

BRI - Beobachtungen für Schweizer Unternehmen und zur Dritt-Markt-Kooperation mit China

Wirtschaftsforum der Konjunkturforschungsstelle der ETH Zürich

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Sinolytics – a specialized consultancy focused on China



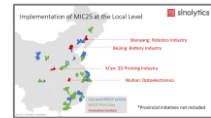
Presence



Key expertise areas



Social credit system for companies



China's industrial policy



The Belt and Road Initiative



China's digital eco-system



Sino-Partnerships (e.g. MNCs, public sector, cities/provinces, universities, associations)

Approach

Focus on business-policy nexus in China's market

Primary source and Chinese-language policy research

Business consulting problem-solving approach

Chinese expert network

Interdisciplinary team



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5 key points – as input for today's discussion

- The «Sino-Swiss BRI MoU» is a **critical enabler** for Swiss businesses to effectively engage in the BRI
- High level of **international dynamism** to engage commercially in BRI projects
- Overall **BRI business context** is poised to **become more inclusive** for foreign businesses
- **Business opportunities:** co-investing/-lending, services (financial, insurance, professional), some EPC
- **MoU implementation** requires effective and government-driven **implementation platform**

Three business engagement modes for 'BRI projects'

Business scope as per Sino-Swiss MoU

MEMORANDUM OF UNDERSTANDING
ON DEVELOPING THIRD-PARTY MARKET
COOPERATION

BETWEEN

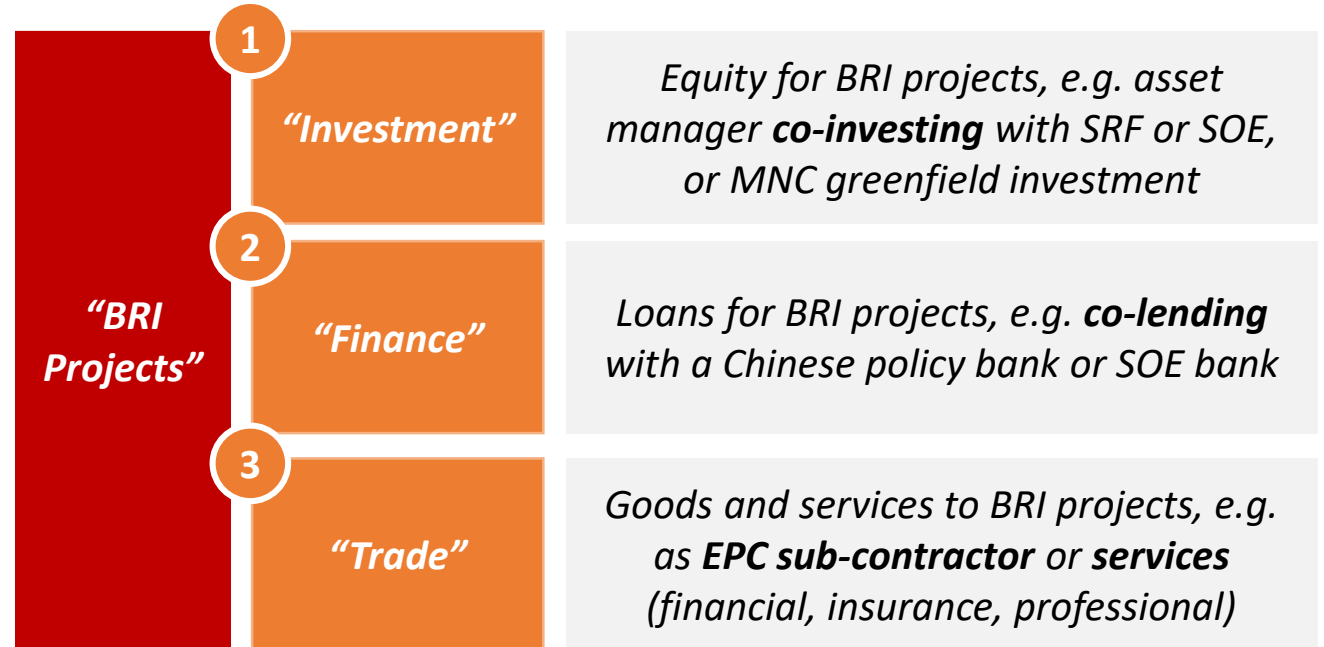
THE FEDERAL DEPARTMENT OF FINANCE AND
THE FEDERAL DEPARTMENT OF ECONOMIC
AFFAIRS, EDUCATION AND RESEARCH OF THE
SWISS CONFEDERATION

