

BELT AND ROAD MOMENTUM TO BUILD IN 2018

24 January 2018 | China
Legal Briefings

China's Belt and Road Initiative will celebrate its fifth birthday in September 2018. This US\$900 billion roadmap for investment spans over 60 countries, and has already generated deals, treaties and reams of column inches.

But, for those outside looking for a way in, it can be hard to discern a clear entry point. There is no official list of Belt and Road projects.

It can also be hard to gauge progress. These are complex cross-border projects, often requiring agreement at governmental levels before years of in-depth planning and pre-financing can begin.

As we approach the five-year mark, however, the business stimulus from Belt and Road will become ever more evident, as hard infrastructure begins to rise from the planning process, and the investment momentum quickens. Our experience in Belt and Road to date highlights four important themes for businesses eager to join the investment traffic this year.

OPPORTUNITIES FOR GLOBAL BUSINESS

While much of the early involvement has been from Chinese companies and state-owned enterprises, there remain massive opportunities for non-Chinese contractors, suppliers and investors.

Outside China, many global companies have already earmarked Belt and Road growth as a driver for new business. The existing global expertise of names such as General Electric, ABB, Maersk and others is invaluable for China's companies as they strike out into new territories. It was reported that General Electric booked US\$2.3 billion in sales linked to Belt and Road projects in 2016.

There is room for more players, but there is no easy way to access Belt and Road without being on the ground, building relationships and identifying opportunities for your company's skills or products – you need to be in it to win it.

[Read more about project opportunities](#)

BRIDGING THE FINANCE GAP

China's policy banks and reserves alone cannot finance every Belt and Road project. As the scale and scope of projects ramp up, sources of finance will, by necessity, widen out of China into the world's capital markets and cash reserves.

While 'Western-style' project finance remains a relatively unknown concept in China, loans and bonds are already proving popular. Western contractors and suppliers may look to the Panda and Dim Sum bond markets to raise financing in Asia that will attract Chinese partners and projects.

But with many of the projects located in less developed, less bankable regions, financiers will need to be prepared to work with a range of public sources and risk-reducing structures to put the capital packages together.

A ROADMAP FOR BUSINESS DEVELOPMENT

It's not all about ports, power, roads and railways. Longer term, Belt and Road provides a business development roadmap for numerous industries seeking new markets along the six development corridors.

Primary infrastructure will drive secondary infrastructure; tech, telecoms, logistics and basic services for those constructing and running the projects.

For instance, Chinese investment in logistics companies doubled year-on-year in 2017 to US\$32.2 billion, according to figures compiled by Grisons Peak, a London-based investment bank. The location of these purchases mirrors the Belt and Road infrastructure investment map.

And once the infrastructure is in place, distribution channels to new consumer markets will open up for a huge range of goods, from soft drinks to soft furnishings.

DISPUTES ON THE HORIZON

You can't spend this much money on complex projects with multiple partners, often in developing countries, without contractual hitches. The potential for disputes is phenomenal and could stretch the existing disputes infrastructure.

The past five years have been notable for the rapid increase in sophistication of Chinese litigants and parties to arbitration. This new class of Chinese business understands Western models but is increasingly in a position to demand a dispute resolution model with "Chinese characteristics".

Those that anticipate this model in their contracts today will be in a better position to resolve disputes ten years from now.

Justin D'Agostino

[Belt and Road hub](#)

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



**JUSTIN
D'AGOSTINO**
EXECUTIVE PARTNER,
CEO ELECT, HONG
KONG
+852 21014010
Justin.DAgostino@hsf.com

LEGAL NOTICE

The contents of this publication, current at the date of publication set out above, are for reference purposes only. They do not constitute legal advice and should not be relied upon as such. Specific legal advice about your specific circumstances should always be sought separately before taking any action based on this publication.

© Herbert Smith Freehills 2020

SUBSCRIBE TO STAY UP-TO-DATE WITH LATEST THINKING, BLOGS, EVENTS, AND MORE

Close

© HERBERT SMITH FREEHILLS LLP 2020