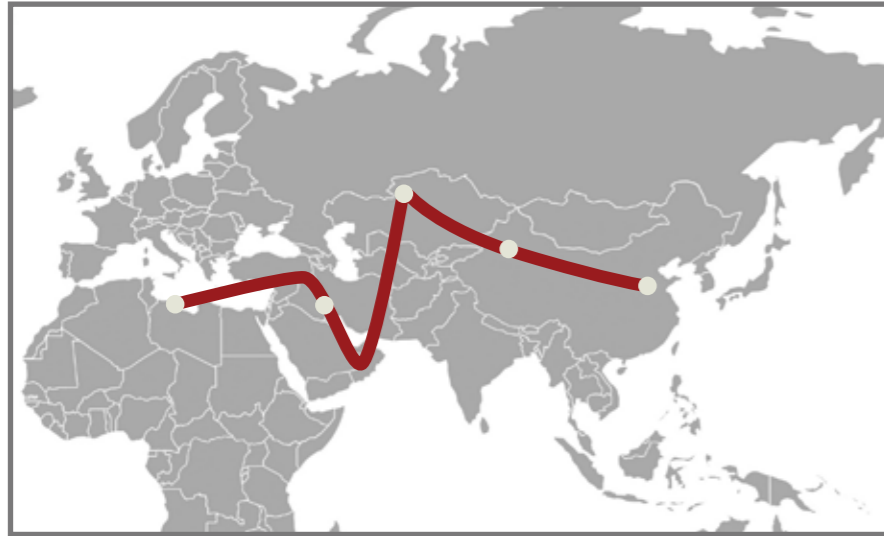
This corridor fits not only with China's OBOR initiative, but also with Russia's Transcontinental Rail Plan (which also involves road and rail links between Moscow and Beijing) and Mongolia's Prairie Road Programme (also known as the Steppe Road, consisting of five projects including road and railway construction, natural gas and oil pipelines).

China is also cooperating with the Eurasian Economic Union⁵ led by Russia.

In May 2015, President Xi Jinping signed a series of infrastructure agreements worth US\$25 billion (£16 billion) with Belarus, Russia and Kazakhstan on high-speed rail, energy infrastructure and aerospace, as well as industrial parks providing financial services such as RMB settlement.



The China - Central Asia - West Asia Corridor



This will be an important gateway for oil and natural gas, running to Xinjiang from the Arabian Peninsula, Turkey and Iran.

The China-Central Asia gas pipeline is the world's longest. It starts at the border of Turkmenistan and Uzbekistan, runs through Uzbekistan and southern Kazakhstan, and ends at Horgos in Xinjiang. From there it will be connected to China's second West-East gas pipeline, which is under construction.

China has also signed cooperative agreements with Kazakhstan,

Kyrgyzstan and Tajikistan to work on trade facilitation and logistics.

China has proposed a comprehensive cooperation strategy with Middle Eastern countries (known as the "1+2+3" strategy) of which energy, including nuclear energy and renewable energy, is a core element, alongside cooperation in infrastructure construction, aerospace technology and trade and investment. They aim to treble bilateral trade in the next decade and to push forward the China-Gulf Cooperation Council Free Trade Agreement.

“ The China - Central Asia - West Asia Corridor will be an important gateway for oil and natural gas ”



The China - Indochina Peninsula Corridor

This corridor will link the Pearl River Delta Economic Circle (around Guangzhou, Hong Kong and Shenzhen) with the South-East Asian countries of Cambodia, Laos, Myanmar, Thailand and Vietnam. New high-speed railways and motorways will run from the Pearl River Delta in South China to Singapore via Nanning in Guangxi Province and Hanoi in Vietnam.

The initiative in this region aligns with the goals of the Greater Mekong Sub-Region, an economic area formed by the Asian Development Bank, which serves as a platform for industrial cooperation and the joint construction of transport networks along the Mekong River.



The Bangladesh – China – India - Myanmar Corridor



This corridor will connect China with South Asia. China sees India as an important partner for integration with Western Asia and beyond.

A cooperative mechanism has been set up for the development of this corridor, and railway construction, industrial cooperation and professional training services are expected to be pursued.

During the visit to China of Indian Prime Minister Modi in May 2015, the two sides signed agreements worth more than US\$22 billion (£14.1 billion) covering telecoms, steel, solar energy and film, although it should be noted that most of this is for Chinese investment in India, not connected to the corridor's development.

