CITY OF LONDON

Building an Investment and Financing System for the Belt and Road Initiative

-How London and other global financial centres can support

This report is jointly produced by the People's Bank of China and the City of London Corporation

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Abstract

The Belt and Road Initiative (BRI) is internationally recognised for its principles of co-negotiation, co-building and co-sharing. The BRI drew inspiration from the concept of Silk Road Economic Belt and the 21st-century Maritime Silk Road which is a development strategy adopted by the Chinese government in 2013. The 'belt' refers to the overland interconnecting infrastructure corridors; the Silk Road Economic Belt (SREB) component. The 'road' refers to the sea route corridors; the 21st Century Maritime Silk Road (MSR) component. The initiative focuses on connectivity and cooperation on maritime routes and land infrastructure connecting China with Asia, Africa and Europe, boosting trade and economic growth. When Chinese President Xi Jinping proposed the BRI in autumn 2013, it generated tremendous international interest and enthusiasm across the globe. Since then, China has achieved remarkable results as it continuously expands collaboration with countries along the BRI and actively promotes the implementation of the initiative. Financing plays a critical part in the development and implementation of the BRI and requires the joint effort of China and all participating countries in building a fit for purpose investment and financing system. In his key address at a symposium promoting the development of the BRI in August 2016, President Xi observed that the development of the BRI should be seized as an opportunity to innovate an internationalised financing model and intensify international financial sector collaboration. President Xi also recognised the opportunity that BRI facilitates to create a multi-tiered financial platform and build a financial security system that is long term, stable and sustainable with manageable risks to support the BRI.

Financial support is critical to the implementation of the BRI. The countries along the BRI are mostly developing countries whose key projects, including infrastructure projects, are plagued by issues such as a lack of construction capability and funding. Therefore, these countries have greater demands for mid to long-term financing. The international finance community has previously offered concessional financing, including preferential loans, to these countries, which inevitably required financial subsidies and governmental support. This translated into greater limitations and a lack of sustainability, which would hardly satisfy the demands of the construction projects as part of the BRI, as these projects require substantial funds over a long period of time. It is therefore necessary to mobilise countries along the BRI to build a BRI investment and financing system that is market-oriented, sustainable and mutually beneficial. This paper will explore in detail the rationale for a BRI investment and financing system to comprise the following five features in order to expedite the building of a network of financial institutions and services:

(i) Longer investment period;

(ii) The establishment of a reasonable cost of funds;

(iii) The use of development financing as a driver to attract in commercial financing over time;

(iv) The encouragement of local currencies to play an active role and;

(v) The stimulation of international collaboration in investment and financing

Main commercialised bodies and market-oriented behaviour should be key components of the BRI investment and financing system. The principal objective of the BRI investment and financing system is that financial institutions and enterprises, based on the principle of

"equal participation with shared interests and risks", should jointly build a diverse investment and financing system that is long-term, stable and sustainable with manageable risks. More specifically, main financing bodies at different levels of a financing structure adopt different financing models. Different financial models have all demonstrated success. For instance, foreign investors often participate in project finance by establishing a multilateral/ bilateral funding or investment agency through joint financing with international multilateral financial institutions such as World Bank, Asian Development Bank and Asian Infrastructure Investment Bank. The joint ventures carry out debt financing of local currencies and offshore renminbi (RMB) in the BRI region and offer financial information, services and cross-border RMB products related to the BRI. They also offer multidimensional one-stop general financial services, including investment, financing, financing guarantees and insurance.

To ensure finance can better support the strategic deployment of the BRI, the financial market should be fortified to supplement the institutional arrangements of financial collaboration in the BRI. The collaboration between development and commercial financing must be promoted, while the bond market must open further and we must innovate cross-border RMB-related business, for example through the introduction of Silk Bond. The advantages of international and regional financial centres must be optimised to establish a regional framework in the BRI investment and financing system, and multinational financial collaboration must be improved to strengthen the political framework of a successful BRI investment and financing system.