AND

THE NATIONAL DEVELOPMENT AND REFORM
COMMISSION OF THE PEOPLE'S REPUBLIC OF
CHINA

*(...) expand areas of
collaboration in **trade,**
investment and finance
for **projects in third**
countries along the Belt
and Road Initiative ; (...)*

Three business engagement modes



Deliberately taking a company-level perspective on the Belt and Road Initiative

2 examples of 'BRI projects'

Addis Ababa-Djibouti Railway



- Total project cost: **\$4 billion**
- Railway stretches **751.7 km** and is able to carry trains traveling at speeds up to 120 km/h
- Cuts travel time between two nations' capitals from seven days by road to just **10 hours**

Road upgrading in Laos



- **430 km** of new and upgraded road in Savanakhet in central Laos
- 88.2 km new **road, bridges**, installation of **traffic signs** and **fence**
- Target speed of upgraded road: **80 km/h**

Implementing Chinese SOEs



Local partner



Ethiopian Railway Corporation

Implementing Chinese SOE



Local partner

Ministry of Public Works and Transport (Laos)

China pledges to improve BRI policy principles ...

Chinese President Xi Jinping reinforces business-critical policy principles of BRI in his speech in the 2nd Belt when compared with his speech delivered at the opening of the 1st Belt and Road Forum in 2017

1st Belt and Road Forum, May 2017

2nd Belt and Road Forum, May 2019

Intellectual Property



“We will fully improve **the legal framework** for protecting intellectual property... enhance protection of the lawful rights and interests of foreign intellectual property owners”

Environmental protection

“Efforts should be made to **strengthen cooperation** in ecological and environmental protection and **build a sound ecosystem**”

“We will continue to jointly implement the **Belt and Road South-South Cooperation Initiative on Climate Change**. We will also **deepen cooperation in water resources**”

International standards



“We...encourage participating companies to follow general international rules and standards in **project development, operation, procurement and tendering and bidding**”

Corruption and Transparency

“We should also strengthen **international counter-corruption cooperation**”

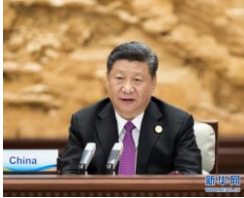
“In pursuing Belt and Road cooperation, we should have **zero tolerance** for corruption”

Financial sustainability

“We should establish a stable and sustainable financial safeguard system that **keeps risks under control**”

“We have formulated the **Guiding Principles on Financing the Development of the Belt and Road** and published the **Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative** to provide guidance”

... while stepping-up “pro”-foreign business rhetoric



“We need to encourage the full participation of more countries and **companies, thus expanding the pie of common interests.” (Xi Jinping)**



“Government money will play a catalyst role to **mobilize funds from the private sector. The **private sector** will be the major player in investment (...)” (Yi Gang, PBOC Governor)**

Foreign enterprises

“We are committed to promoting open, inclusive, pragmatic and effective cooperation in third-party markets, so as to help Chinese and **foreign enterprises utilize their complementary strengths (...)**

(Progress, Contributions and Prospects, 2019, Office of the Leading Group for Promoting the BRI)

“We encourage the participation by **enterprises from all countries in the cooperation, including micro, small and medium enterprises.”**

(Joint Communiqué of the Leaders’ Roundtable of the 2nd BRF for International Cooperation)

Foreign capital

“We encourage (...) **the mobilization of private capital into projects in line with local needs”**

(Joint Communiqué of the Leaders’ Roundtable of the 2nd BRF for International Cooperation)

“China will also encourage closer cooperation between government and **private capital, build a diverse financing system and a multi-tiered capital market, develop inclusive finance, and improve financial service networks”**

(Progress, Contributions and Prospects, 2019, Office of the Leading Group for Promoting the BRI)