The China - Pakistan Corridor

Linking Kashgar in Xinjiang with the deep-sea port of Gwadar in Pakistan, this corridor could afford China a shortcut to the Middle East and Africa via Dubai and Oman, bypassing the Strait of Malacca. It should be noted that the corridor passes through Kashmir and the Indian Government has signalled its strong opposition to this.

China and Pakistan reached agreements reportedly worth approximately £29 billion during President Xi Jinping's visit in April 2015, covering energy, ICT and transport infrastructure, among others. Pakistan lacks infrastructure development, and this project is expected to be a priority component of OBOR.



“ **There are measures to reduce non-tariff barriers and to integrate customs clearance along the routes** ”

New Policies and Reforms

Vast infrastructure, engineering and energy projects will need to be built in the coming decades if the OBOR initiative is to be realised. Its success will depend upon participation not only from countries and businesses along the Belt and Road routes, but also from competent partners further afield, including the UK.

A key objective of OBOR is to accelerate the pace of development in China's less developed provinces and cities, particularly those in the west and central regions. China will be investing heavily in these regions to develop the necessary infrastructure and conditions needed for them to fulfil their potential. At the same time the more established coastal and eastern regions remain integral to the success of OBOR. Outside China, OBOR's reach

will stretch far beyond the 64 countries detailed in the initiative, encompassing developed and developing countries in Asia, Africa, Europe and the Middle East.

OBOR is closely intertwined with the country's burgeoning outbound investment activity. As the initiative's implementation process continues, reforms will need to be realised both within and outside China, including the improvement of financial integration, trade liberalisation and the opening of markets.

To support the initiative, various central authorities are introducing plans and measures. The General Administration of Customs (GAC), Administration of Quality Supervision, Inspection and Quarantine, Ministry of Commerce and Ministry of Transport have already released their implementation plans. The GAC has announced measures to reduce non-tariff barriers and to integrate customs clearance along the routes, and the Ministry of Commerce

plans to strengthen energy and infrastructure investment cooperation with neighbouring countries. The Ministry of Transport plans to develop international freight lines and the airline network with countries along the routes.

Key provinces and cities are due to announce their own plans later in 2015. While OBOR highlights a number of key provinces that are integral to the initiative, it is already clear that every province in China expects to benefit from its implementation and they are planning accordingly. Although details of local development plans are not yet publicly available, our discussions with central and local authorities point to a long-term opening-up of markets and economic reform over a period of decades.

CBBC and the UK government will continue to monitor the situation closely and to provide regular updates for British businesses.

New Funding Streams

In 2014, China launched two new financial institutions, the Asian Infrastructure Investment Bank and the Silk Road Fund, in response to the substantial financing gap for infrastructure investment in Asia. The World Bank estimated that Asian demand for infrastructure would amount to some US\$730 billion (£465 billion) per year up to 2020, yet it and the Asian Development Bank together were able to supply just US\$30 billion.



Asian Infrastructure Investment Bank

The UK is a founding member of the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank led by China and located in Beijing. There are expected to be 57 member countries, 50 of which signed the bank's founding articles in June 2015. The initial capital of the bank is £65 billion, with China providing £20 billion and the remaining funds to come from the other members. The AIIB is expected to be in operation by the end of 2015. The leadership has stated clearly that the bank will operate commercially and not as a vehicle to implement Chinese policy.

The AIIB will focus on investment across the Asia-Pacific region from the Gulf in the west to the Pacific in the east.

As the first major European country to apply to join, the UK is in a position to contribute to the AIIB's rule-making and to help ensure standards of accountability, transparency and governance to aid in risk assessment of projects and the establishment of financial mechanisms. A closer political and economic engagement with the Asia-Pacific region will be built, which will create an unrivalled opportunity for the UK and Asian countries to grow together.

Chancellor of the Exchequer George Osborne said: **"The UK's formal signing of the founding agreement of the AIIB marks an important next step in our plan to build a deeper partnership between the governments, companies and entrepreneurs of Britain and the fast growing economies of Asia. The AIIB will help to finance vital infrastructure for the Asian and world economies, and I believe that our involvement at its birth will help to unlock enormous opportunities for British companies and British jobs."**

UK businesses are already winning projects funded by the Asian Development Bank and the World Bank, and will be well placed to bid for a wide range of projects from the AIIB with their expertise in infrastructure investment.