Key highlights:

- This report examines the building of a fit-for-purpose BRI investment and financing system, considering in detail the status quo, characteristics, future development, and system and mechanism guarantee of an investment and financing system.
- Currently, the main investment and financing bodies in countries along the BRI are primarily banking institutions, accounting for over 90% of the funding with over 80 branches in 24 countries.
- It is suggested in this report that the proposed BRI investment and financing system should have the following key features:

	Feature	**Objective**
1	Longer investment period	To effectively ensure the sustainability of projects
2	Reasonable cost of funds	To attract active participation of financial institutions and ensure there are reasonable returns on invested funds
3	Development financing	To attract private capital into participation of BRI gradually to allow the idea of 'support first, profit later' to be practised and to gradually drive commercial and private financing
4	Use of local currencies	To ease mobilising local savings and global funds as well as to support the development of capital markets denominated in local currencies and diversify investment tools and risk management means
5	International collaboration	To expedite the building of a network of financial institutions and services

- This report also demonstrates specific models and cases for BRI project finance, featuring examples from World Bank, Asia Development Bank and Asian Infrastructure Investment Bank. The report also showcases examples of multilateral or bilateral finds or investment companies such as the Silk Road Fund, UAE-China Joint Investment Fund, Sino-French (Midcap) Fund, etc.

- This report highlights the importance of commercial banks in China as well as foreign commercial banks to offer debt financing to countries along the BRI. It is well-noted that London, as a global financial hub, has played an active role in offering financing support to BRI projects. Case studies featuring HSBC and Standard Chartered are illustrated in this report.

- This report also focuses on illustrating financial institutions that offer cross-border RMB products and information services, featuring a case study on Bank of China and its 'Bank of China BOC OBOR RMB Index'.

- The importance of multiple financing channels offering integrated financial services are highlighted in this report. Case studies from UK Export Finance, Linklaters, Clifford Chance, etc. are featured in this report to explain how UK institutions have provided multiple financing channels to BRI projects.

- Fintech solutions are mentioned in this report to explain how inclusive digital finance is significant for BRI countries. Technologies such as e-wallet and cross-border e-payment are cited here to show how firms like Alipay, Ant Financial and JD Finance have provided relevant expertise on BRI project financing.

- It is reckoned in this report that innovative development and opening-up of financial markets help to build a diverse and inclusive BRI investment and financing system. The key initiatives suggested by this report include:

  I. Development finance institutions should continue to lead and offer support;

  II. Encourage different main bodies to set up equity funds to invest in projects related to the BRI;

  III. Issue Silk Bonds to diversify the financing channels of the BRI financial products;

  IV. Encourage domestic and foreign capital to participate in BRI projects financing through means such as public-private partnership (PPP) and;

  V. Promote derivatives for diversification and hedging.

- This report also highlights the importance of promoting the internationalisation of RMB and the innovation of cross-border RMB business to build a local currency-based BRI investment and financing system. It is suggested here that global institutional investors should optimise the advantage of international and regional financial centres to establish a regional framework for BRI investment and financing system.

- The report emphasizes that multinational financial collaboration is important to reinforce the political framework for BRI investment and financing system. A top-down system design is recommended for long-term planning for regional collaboration for BRI

countries. The development of multilateral financial institutions is recommended as well as the collaboration on financial regulation and risk mitigation mechanism for BRI countries, integrated with policy coordination.

- This report concludes that multinational financial collaboration from both governments and commercial players is important to form a successful BRI investment and financing system. It reiterates the importance of utilising international and regional financial centres to establish a regional framework in the BRI investment and financing system. This report suggests that the ideal BRI investment and financial system should have long financing period, reasonable cost of funds, the use of development financing as a driver to attract commercial financing over time, the use of local currencies and, the stimulation of international collaboration.

Table of Contents

01 Status Quo and Characteristics of the BRI investment and financing system

02 Basic Principles and Actual Forms of the Development of the BRI investment and financing system

03 The Institutional Arrangements that Drive the Development of the BRI investment and financing system

Preface

Guofeng Sun

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In the fall of 2013, President Xi Jinping put forward the joint effort motion in the Silk Road Economic Belt and the 21st Century Maritime Silk Road, also known as the Belt and Road (B&R) Initiative. The past five years have seen the B&R winning enthusiastic responses and support from over 100 countries and organizations around the globe, and the B&R has come to fruition as concept has turned to action and vision to reality. The policy communication continues to deepen, interconnectivity of facilities also continues to strengthen, trade is growing, capital flow has continued to widen and consensus between societies has been built up. Its fruitful outcomes corroborate the bright future of the Belt and Road Initiative (BRI) that goes along the tide of history, on the right track of progressive development and to the benefit of people across the world.