BRI established as significant development financing source

“Development financing” (‘13-’18; B USD)

BRI (unilateral initiative)



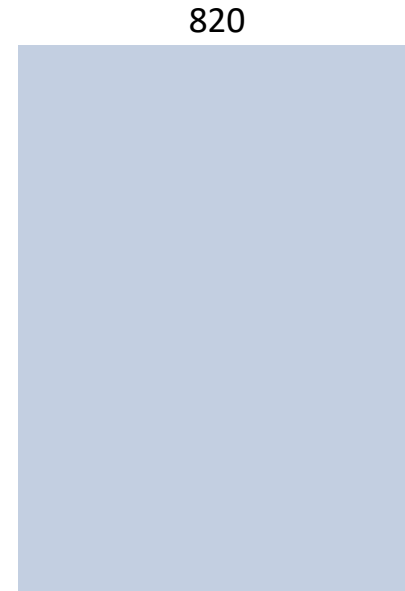
Bank SOEs not treated as private sector mobilization

Multilateral Develop. Banks



Not including 'private direct mobilization'

OECD countries' ODA



Emergence of third-party co-lending and co-investing

	State-driven BRI financing sources...						... market-driven
	Sovereign Wealth Fund (investment)	BRI-dedicated SWF (investment)	Pension Fund (investment)	Policy Banks (lending)	SOE Commercial Banks (lending)	PBOC	Tradable bonds
Key Chinese financing 		 		 	 		
... co-financed with CN actor 	 	 					
“Co-financing” with third-party private sector	 	 		 	 		
“Co-financing” with third-party public sector	 	 		 		 	

AIIB only involved in one co-financing structure with a BRI-financing institution, i.e. with Silk Road Fund (Oman’s national fiber optic broadband network project, 29th Oct. 2018)

Variety of ancillary BRI-financial services opportunities

Selected BRI activities of non-Chinese banks

Co-Financing

Bond issuance



国家开发银行
CHINA DEVELOPMENT BANK

CDB issued a BRI special **bond** in Hong Kong worth US\$350mn in 2017

Financial market services

Bond issuance advisory



HSBC

HSBC served as **Joint global coordinator** for ICBC green BRI bonds in 2017

Transaction banking services

Escrow account



Standard Chartered

SC was **escrow agent** for a Chinese bank for construction of Nepal International Airport

Syndicated Loans

ExIm Bank China and SC agreed to cooperate on **syndicated loans** for BRI projects



Standard Chartered

Currency Swaps

SC offered an Indonesian bank a **currency swap** for a BRI project as it had limited access to offshore CNY



Standard Chartered

Cash management

RBI offers **cash management service** to Chinese companies for BRI projects



Raiffeisen Bank International

Project finance

SC and construction company CCCC signed an agreement including **project finance**



Standard Chartered

Foreign exchange hedging

Citibank won **FX hedging** contracts for several companies operating on BRI projects



citi

Trade Guarantees

DB re-issued a **trade guarantee** for approx. 100 million USD for a Chinese bank in a water project in S. Arabia



DB

Commercial platforms for foreign insurers emerging

From Sinosure-centered BRI insuring...

China Export and Credit Insurance (Sinosure)



- As per Sinosure: by the end of the third quarter of 2017, **total insured amount** of SINOSURE on export and investment to the BRI Belt and Road countries was nearly **510 billion USD**, with claims paid amounting to nearly 2 billion USD, covering about **1300 BRI projects**
- Two key **insurance products**
 - **Overseas Investment Insurance**: Available for **equity and debt investments** made by Chinese enterprises in projects outside of China
 - **Export Credit Insurance**: covers risks for **deferred payments** from BRI host countries

... to BRI insurance business platforms

Insurance Summit on the BRI hosted by HSBC








- Held in Singapore with 140 participants
- Chinese insurers **lagging in risk management and pricing capabilities** for overseas business – foreign insurers can fill gap

China Reinsurance Group hosted 2018 **Sino-UK Belt and Road Initiative Insurance Cooperation Forum** in London

Belt and Road Insurance Exchange Facilitation (Hong Kong Insurance Authority)

- Platform providing information and allowing insurers to **search cooperation partners in BRI projects**
- **29 companies** currently engaged including AIG, Bank of China Group Insurance, China Merchants Insurance, Lloyds, Chubbs and Swiss Re

Today Chinese EPC SOEs lead the BRI construction...