“The Silk Road Fund is open to investors from Asia and beyond”

The Silk Road Fund

The Silk Road Fund was launched by China with capital of £25.5 billion in December 2014. It is oriented towards funding for specific projects and is jointly funded by the State Administration of Foreign Exchange, the China Investment Corporation, the Export-Import Bank of China and the China Development Bank. The fund has positioned itself as a medium- to long-term development fund focused on investment opportunities and financing and investment services.

The development of infrastructure such as railways, roads and pipelines is at the top of its agenda. The first of the fund's projects is the Karot hydropower project, which is part of the China-Pakistan economic corridor initiative. It is being financed by a combination of debt and equity investment with total investment of approximately £1.05 billion.⁶ The Silk Road Fund jointly provided the loans with the Export-Import Bank of China and another financial institution.

The Silk Road Fund is open to investors from Asia and beyond. Regional and sectoral sub-funds are expected to be established later to attract more international cooperation.

Comparison of Roles of the AIIB and the Silk Road Fund

Name	Size (£GBP bn)	Intended recipients	Focus	Funding source
AIIB	65	All regional member countries	Infrastructure	Member countries
Silk Road Fund	25.5	Countries along OBOR routes	Infrastructure, resource development, industrial cooperation	Mostly Chinese capital

The AIIB is a multilateral institution. Each member country has a proportion of the votes approximately proportional to its subscribed capital; China is the largest shareholder. Its operations are likely to extend to traditional loans and credit assurance⁷ and it is expected to use bond financing and to absorb private capital through PPP ventures. The main objective is to provide funding for infrastructure projects in member countries.

The Silk Road Fund will mainly use domestic capital, especially foreign exchange reserves, to invest in projects in countries along the OBOR routes and beyond. Moreover, the fund will focus not only on infrastructure, but also on high-return projects such as resource development and industrial cooperation.



3 Overview of New Opportunities in China and Beyond

Within China

This section highlights the broad opportunities that we foresee. British companies can play an important role by supporting the development and connectivity of China's provinces and neighbouring countries, thereby contributing to continued strong and sustainable growth in China while simultaneously benefiting from new commercial opportunities.

To win business in the short, medium and long term, we believe it is critical for UK companies to get involved in this initiative as soon as possible, in order to gain access to a wider tranche of the Chinese market and to third

markets along the routes, in step with China's outbound investment.

This report identifies a wide range of exciting and new opportunities within China in the foreseeable future, both by sector and by province.

OBOR is intended to support the development and reform of all provinces and regions in China. As the provinces compete with each other to increase their commercial competitiveness, so ensuring the success of the initiative is central to the reform strategies of every one of them. This report focuses on the 13 provinces, regions and municipalities which will feature prominently as the OBOR develops.