Finance is the cornerstone of the B&R. We are going to set up a stable, sustainable and risk-controllable financial support system, innovate on investment and financing models, promote public-private capital partnerships, develop diverse financing systems, a multi-level capital market and inclusive financial system, and refine the network of financial services. In the meantime, finance also serves as a strong and key area for the opening up of the Chinese economy to the international market. The financial management authorities should take active steps in stepping up cooperation with countries along the B&R in financial infrastructure, striking deals of bilateral currency swap and clearing agreements. Various examples are created under the proactive roles of financial institutions in exploiting new markets, prudential assessment and elaborate managing style of the Silk Road Fund, together with leading functions of the development financing. The financial sector is eyeing the long term, while in the meantime it is down to brass tacks in championing the B&R.

The BRI originates from China but the opportunities and benefits are global. China welcomes and hopes to have international participation and joint efforts in establishing the B&R and its benefits shared globally in a community of shared interest. At present we are working with the Asian Infrastructure Investment Bank, the BRICS New Development Bank, the World Bank and other multilateral development agencies on supporting the B&R projects and framing the financing guidelines for the B&R. Looking to the future, China will be more open-minded in collaborating with countries along the B&R, in mobilizing resources, bolstering the cooperation and specialization of the public and private sectors, ensuring sustainability in investment & financing for the international investment & financing cooperation on a global scale supporting the B&R.

London boasts an investment community of great diversity and foresight as an important international financial center. London's capital market is highly international and employs some of the most cutting-edge innovative models in financing. China and Britain's cooperation in investment & financing for the B&R offers broad support and services for the sustainable financing for the B&R projects and new opportunities and ways for financial institutions and investors in the two countries to work together. This cooperation report presents the studies in some of the aspects covering the current status, characteristics, direction of future development, institutional mechanisms, security of the investment & financing systems for the B&R, aiming at boosting international cooperation in the B&R, while financing and incentivizing more global financial institutions to take part in the B&R, jointly promoting sustainable growth of global economy via the forging of an inter-connected financial market and institution and extending the global reach of investment & financing for the B&R.

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City of London Special Advisor for Asia

The Belt and Road Initiative (BRI) is an ambitious project calling on trillions of global capitals to be deployed over decades. Touching at least 65 countries, 64% of the world's population and 29% of the world's GDP, the BRI stands to transform global connectivity and trade, but still requires widespread international support and innovation to ensure it is a long-term success, particularly in relation to financing.

The UK has a long history of working with many economies on the Belt and Road (B&R), including those in Southeast Asia, Central Asia, the Middle East and Africa. London, as leading global financial services centre, is the natural Western end of the BRI. London is home to world-leading international expertise and can support the initiative as a hub for international infrastructure investment and provide innovative financing products to ensure financial sustainability.

The City of London Corporation is committed to supporting BRI activity that draws on London's experience as a leading global financial centre. With our longstanding representative offices in China, we are in a unique position to support BRI activity at both ends of the map, and the expertise in London's ecosystem is already working on BRI projects across the globe. The City of London Corporation can be a strong partner for the China-led initiative by working together with all BRI countries to share London's knowledge and experience in Infrastructure Financing, Green Finance, Foreign Exchange and Rule of Law.

The UK government through HM Treasury have established the office of the BRI Special Envoy to explore BRI opportunities for the UK, and have also formed a BRI Expert Board, which calls upon representatives from UK, Chinese and foreign headquartered firms, to bring together infrastructure financing and market expertise for BRI projects. At the Corporation, we are delighted to support this strategic direction and will continue to contribute through this and other platforms to ensure the successful and sustainable delivery of the BRI.