Power generation		Minerals & materials	Energy transport	Transport infrastructure	Special providers
Hydropower	Oil refinery & gas processing	Mining facility	Energy transmission	Shipping & ports	Industrial parks
 中国电建 POWERCHINA  CTG  CGGC 中国葛洲坝集团	 中国石化 SINOPEC  CPECC	 CNMC 中国有色集团	 CEEC 中国能建	 COSCO SHIPPING  HEC 中国港湾 CHINA HARBOUR  中国寰球 工程公司	 招商局集团 CHINA MERCHANTS GROUP
Power plant	Solar plant	Steel plant	Water supply & irrigation	Railway & train	Telco & optical fibers
 DEC  CEEC 东方电气 中国能建  国家电网 STATE GRID 中国电力技术装备有限公司 CHINA ELECTRIC POWER EQUIPMENT AND TECHNOLOGY CO., LTD.	 TBEA 特变电工 Equip China Powering the world	 HBIS 河北钢铁集团	 北方工业 NORINCC  GAMC 中工国际	 REC 中国中铁  中国中车 CRRC	 中国通服 CHINA COMSERVICE
Coal plant	Nuclear plant	Cement plant	Gas pipeline	Road construction	Consulting
 中国南方电网 CHINA SOUTHERN POWER GRID  CMEC  CEEC 中国能建	 CGN  中国核电 CNNP	 CNBM	 GCL	 CCCC CHINA COMMUNICATIONS CONSTRUCTION COMPANY  中国建筑 CHINA STATE CONSTRUCTION	 CPECC China Power Engineering Consulting Group Corporation

... while few foreign EPC suppliers/contractors involved

Despite dominance of Chinese EPC companies, there are opportunities for foreign high-tech companies as sub-contractors and suppliers in BRI projects



中國建築
CHINA STATE CONSTRUCTION



China's CSCEC and South Korea's SK E&C were jointly awarded a contract to build a rail section in UAE



A French-Chinese consortium won the bid to build and operate a port in Cameroon



ABB has provided traction motors for the trains designed by CRRC Tangshan Co Ltd for line 2 of the Izmir metro in Turkey

SIEMENS



Siemens provided gas turbines for a combined cycle power plant in Pakistan



GE and PowerChina build a wind farm together in Pakistan

SIEMENS

By 2017, Siemens had joined forces with more than 100 Chinese EPC players in exploring more than 60 overseas markets

Siemens very strategic in sourcing BRI projects

SIEMENS

Siemens secured BRI projects mostly for its 'Power & Gas' Division

- Providing turbines, generators, and management system equipment

Two main partnerships models applied

- Siemens signs MoUs with **Chinese EPCs** to provide equipment and support



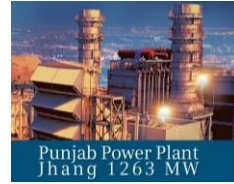
- Siemens entered **strategic collaboration agreements** with the following SOEs



Financing typically provided by Chinese policy banks

Illustrative Siemens BRI projects

Power plants



Jhang Power Plant, Pakistan



Berezov Power Plant, Belarus

Port



Khalifa Port, Abu Dhabi

Sugar Refinery



OmoKuraz Sugar Development Project, Ethiopia

Siemens' five success factors

1. Politically endorsing the BRI

- "BRI could become a new economic world order in long run" (CEO Siemens)

2. Partnership with Chinese government

- 1st global company with **comprehensive partnership** with Chinese government
- MoU with **NDRC** (26th March 2019) to jointly promoting participation of Chinese and German enterprises and application of digital technologies

3. Top Mgmt. commitment and resources

- **Siemens CEO** actively engaging for BRI
- Opened dedicated **BRI Office** in Beijing

4. Puts itself into center of BRI platforms

- Organized **BRI International Summit**

5. Proactively identify viable BRI projects

- Internal **BRI Task Force** identifying and suggesting projects to Chinese authorities

Different «BRI MoUs» to involve foreign countries

Foreign BRI endorsements...