North-West: Gansu, Ningxia, Qinghai, Shaanxi, Xinjiang

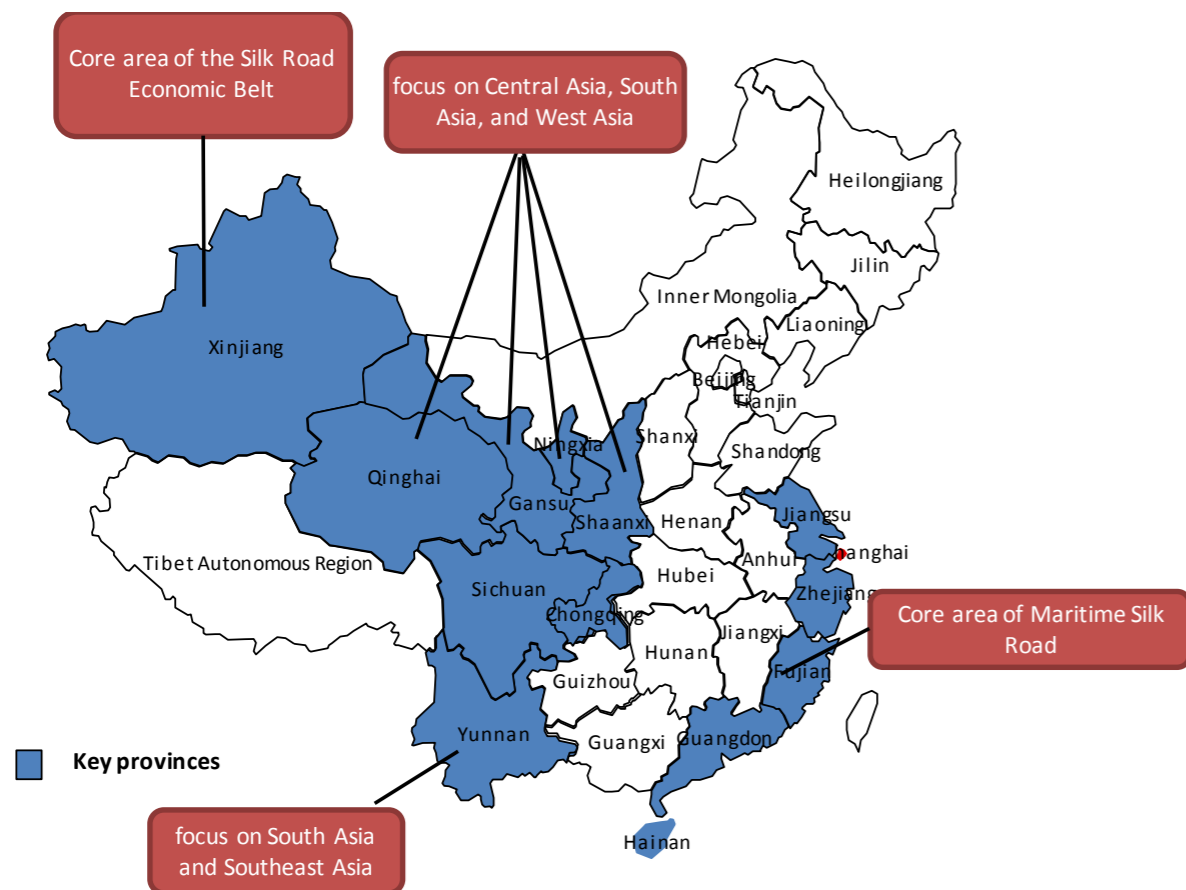
South-West: Chongqing, Sichuan, Yunnan

South & South-East: Fujian, Guangdong, Hainan, Jiangsu, Zhejiang

Xinjiang and Fujian are the two locations at the heart of the OBOR initiative.

Xinjiang, in the north-west, has been designated as the "core area" of the land-based Silk Road Economic Belt, and is the natural hub for routes to central Asia, Russia and Europe.

Fujian is the equivalent area for the 21st-Century Maritime Silk Road.



The 13 provinces will feature prominently as the OBOR develops

Opportunities: By Sector and By Province

Sector Province/ municipality	Primary Opportunities						Secondary Opportunities		
	Infrastructure	Financial and Professional Services	Agriculture and Environment	Advanced Manufacturing and Transport	Energy and Resources	E-Commerce and logistics	Healthcare and Life Science	Tourism	Creative and Culture
Xinjiang	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Fujian	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Shaanxi	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Gansu	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Qinghai	⚙️	💰	🌿					👓	🎤
Ningxia	⚙️	💰	🌿		🔋	📱			
Sichuan	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Chongqing	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Yunnan	⚙️	💰	🌿	🚗		📱	🏥	👓	🎤
Jiangsu	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Zhejiang	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Guangdong	⚙️	💰	🌿	🚗	🔋	📱	🏥	👓	🎤
Hainan	⚙️	💰	🌿				🏥	👓	🎤

Small icons mean opportunities less clear at this stage.

“It is critical for UK companies to get involved in this initiative as soon as possible”



Beyond China's Borders

Excellent opportunities will be found in other countries along the route. Some of them are included in the sector factsheets with this report, but they are not covered explicitly on a country-by-country basis. Short profiles of the key countries along the route can be found in Appendix 1.

In particular we believe there will be real opportunities for British companies to work with Chinese partners in third countries, playing to their respective strengths, which should prove more effective for both parties than working independently. The UK and China have many synergies, such as:

- UK and Chinese companies have complementary skill sets for international infrastructure projects.
- Chinese engineering, construction and financial backing can be combined with the UK's world-class skills in PPPs, project management, project finance, design, planning, life-cycle and the environment.