Our collaboration with the People's Bank of China in co-publishing this report is a milestone that highlights the importance of a sound international financial system for the BRI. Working together with our partners at the People's Bank of China and our international ecosystem here in the City, we are confident that London can lead the way as an innovative financial hub for BRI financing. The report illustrates comprehensively opportunities and challenges on BRI financing as well as recommendations for both the government and industry to consider as they approach BRI related activities. The case studies featured in the report are practical examples of how London based firms have already played an important role in supporting on the financing mechanism for BRI, and we look forward to their continued contributions.

As a fellow Ambassador for building UK-Asian bilateral relationships, I am pleased to be part of this effort for London to deepen our relationship and links with China and all other international partners to build strong and ongoing success for the BRI.

01

Status Quo and Characteristics of the BRI Investment and Financing System

I. Concept of the BRI investment and financing system

II. Background and Status quo of the BRI investment and financing system

III. Characteristics of the BRI investment and financing system

Status Quo and Characteristics of the BRI Investment and Financing System

I. Concept of the BRI Investment and Financing System

The BRI investment and financing system refers to a financial services system that finances the development of the BRI. In other words, financial departments should support the development of the initiative through reasonably introducing financial resources to promote the sustainable development of national economies along the BRI.

II. Background and Status quo of the BRI Investment and Financing System

The BRI construction is a long run, complex global ambition that requires comprehensive global cooperation at a deep level. The countries along the BRI are mostly developing countries. Despite their strong desire to promote socioeconomic development they continually encounter issues such as the lack of construction capability and access to funds when implementing key projects, including infrastructure projects. There is a high demand form these countries for financing and a great need for support from the international community.

Throughout the years investment and financing from the international community into developing countries has always revolved around concessional financing, including instance concession on interest rates, maturities and grace periods. Though the conditions of concessional financing are more attractive than business capital they inevitably require financial subsidies and governmental support. The financial resources of a country are, after all, limited and restricted by domestic laws. As a result, most countries do not have sufficient financial resources to offer concessional financing to external parties on a large scale over an extensive period of time.

Concessional financing may also trigger risks and problems. Firstly, concessional financing can create a moral hazard which could lead to supported countries losing the motivation to fully discover their resources and capacity for economic development. Competition and comparison may also arise among countries vying for funds. Secondly, concessional financing can lead to great dependency, whereby countries can lose interest in balanced and mutually beneficial collaboration. Lastly, it may also lead to market distortion and limitation on the efficient allocation of resources, which would restrict the development of developing countries.

Since the BRI was proposed, a large range of projects have been rolled out in regions along the BRI, and critical parts of the IFS include the public sector, development finance institutions, policy-oriented financial institutions and the private sector. By 18 May 2018, a total of 2392 domestic projects amounting to RMB13.01602 trillion and 1,485 foreign projects amounting to over USD837.41 billion (c.GBP636.08 billion) have been launched.

By June 2017, the accumulated stock investment in countries along the BRI exceeded USD250 billion (c.GBP189.90 billion), a 30% growth compared to 2014 but was lower than the growth in accumulated foreign investment at over 40%. The main investment and financing bodies in countries along the BRI are primarily banking institutions, accounting for over 90% of the funding with over 80 branches in 24 countries. The recipients of investment and financing are primarily non-financial institutions. Three-quarters of the funds have been allocated to Asian countries, half of which are in the Southeast, while less than a quarter has been allocated to Europe. Although the use of RMB takes up a relatively low percentage, more and more financial institutions are opting to invest and loan directly using the currency. The total cross-border RMB settlement (both inflow and outflow), with countries along the BRI in 2016 tripled in comparison to 2014. The actual cross-border trading volume with countries along the BRI hit RMB778.6 billion, amounting to 13.9% of total bilateral trade, increased by 4.3% from the end of 2012.