“More than **150 countries and international organizations** have signed agreements on Belt and Road cooperation with China. The complementarity between the BRI and the development strategies of the participating countries has been enhanced.”

- Xi Jinping, 2nd BRF

... existing in various formal

Type	General content	Example signatories
MoU (谅解备忘录)	Reach understanding of cooperating and building on five cooperation priorities of BRI in different sectors	Czech Republic, 2015 Greece, 2018
Cooperation document (合作文件)	Participate in building BRI and jointly promote healthy and stable development of bilateral ties	Ecuador, 2018
Joint statement/ declaration / communiqué (联合声明)	High-level exchanges , deepen political trust and hold meetings between leaders of two countries on BRI	Afghanistan, 2018 France, 2018 Pakistan, 2018
3rd party market cooperation (第三方市场合作协议)	Jointly develop and participate in projects in 3rd party countries and markets	France, 2015 Japan, 2018 Italy 2019

3rd party market cooperation emerged as a key framework for developed countries' BRI engagement

Policy background

Mentioned first time in **Annual Government Work Report** by Premier Li Keqiang in 2019 as a «**new cooperative model**» under the BRI

今年的《政府工作报告》在部署“推动共建‘一带一路’”时提出，坚持共商共建共享，遵循市场原则和国际通行规则，发挥企业主体作用，推动基础设施互联互通，加强国际产能合作，拓展第三方市场合作。

“这是‘拓展第三方市场合作’首次出现在《政府工作报告》中。”商务部研究院国际市场研究所副主任许英明在接受经济日报记者采访时表示，第三方市场合作是国际合作的新模式，也是凝聚更大共识、实现开放发展共享发展的重要途径，促进“互利多赢”已成为共建“一带一路”的重要内容。

According to the government work report, the 3rd party market cooperation mode will become the **focus of this year's BRI projects**

政府工作报告：第三方市场合作成今年工作重点

2019-04-08 来源：利用外资和境外投资司子站

Key objectives pursued

- 1 **1+1+1>3**: build better consensus, create more mutual benefit and achieve more shared development for **local country, third party country and China**
- 2 Combining the **industrial strength of China**, in particular its mid-end manufacturing capabilities, with the **high-end technologies of developed countries**
- 3 More effectively meeting needs of BRI countries by leveraging **particular market expertise**, such as France's for French-speaking African countries, or Spain's for LatAm
- 4 Setting up **third-party co-investment funds** for investment in third-party countries
- 5 Better addressing consideration for **local laws and policies**

International dynamism for third market cooperation



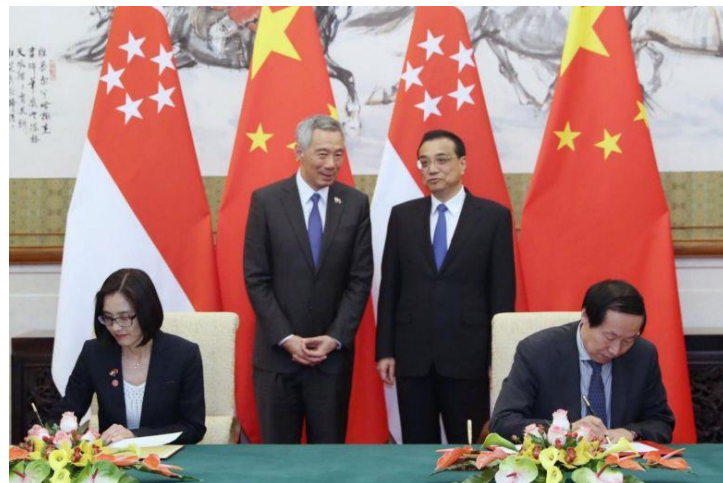
First Sino-Austrian Forum on Third Market Cooperation (5th April 2019, Beijing)