- The UK has well-established business relationships in the Middle East and Africa and many Commonwealth countries.

Markets in developing countries along the routes are likely to become more liberal and diverse with the development of OBOR. Trade barriers are expected to be reduced and the investment environment to be improved, which would mean a substantial increase in investment opportunities and the export of both goods and services.

According to the International Monetary Fund, only seven of the 64 countries in the OBOR initiative are advanced economies⁸.

The potential for growth in the developing and emerging economies is enormous. Real GDP in developing countries is forecast to rise by 6.7% per annum over the next 15 years with developing countries expected to account for 73% of global nominal exports by 2030.⁹

“ **The route will collectively need £3.2 trillion of investment in transport infrastructure**”

The state of infrastructure in many countries along the OBOR routes is lower than the global average¹⁰ and there is huge demand for its construction. PwC estimates that countries along the route will collectively need US\$5 trillion (£3.2 trillion) of investment in transport infrastructure over from now until 2020 – two-and-a-half times the current amount in the Chinese domestic market.

Effective Business Models

The development of OBOR opens up a diverse range of new opportunities using a range of business models for overseas businesses, including those from the UK.

Joint partnerships: In general Chinese contractors prefer to partner with large, well-known international partners to benefit from their credibility and reputation. SME's can participate in the supply chain. UK companies can leverage partnerships in third countries to access projects in China, or partnerships with Chinese companies to access clients in third countries;

Technology transfer: UK companies can transfer and license their advanced technology and services to Chinese partners;

Investment funding: Funding from China is available to UK companies for the expansion of existing projects or the divestment of assets.

EPC: Some Chinese engineering-procurement-construction (EPC) firms have already accelerated their overseas development, including the

China State Construction Engineering Corporation, China Communications Construction Co, China Railway Construction Corporation Co, Metallurgical Corporation of China and China Energy Engineering Group Co.

PPP: An increasing number of contracted overseas projects are moving from the traditional engineer-procure-construct (EPC) model to build-transfer (BT), build-operate-transfer (BOT) and public-private partnership (PPP) methods. The higher requirements placed upon project management, risk assessment, adherence to local technical standards, legal advice and environmental protection all play to the strengths of experienced British businesses.

Changing supply chains: British companies can take advantage of new routes to market to sell products and services to third economies more cheaply and efficiently. For example, the new Chongqing to Duisburg freight railway has cut the time between Europe and China to 12-13 days,¹¹ compared with an average of five weeks for container shipping.¹²

“ **The key to success will be for UK businesses to identify appropriate Chinese partners**”

Another international freight line, linking Hamburg with Harbin in 15 days, went into operation in June 2015 along the China-Mongolia-Russia corridor.

We believe the key to success will be for UK businesses to identify appropriate Chinese partners to make full use of each side's respective strengths – e.g. in project risk/quality management, integrated project solutions, consulting and financial services and infrastructure services – so they can access new markets together. We will work closely with UK companies to identify the right partners.



4. Risks and Challenges



“ **Careful planning and due diligence beforehand are strongly recommended** ”

Risks and Challenges

OBOR is not only an economic initiative, but also a major geopolitical one. The diversity and different economic and political situations of countries along the routes inevitably mean there are inherent risks, ranging from the fundamental legal and financial challenges of accessing new foreign markets to political or social instability and regional disputes.

Companies should also remain live to the potential impact of territorial disputes along the OBOR routes, including within the South China Sea where claims over territorial sovereignty are yet to be resolved.

Political instability in a range of countries may also lead to inconsistency in legal and financial policies, which could undermine business activities.

Solutions

For UK companies who want to participate in and benefit from the development of OBOR, the key principle is to plan sufficiently by identifying the appropriate country, sector, project and Chinese partner. Careful planning and due diligence beforehand are strongly recommended.

The China-Britain Business Council, together with UK Trade & Investment, supports UK companies in this process based on in-market experience and knowledge of suitable Chinese partners.

Businesses are encouraged to consult the latest Foreign and Commonwealth Office travel advice and also UKTI Overseas Business Risk guides before taking investment decisions.



