

Law Express

Briefing on China's "One Belt, One Road" Initiative - New Silk Road Initiative for Inter-continental Growth

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1. Overview and purpose of the "One Belt, One Road" initiative

1.1 Overview

The Chinese government recently announced a major national and international policy initiative composed of the Silk Road Economic Belt (the "Belt") and the 21st-Century Maritime Silk Road (the "Road") which are known as "One Belt, One Road" ("OBOR"). Initiated by the Chinese government, the OBOR initiative is considered as an idea of collaborative development built upon a historical background of the ancient Silk Road, both on land and at sea.

- **On land** – The OBOR initiative will focus on jointly:
 - building a new Eurasian land bridge;
 - developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors; and
 - by taking advantage of international transport routes, relying on core cities along the OBOR and using key economic industrial parks as cooperation platforms.
- **At sea** – The OBOR initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the OBOR. It is closely related to:
 - The China-Pakistan Economic Corridor; and
 - The Bangladesh-China-India-Myanmar Economic Corridor.

The OBOR initiative is taken as an ambitious economic vision of the opening-up of and cooperation among the countries along the OBOR. The OBOR initiative is designed to encourage the countries to:

- improve the region's infrastructure, and put in place a secure and efficient network of land, sea and air passages, lifting their connectivity to a higher level; and
- further enhance trade and investment facilitation, establish a network of free trade areas that meet high standards, maintain closer economic ties, and deepen political trust.

1.2 Purpose and goals

■ Purpose

The OBOR initiative is a way to achieve win-win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges.

Besides its political objectives, the Initiative is a strategic focus to the government's "go out" initiative, which encourages Chinese firms to go abroad in search of new markets or investment opportunities.

As an important medium- and long-term national strategy, the OBOR initiative is considered to help resolve certain strategic problems related to overcapacity, industrial restructuring and imbalance in foreign trade, as well as promotion of RMB internationalisation. It creates a new mode of mutually beneficial cooperation and presents new opportunities in respect of industrial and trade cooperation between China and countries/regions along the OBOR.

■ **Goals**

Countries along the OBOR have their own resource advantages and their economies are mutually complementary. Therefore, there is a great potential and space for cooperation.

Five major goals of cooperation include promoting:

- policy coordination;
- facilities connectivity;
- unimpeded trade;
- financial integration; and
- people-to-people bonds.

2. Countries, regions and projects involved

2.1 Regions

The OBOR runs through the continents of Asia, Europe and Africa, 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.

The Belt focuses on:

- bringing together China, Central Asia, Russia and Europe (the Baltic);
- linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and
- connecting China with Southeast Asia, South Asia and the Indian Ocean.

The Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.

The map below roughly sets out the route of the OBOR:



2.2 Countries

The table below sets out the countries involved in the OBOR initiative as of July 2015. The list of countries is yet to be finalised.

In general, approximately 43 countries in Asia, 16 countries in Europe, 4 countries in the Commonwealth of the Independent States, and 1 country in Africa are involved:

Southeast Asia	Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Brunei, Myanmar, Cambodia, Timor-Leste
South Asia	Nepal, Bhutan, India, Pakistan, Bangladesh, Sri Lanka, Maldives
Central Asia	Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan, Tadjikistan, Afghanistan
West Asia	Iran, Iraq, Georgia, Armenia, Azerbaijan, Turkey, Syria, Jordan, Israel, Saudi Arabia, Bahrain, Qatar, Yemen, Oman, Kuwait, etc.
Central and East Europe	Albania, Bosnia, Croatia, Bulgaria, Czech, Estonia, Hungary, Latvia, Lithuania, Macedonia, Romania, Poland, Serbia, etc
The Commonwealth of the Independent States	Russia, Belarus, Ukraine, Moldova
Others	Mongolia, Egypt

2.3 Projects

The initial stated emphasis of the OBOR initiative will be on regional connectivity projects.

Under the OBOR initiative, construction of transport infrastructure, including railways and ports, will be the first projects to be implemented with a view to:

- promoting the exploration and utilisation of resources and energy;
- driving for holistic development of trades and creating investment opportunities for various value chains and industries;
- facilitating the restructuring of economic regions in China; and
- strengthening the connectivity and industrial relocation among the regions.

3. Specific projects that China has undertaken or is known to undertake

3.1 State level

The OBOR initiative is backed by substantial state resources and financial institutions.

- **Silk Road Fund** – The Chinese government has launched a US\$40 billion Silk Road Fund, which is backed by the China Investment Corporation, China Development Bank, the Export-Import Bank of China and the State Administration of Foreign Exchange.

It will be used to improve connectivity along the OBOR by financing infrastructure, resources, industrial and financial co-operation projects, probably with an initial focus on Central and Southeast Asia.

Transport infrastructure such as railways, roads, ports and airports will be a particular focus.

- **AIIB** – The Asia Infrastructure Investment Bank (“AIIB”) is expected to assist in financing construction projects along the OBOR as well.
- At the state level, over 900 projects are under discussion and around 50 projects, both on land and at sea, will be launched during the first phase of the OBOR initiative. Details of those projects are not available yet.

3.2 Provincial level

Preparations within China at the provincial level are being ramped up rapidly.

All 31 Chinese provinces have indicated they will actively participate in the implementation of the OBOR initiative. Two-thirds of these provinces have included it as a development priority and have featured it in their annual work plans for 2015. Each province would draw up its own project plan and list according to their respective locations and resources.

- **Qinghai Province** – For instance, Qinghai Province has announced that it will build a stronger aviation, rail and highway network to link up with neighbouring provinces and countries along the OBOR. A logistic centre and bonded warehouse are in the works. Xining Special Steel, a state-owned company, was selected to be one of the firms spearheading Qinghai's OBOR efforts, with its products to go into ports, shipping and other infrastructure in destination countries.
- **Guangdong Province** – Guangdong Province is known to have chosen several projects to support as part of the OBOR initiative, including a power plant in Vietnam, banana plantations in South-east Asia and an oil-refining project in Myanmar.

4. Chinese companies to be involved

- **State companies and large financial institutions driven** – The OBOR initiative is a departure from broader trends in Chinese outbound investment, which is increasingly being led by private firms. At least in the initial stages, China's state-owned enterprises (the "SOEs") and largest financial institutions will be leading the charge.
- **Construction and infrastructure** – The national government work report encourages active involvement in overseas infrastructure investment and construction, such as through the export of equipment and machinery. Such infrastructure investment programmes under the OBOR initiative will benefit the construction machinery companies, infrastructure construction companies, some building materials producers, as well as infrastructure operators in China.

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