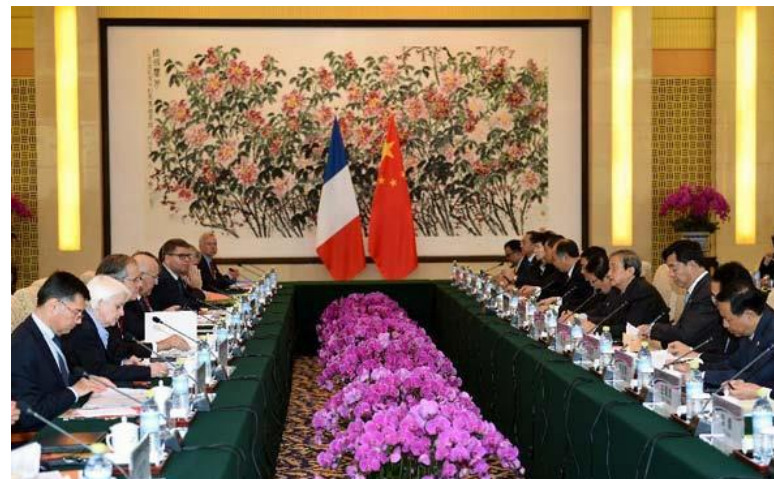
Minister Luigi Di Maio in Rome at the Sino-Italian Business Forum on 3rd market cooperation (April 2019, Rome)



Sino-Japanese 3rd market cooperation forum with Prime Ministers Li Keqiang and Shinzo Abe (26 Oct. 2018, Beijing)



Singapore and China sign MoU in presence of Li Keqiang and Lee Hsien Loong (8 April 2018, Beijing)



French and Chinese delegates sign to establish Sino-French Third Market Cooperation Fund



Sino-Spanish Forum on the cooperation in third-party markets (20 Dec. 2017, Beijing)

Government-driven implementation platforms dominant

Country	MoU signed	Operationalization	Outcomes
France 	June 2015 <i>(published)</i>	3rd Market Cooperation Steering Committee (NDRC & French Treasury)	Already three rounds of BRI priority project lists , launched Sino-French Third Market Cooperation Fund (CIC, BNPP)
Canada 	Sept. 2016 <i>(published)</i>	<i>Inconclusive findings</i>	BRI project engagement of Canadian businesses so far mainly in solar farms, mining and nuclear technology
Singapore 	April 2018	Singapore-Shanghai Comprehensive Cooperation Council	Singapore and China will focus on BRI third-party cooperation in logistics, financial- and legal services
Japan 	May 2018	Government-driven Sino-Japanese third-party market cooperation forum	52 cooperation documents signed , amounting to over 18 bn USD; cooperation focus on new energy and transport
Netherlands 	Oct. 2018	China-Netherlands Joint Committee on Economy and Trade working group	Chinese and Dutch companies focus on BRI third-party cooperation on equipment supply, design and consulting
Belgium 	Oct. 2018	China-Belgium Joint Committee of Economy & Trade	<i>Inconclusive findings</i>
Italy 	Sept. 2018	Forum co-hosted by Italian Ministries and Banking Association, NDRC, BoC	Top management of 30 energy and infrastructure companies and banks joined; over 200 1-on-1 meetings
Spain 	Nov. 2018 <i>(published)</i>	Forum organized by 'ICEX Spain Trade & Investment' and NDRC	Spain positioning its EPC companies (ACS Group, Técnicas Reunidas) and Telefónica (for syndicate with Huawei)
Austria 	April 2019	Forum co-hosted by NDRC, Advantage Austria and AUT Embassy in Beijing	40 member firms of Austrian Federal Chamber of Commerce, Andritz AG-Gezhouba MoU , CDB present

- The **Sino-Swiss MoU** on 3rd party market cooperation provides an **important framework** for the Swiss private sector to engage in BRI projects for **finance, investment** and **trade** (services and goods)
- As seen, there is already a **high level of international dynamism** to engage commercially in BRI projects
- Despite persisting political complexities around the BRI, the overall **BRI business context** is poised to become **more inclusive** for foreign businesses
- **Opportunities of the Swiss economy** mainly lie in co-investing and co-lending in/for BRI projects, insuring BRI project related commercial activities as well as general financial services, potentially selected EPC sub-contracting and professional services – however, less SMEs
- **MoU** can only be implemented with an effective **implementation platform** relying on close cooperation between firms, associations and the federal government – **Swiss federal government** has to play an active role of weighing in to ensure follow-through of China on its pledges

*China insights and judgment **at the nexus of business and policy***

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