Appendix 1 - Key Country Profiles



Russia

- Population of round 144 million. Main industries are oil and natural gas.
- GDP about £1.2 trillion (10th largest); GDP per capita about £8,238
- Total trading volume between the two countries about £61 billion



Poland

- Population of around 38 million. Main industries are coal, textile, chemical, machinery, iron and steel
- GDP about £318 billion (23rd largest); GDP per capita was £8,378
- China is Poland's third largest import partner. Total trading volume between the two countries in 2014 was £10 billion



Belarus

- Population about 10 million. Main industries are metallurgical mechanical engineering.
- GDP about £48.5 billion (66th largest); GDP per capita £5,125
- China is one of Belarus' main trading partners. Total trading volume £1.2 billion



Turkey

- Population of approximately 78 million. Main industries are textiles, food processing, autos, electronics, tourism, mining, steel, petroleum, construction, lumber and paper.
- Its 2014 GDP was about £514 billion (18th) and GDP per capita was £6680 (66th).
- China has become Turkey's third largest trading partner. Total trading volume between the two countries in 2014 was £18 billion.



Saudi Arabia

- Population of approximately 31 million. Main industries are oil/petroleum refining and petrochemicals, industrial gases and fertilizers, plastics, construction, commercial ship and aircraft repair.
- Its 2014 GDP was £479 billion (19th) and GDP per capita was £15,585 (33th).
- China is the largest trading partner of Saudi Arabia. Total trading volume between the two countries in 2014 was £44 billion.



Sri Lanka

- Population of around 20 million. Main industries are tourism, tea export, textile and agriculture
- GDP about £52 billion (68th largest); GDP per capita was £2,476
- China is Sri Lanka's second largest import partner. Total trading volume between the two countries in 2014 was £2.3 billion



India

- Population of approximately 1.2 billion. Main industries are textiles, food processing, chemicals, steel, cement, ICT, software, business outsourcing.
- GDP £1.3 trillion (7th); GDP per capita £1,036 (141th).
- India was the 15th largest trading partner of China with a share of 1.72% in China's overall trade.
- Total trading volume between the two countries in 2014 was £45 billion.



Myanmar

- Population of around 51 million. Main industries are opium, agriculture, textiles and wood products
- GDP about £42 billion (70th largest); GDP per capita was £823
- China is Myanmar's largest trading partner. Total trading volume between the two countries in 2014 was £16 billion



Malaysia

- Population of approximately 31 million. Main industries are electronics, rubber, palm oil, timber, pharmaceuticals, medtech, petroleum refining.
- GDP £208 billion (35th) and GDP per capita £6,884 (63th).
- Malaysia's largest trading partner is China. Total trading volume between the two countries in 2014 was £41 billion.



Mongolia

- Population of approximately 3 million. Main industries are construction materials, mining, oil, agriculture, food processing, wool and natural fibers.
- GDP about £7.6 billion (129th); GDP per capita £2610 (107th).
- Since the 1990s, China has become Mongolia's biggest trading partner, and a number of Chinese businesses are operating in Mongolia.
- Total trading volume between the two countries in 2014 was USD 7.31 billion (£4.66 billion).



Kazakhstan

- Population of around 17 million. Main industries are oil, mining, coal and husbandry.
- GDP about £144 billion (50th largest); GDP per capita was £8,253
- China is the largest trading partner of Kazakhstan, total trading volume £14 billion



Kyrgyzstan

- Population about 6 million. Main industries are oil, coal, metals, (iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold and silver)
- GDP about £4.7 billion (144th); GDP per capita about £827
- China is its largest import partner and one of the top 5 export partners of Kyrgyzstan.
- Total trading volume between the two countries was about £ 890 million.



Pakistan

- Population of around 200 million. Main industries are textiles, sugar, paper, tobacco.
- GDP £160 billion (42th); GDP per capita £855 (153th).
- China is the second largest trade partner of Pakistan.
- Total trading volume between the two countries in 2014 was £16 billion.



Vietnam

- Population around 91 million. Its main industries are food processing, textiles, machinery, mining, steel; cement, chemical fertiliser, glass, tyres.
- Its 2014 GDP was £119 billion (55th) and GDP per capita £1,307 (132th).
- China has become Vietnam's second-largest trading partner and the largest source of imports.
- Total trading volume between the two countries in 2014 was USD 83.64 billion (£53.3 billion).



Thailand

- Population of around 67 million. Main industries are automotive, financial services, electric appliances/components, tourism, cement, furniture, plastics, textiles, tobacco and food processing. GDP was £238 billion (32th) and GDP per capita was £3,469 (94th)
- China is Thailand's second largest export market. Total trading volume between the two countries in 2014 was £46.3 billion.