Financial collaboration between countries along the BRI and China has gradually intensified. Chinese banks have been actively expanding overseas and have established branches in nearly half of the countries along the BRI. By May 2018, 86 countries along the BRI have become members of the Asian Infrastructure Investment Bank, and 21 countries have signed bilateral currency-swap agreements with China (see appendix1). Furthermore, direct currency trading between China and eight countries and direct regional trading of currencies with two countries, respectively, have been made possible. This has effectively lowered exchange risk and facilitated trade and investment. Offshore RMB clearing banks have also been established in seven countries (see appendix 2). China UnionPay now covers 41 countries along the BRI, which allows the use of RMB to continue to grow in these countries. The RMB Qualified Foreign Institute Investor (RQFII) pilot program provides a convenient gateway to investing in Chinese RMB denominated financial products for five countries along the BRI. It also delivers on agreements with eight countries on local currency settlement for cross-border trade or general trade (and investment). Meanwhile, the successful launch of phase I of China's Cross-border Interbank Payment System (CIPS) has boosted RMB settlement efficiency by satisfying the cross-border use of RMB. To date CIPS covers over 50% of the countries along the BRI. The first direct participating overseas bank in the CIPS, Bank of China (Hong Kong), leads activity for adopting the CIPS among participating banks from the BRI countries. In terms of financial regulation, by the end of 2017, China has signed memoranda of understanding (MoU) or agreements with financial regulatory authorities from 31 countries along the BRI to continuously improve financial services in these countries and regions.

During the Leaders Roundtable of the Belt and Road Forum for International Cooperation in May 2017, President Xi pledged to increase capital support by China for the BRI, including newly added capital of RMB100 billion which was injected into the Silk Road Fund. This capital was intended to encourage financial institutions to expand overseas RMB fund businesses, which are projected to grow to the size of roughly RMB300 billion. China Development Bank and Export-Import Bank of China will earmark RMB250 billion and RMB130 billion of special loans, respectively, to support BRI infrastructure construction

and cooperation in productivity and finance. China will have a more critical and active role to play in cultivating the BRI investment & financing system and driving global cooperation for the financing and capital support for the BRI.

III. Characteristics of the BRI Investment and Financing System

The BRI investment and financing system should demonstrate the following characteristics:

(i) Longer investment period;

(ii) The establishment of reasonable cost of capital;

(iii) The use of development financing as a driver to attract private capital into participation of BRI gradually;

(iv) The encouragement of local currencies to play an active role and;

(v) The stimulation of international collaboration in investment and financing, aiming to expedite the building of a network of financial institutions and services.

1. Longer investment period

The development of the BRI involves a tremendous amount of infrastructure construction and industrial collaboration, which demands equally large amount of funds and longer project spans. When investment and financing is not sustainable, the interruption would not only affect the progress and economic benefits of the project but may also create adverse political effects. Therefore, one of the critical characteristics of a BRI investment and financing system is to have longer investment periods, which helps to effectively ensure the sustainability of projects. As China chronically runs a current-account surplus, it needs to continuously export capital to maintain its balance of international payments that will subsequently equip the country with an objective basis to provide funds for BRI projects.

2. Establishment of reasonable cost of funds

The countries along the BRI are mostly developing nations that have strong desire to promote socioeconomic development but continually struggle to access funds. In addition, infrastructure construction projects do not generate profits immediately and thus, the cost of funding during initial stages should not be set too high. Furthermore, BRI projects span over extensive periods and demand a large amount of funds. Governments alone cannot provide sufficient funds and need to mobilise market force. In order to do so, the cost of funds should therefore be reasonable in order to attract active participation of financial institutions and ensure sustainability of investment. In short, the BRI investment and financing system must be based on economic benefits to ensure reasonable returns on invested funds. On the basis of guaranteeing financial support for the project, the initiative of market institutions and private capital should be played to the full.

3. Use development financing as a driver to attract private capital into participation of BRI gradually

Development financing refers to a financial model that complements national strategies.

It relies on credit support, receiving no government subsidies. It is market-oriented and operates independently, focusing on long-term investment and generating small profits, aiming to protect the funds and remain financially sustainable. Development financing is between concessional and commercial financing but leans more towards the latter.

As the beneficiaries of the BRI investment and financing system are primarily infrastructure construction along the BRI countries such as cross-border road construction, power & telecommunications construction and energy-resource development, the following issues must be considered: longer periods of investment and financing, uncertain future income, large funding demands and long payback periods.

Furthermore, a considerable number of participating countries have poor market circumstances and regulations. Therefore, the idea of "support first, profit later" must be practiced, with development financing as a driver to gradually attract commercial and private financing. On one hand, BRI projects are large in scale and span over long periods. This means that existing markets may fail, making full private sector participation unrealistic. On the other hand, BRI projects may generate profits in the future. Allowing grant for these projects will then lead to extreme high profit and cause unfair competition to commercial financing, which is seen as government failure. It is therefore inappropriate to fully adopt means such as grant (aid gratis) or policy-based finance.

This shows that the characteristics of the BRI match precisely with the logics of development finance. It is important to take advantage of governmental support and optimise the strengths of development finance to overcome the span cycles and generate profits in the mid and long term.

4. Encourage local currencies to play an active role

Under the prevailing global currency framework, it would be unsustainable and a major risk for the BRI to rely solely on the U.S. dollar or other international currencies for funding. Thus, the push for RMB dominated local currency financial cooperation is crucial to strengthen the currency stability and credibility system in BRI regions. The use of local currencies in investment and financing offers many advantages in developing the BRI.

Firstly, the use of local currency helps to mobilise local savings and global funds. The BRI must fully exploit local and global resources. Using local currency for foreign investment and financing helps to mobilise local saving resources, which will form demonstration effects through reasonable returns. Tapping into more local savings and international capital will create positive feedback for the BRI.

Secondly, the use of local currencies lowers the cost of currency-exchange. Fund recipients may use foreign currencies directly to purchase products from those countries and thus, save on exchange costs. As fund recipients and sponsors become more engaged with one another and more income is generated from local currencies, fund sponsors may be paid directly in their own currencies to save on exchange costs.

Thirdly, the use of local currencies offers financial stability. The increased use of local currencies will boost confidence in the local currency. This could help to support the development of capital markets denominated in local currencies and diversify investment tools and risk management means. Furthermore, the use of local currencies will reduce dependence on main currencies such as the U.S. dollar, which in return, lower the risks triggered by fluctuations in exchange rates.

Examples of the use of local currencies in investment and financing in promoting the BRI are widely available, and China has also carried out some meaningful attempts to encourage this initiative. The use of local currencies in investment and financing must be further explored in the building of the BRI investment and financing system to better satisfy the needs of markets and economic development.

5. Active international collaboration in investment and financing to expedite the building of a network of financial institutions and services

The BRI requires an enormous amount of funds that are beyond the means of participating countries individually. It is certainly not a "one-man show" of a specific country and instead requires all countries along the BRI to join forces. This explains why co-negotiation, co-building and co-sharing have been emphasised since the very beginning of the initiative.

Previously, countries along the BRI primarily relied on financial services and funds from banks and financial institutions in developed countries. However, due to problems such as a lack of motivation from financial institutions and the international financial crisis, developed countries are unable to provide sufficient funds for the full development of the initiative. Additionally, the operation, business ideas and financing conditions of financial institutions in developed countries do not fully correspond to the needs of all countries along the BRI. Active international collaboration in investment and financing in the building of the BRI investment and financing system is therefore essential to develop an interconnected collaborative network with shared communication, benefits and risks. This network can be created through the establishment of reciprocal institutes, connected financial services, interlinked capital markets and financial infrastructure, active international financial centres and communication and collaboration between financial regulators. Subsequently, the joint forces of the countries along the BRI can be optimised to effectively mobilise national and international resources to make the provision of long term and reliable financial support to the initiative possible.

In summary, the BRI investment and financing system provides critical support to the initiative. The investment and financing system require extensive mobilisation of resources including efforts from public and private sectors and countries along the BRI and significant international capital. The sustainability of investments and financing can be ensured through tactful use of development finance, establishing a network of financial institutions and services and increased use of local currencies. This will allow for the concept of collaboration in terms of co-negotiation, co-building and co-sharing to be successfully implemented.