Indonesia

- Population of around 252 million. Main industries are mining, textiles, agriculture and tourism.
- GDP £566 billion (16th); GDP per capita £2,251 (116th).
- China has also been one of Indonesia's key major trading partners in recent years, serving as the country's largest export and import market.
- Total trading volume between the two countries in 2014 was £41 billion.



Laos

- Population of 7 million. Main industries are metals, timber, food processing, textiles and cement
- Its 2014 GDP was £7.4 billion (132th) and GDP per capita was £1,078 (138th).
- China is one of Laos' three major trading partners. Total trading volume between the two countries in 2014 was £2.3 billion.



Philippines

- Population of approximately 101 million. Main industries are electronics, business outsourcing, textiles, shipbuilding, pharmaceuticals, chemicals, fishing, food processing, petroleum refining.
- Its 2014 GDP was £215 billion (39th) and GDP per capita £2,122 (127th)
- China is Philippines' second largest trading partner. Total trading volume between the two countries in 2014 was £28.3 billion.



Singapore

- Population of approximately 5.5 million. Main industries are electronics, chemicals, financial services, petroleum refining, rubber processing, food processing, shipping and life sciences.
- Its 2014 GDP was £196 billion (36th) and GDP per capita was £35,893 (9th).
- Singapore is China's 9th largest trading partner, while China is Singapore's 3rd largest trading partner. Total trading volume between the two countries in 2014 was £62.4 million.

Appendix 2 - Multilateral mechanisms

ACD	Asia Cooperation Dialogue: an intergovernmental organisation including every Asian country (33 members) to enhance Asian cooperation at a continental level. ¹³
ASEAN	Association of Southeast Asian Nations: a political and economic organisation, founded in August 1967 in Bangkok, with 10 members: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Malaysia, Philippines, Singapore, Thailand and Vietnam.
ASEM	The Asia–Europe Meeting: an informal Asian-European forum to enhance relations and various forms of cooperation regarding political, economic and cultural issues among the 28 European Union member states, two other European countries and the European Union along with 21 Asian countries and the Secretariat of the Association of South-East Asian Nations. ¹⁴
CICA	The Conference on Interaction and Confidence-Building Measures in Asia: an intergovernmental forum with 26 member states to enhance cooperation for peace, security and stability in Asia. ¹⁵
China-ASEAN	Association of China and South-East Asian Nations: an informal organisation to promote cooperation between China and 10 ASEAN countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
GMS	The Greater Mekong Subregion: a development project formed by the Asian Development Bank in 1992 that brought together the five states of the Mekong River basin, Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan Province, China. ¹⁶
GTI	Greater Tumen Initiative: an intergovernmental cooperation mechanism among four countries – China, Mongolia, the Republic of Korea and the Russian Federation – supported by the United Nations Development Programme ¹⁷ .
SCO	The Shanghai Cooperation Organisation: a Eurasian political, economic and security organisation comprising China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

Appendix 3 - Contacts

CBBC offers a wide range of support covering advice, events and access. Our business services, which we provide from 13 offices across China and 10 in the UK, include market research and advisory, business match-making and meetings, the CBBC Launchpad scheme to get businesses started on the ground in China, as well as conferences, seminars, networking events, webinars, training and translation services. Please contact us to find out more about how to join our membership of 1,000 UK companies.

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CBBC offices in China Beijing, Changsha, Chengdu, Chongqing, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Wuhan, Xian.

Embassy, UKTI and Other Government Contacts

British Embassy Beijing: <https://www.gov.uk/government/world/china>

Foreign & Commonwealth Office: <https://www.gov.uk/government/organisations/foreign-commonwealth-office>

UK Trade & Investment: <https://www.gov.uk/government/organisations/uk-trade-investment>

HM Revenue & Customs, Overseas Trade Statistics: <https://www.uktradeinfo.com>

Chinese Websites and Government Contacts

National Development and Reform Commission (NDRC): <http://www.ndrc.gov.cn/> (CN)

Ministry of Commerce of the People's Republic of China (MOFCOM): <http://english.mofcom.gov.cn/> (EN)

General Administration of Customs of the People's Republic of China (GAC): <http://english.customs.gov.cn/> (EN)

Ministry of Industry and Information Technology of the People's Republic of China (MIIT): <http://www.miit.gov.cn> (CN)

Ministry of Transport of the People's Republic of China: <http://www.mot.gov.cn/> (CN)

Ministry of Agriculture of the People's Republic of China: <http://english.agri.gov.cn/> (CN)

National Energy Administration: <http://www.nea.gov.cn/> (CN)

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- ² The State Council Information Office of the People's Republic of China: <http://www.scio.gov.cn/index.htm>
- ³ President Xi Jinping at the Boao Forum for Asia, March 2015.
- ⁴ Nadege Rolland, China's New Silk Road, The National Bureau of Asian Research.
- ⁵ Consists of six former Soviet Union countries, namely Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.
- ⁶ http://news.xinhuanet.com/english/2015-04/21/c_134167533.htm
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- ⁸ The advanced economies include the Czech Republic, Estonia, Israel, Latvia, Singapore, Slovakia and Slovenia.
- ⁹ <http://www.rolandberger.com/gallery/trend-compendium/tc2030/content/assets/trendcompendium2030.pdf>
- ¹⁰ In 2013, the index of the countries along the routes was 2.7, while the global average was 2.91.
- ¹¹ PRC Ministry of Commerce: <http://www.mofcom.gov.cn/article/resume/n/201411/20141100802220.shtml>
- ¹² Alessandro Arduino, The New Silk Road, Europe China Research and Advice Network.
- ¹³ <http://www.acddialogue.com/about/>
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- ¹⁵ https://en.wikipedia.org/wiki/Conference_on_Interaction_and_Confidence-Building_Measures_in_Asia
- ¹⁶ https://en.wikipedia.org/wiki/Greater_Mekong_Subregion
- ¹⁷ <http://www.tumenprogram.org/?list-1524.html>
- ¹⁸ Passenger drop-off or cargo offloading rights in the destination country; passenger pick-up or cargo loading rights in the destination country; transportation rights (passengers and cargo) via the third country.
- ¹⁹ <http://wallstreetcn.com/node/218005>
- ²⁰ Fujian Overseas Fishery Development Plan (2014-2020)
- ²¹ The Fujian Cross-Straits Blue Economic Experimental Zone covers Fuzhou, Pingtan, Quanzhou, Xiamen and Zhangzhou, aiming to strengthen joint development of the coastal area with Taiwan.
- ²² The purpose of establishing a "national district" is to implement national strategy. The district benefits from preferential policies directly approved by the State Council. Other well-known national districts include Pudong New District (Shanghai), and Binhai New District (Tianjin).
- ²³ http://intl.ce.cn/specials/zxgjzh/201409/03/t20140903_3473002.shtml
- ²⁴ http://www.qhfgw.gov.cn/sswzt/qktyj/201411/t20141124_597955.htm
- ²⁵ <http://www.qhcin.gov.cn/info/1241/2941.htm>
- ²⁶ Passenger drop-off or cargo offloading rights in the destination country; passenger pick-up or cargo loading rights in the destination country; transportation rights (passengers and cargo) via the third country.
- ²⁷ This currently connects Chongqing to the German city of Duisburg and there are plans to improve it.
- ²⁸ The five functional areas include the Urban Functional Core Area, Urban Functional Expansion Area, Urban Development New Area, Northeastern Chongqing Eco-Development Area and South-Eastern Chongqing Eco-Protection Development Area.
- ²⁹ The China Business Handbook 2015, p109
- ³⁰ GMS is a natural economic area along the Mekong River, including Cambodia, China, Laos, Myanmar, Thailand and Vietnam.
- ³¹ <http://yn.wenweipo.com/newszt/ShowArticle.asp?ArticleID=79799>
- ³² http://yn.yunnan.cn/html/2015-03/18/content_3649826.htm
- ³³ A special bonded area suitable for companies importing or exporting materials, especially for industries including diamond and jewellery processing, electronic product manufacturing, new materials, bio-resource processing and optoelectronic products.³⁴ <http://yn.wenweipo.com/fazhanyn/ShowArticle.asp?ArticleID=55446>
- ³⁵ <http://yn.winshang.com/news-488359.html>
- ³⁶ <http://www.zgsyb.com/html/economy/2015/06/89925927229657.html>
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