02

Basic Principles and Actual Forms of the Development of the BRI Investment and Financing System

I. Basic principles of the development of the BRI investment and financing system

II. Actual forms of the development of the BRI investment and financing system

Basic Principles and Actual Forms of the Development of the BRI Investment and Financing System

I. Basic principles of the development of the BRI Investment and Financing System

To advance financing for the BRI, the Ministries of Finance from 26 countries have joined China in signing up to the Guiding Principles for Financing the BRI (see appendix 3) following the proposal and promotion from China. These 26 countries are Argentina, Belarus, Cambodia, Chile, the Czech Republic, Ethiopia, Fiji, Georgia, Greece, Hungary, Indonesia, Iran, Kenya, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Qatar, Russia, Serbia, Sudan, Switzerland, Thailand, Turkey and the U.K.

The basic principles for the BRI investment and financing system should conform to the Guiding Principles on Financing the Development of Belt and Road. To promote a diversified financing system that is long term, stable and sustainable with manageable risks, Chinese Premier Li Keqiang has set the objective of "market-oriented operations revolving around businesses for mutual benefits" based on the principle of equal participation with shared benefits and risks.

II. Actual forms of the development of the BRI Investment and Financing System

1. Main Participants

The BRI investment and financing system is divided into five levels according to sources of the funds:

The first level is development financial institutions as represented by the policy banks, which include China Development Bank and Export-Import Bank of China. The former is the largest outbound-investment-and-financing bank in China. In addition to offering traditional credit business, both banks have set up Sino-foreign cooperation funds. **The second level** is emerging multilateral development financial institutions such as the BRI customised Silk Road Fund created according to international standards. The Silk Road Fund primarily focuses on equity investment. **The third level** is commercial banks in China, which comprise primarily the four major state-owned commercial banks. With their overseas branches and mature diversified financing service system, Bank of China and Industrial and Commercial Bank of China (ICBC) own a large market share in the financing of the BRI. **The fourth level** is traditional international multilateral financial institutions such as World Bank and Asian Development Bank, which are closely connected to the BRI. **The fifth level** is ancillary institutions as represented by import-export credit insurance companies.

Main participants from different levels have different financing models. Commercial banks

in China have many branches overseas and offer a comprehensive range of lending products with the main models being bank credit (both on and off-balance sheet), syndicated loans, domestic and foreign bonds and cross-border general financial services. The strengths of domestic policy-based banks include low-rate and long-term loans such as concessional loans, preferential export buyers' credit and special-purpose loans alongside strategic equity investment through multilateral or bilateral funds. Emerging multilateral development financial institutions such as the Asian Infrastructure Investment Bank and Silk Road Fund stand out with their focus on the BRI. These institutions offer diverse and innovative lending models based on international standards, and are offered in the following forms: credit, bonds, equity investment and insurance. Meanwhile, traditional multilateral financial institutions around the globe primarily offer loans with favourable rates and terms to BRI projects. Joint investment and financing between these institutions and policy-based and commercial banks in China and Silk Road Fund are also possible. Other principal ancillary financing institutions including export credit insurance companies, law firms and accounting firms who provide services such as overseas investment guarantees and export credit insurance, investment and financing consultancy.

2. Specific models and cases of BRI project finance

(1) Joint cooperation among international multilateral financial institutions. The key international multilateral financial institutions which offer credit financing to the BRI initiative are World Bank, Asia Development Bank and Asia Infrastructure Investment bank.

a. World Bank

The International Bank for Reconstruction and Development (IBRD) is the World Bank's lending institution to the BRI.

World Bank is a key source of funding and technical support to developing countries around the world. The World Bank Group consists of five institutions, namely International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency （MIGA） and International Centre for Settlement of Investment Disputes（ICSID）. The IBRD offers loans to middle and low-income countries with sound credit records. It is the principal channel of financing for the BRI. Investment by the Asian Infrastructure Investment Bank, Silk Road Fund and domestic policy banks into the BRI regions is largely done in collaboration with World Bank.

World Bank has more than 130 representative offices globally. During the 2016 financial year, it offered its members and private businesses more than USD64.2 billion (c.GBP 48.77 billion) in loans, grants, equity investment and guarantees. Funds from the IBRD primarily went to East Asia and the Pacific, Latin America and the Caribbean, and the Middle East and North Africa, while the IDA primarily supported Africa and South Asia.

The BRI takes up approximately 60% of the World Bank's funds. The distribution of these funds are: East Asia and the Pacific occupies 18% (USD 6.4 billion, or c. GBP 4.86 billion)); Europe and Central Asia occupies 15% (USD 5.5 billion, or c. GBP 4.18 billion); the Middle

East and North Africa occupies 13% (USD 4.4 billion, or c.GBP 3.34 billion); and South Asia occupies 17% (USD 6 billion, or c.GBP 4.56 billion). Further details on the flow of these funds are shown in the table below.

Table 1. Flow of World Bank Funds in 2016 Financial Year (by area)

Amount paid in 2016 financial year (unit: million USD) /Area	IBRD	IDA	IBRD+IDA	Percentage out of IBRD+IDA total
Africa	874	6813	7687	21%
East Asia and the Pacific	5205	1204	6409	18%
Europe and Central Asia	5167	365	5532	15%
Latin America and the Caribbean	5236	303	5539	16%
The Middle East and North Africa	4427	44	4471	13%
South Asia	1623	4462	6085	17%
Total	**22532**	**13191**	**35723**	**100%**

Source: World Bank

b. Asian Development Bank

The Asian Development Bank, an institute established by the United Nations Economic and Social Commission for Asia and the Pacific, mainly promotes socioeconomic development of developing member countries from Asia and the Pacific. 48 out of its 68 members are from the Asia-Pacific region. Headquartered in the Philippine capital Manila, it enjoys a distinct regional advantage.

The bank supports its members in areas such as infrastructure, energy, environmental protection, education and public health through loans, joint loan guarantees, technical support and grants. Its loans are divided into project loans, planning loans, public/ private-sector loans, development-finance-institution loans, and execution-and-support loans for special projects. Southeast Asia stands out as the region where the BRI has made the most progress. Financing in Southeast Asia for the BRI can be operated in collaboration with the Asian Development Bank.

As a regional development institution, the Asian Development Bank is open to collaborating with foreign financial institutions in joint-guarantee financing, which will enhance credit and reduce the cost of financing.

c. Asian Infrastructure Investment Bank (AIIB)

The AIIB, a multilateral international financial institution, was founded in 2015 by China. To date, it has 86 member countries. The bank is committed to developing infrastructure and production facilities in Asia. Loans from the AIIB are granted to projects based on three fixed criteria: positive financial sustainability, environmentally friendly and local social acceptance.

The strengths of the AIIB are: (i) the BRI complementary relationship with the Asian Development Bank and the World Bank in co-promoting investment in infrastructure in Asia and; (ii) it may collaborate with emerging multilateral financial institutions such as the Silk Road Fund to maximise the potential and effects of lending through financial innovation, including credit, bonds issuance, concept stocks, public offering, insurance, aid and asset backed securitisation.

As at the end of September 2016, the AIIB has announced its investments into six projects in two batches. A total of USD829 million (c.GBP 629.70 million) in loans were committed to fields such as energy, transport and urban development in five countries, namely Bangladesh, Indonesia, Pakistan, Tajikistan and Myanmar. Apart from the upgrade and expansion of power transmission in Bangladesh, which is solely funded by the AIIB, the other five projects are being co-financed with the World Bank, Asian Development Bank, European Bank for Reconstruction and Development and other multilateral development banks and commercial banks.

Table 2. Projects in which AIIB has invested, current at September 2016

	Loan Quota (in USD million)	Financing model
Upgrade and expansion of power-transmission system in Bangladesh	165	Independent loan from AIIB
Slum transformation and upgrade in Indonesia	216	Joint lending with World Bank
Shorkot-Khanewal stretch of M-4 Motorway in Pakistan	100	Joint lending with Asian Development Bank and UK Department for International Development
Improvement of Dushanbe-Uzbekistan border road in Tajikistan	27.5	Joint lending with European Bank for Reconstruction and Development
Expansion of hydroelectric power station in Pakistan	300	Joint lending with World Bank
225MW combined-cycle gas-turbine power plant in Myanmar	20	Joint lending with other multilateral development banks and commercial banks

Source: AIIB

(2) Establishment of multilateral or bilateral funds or investment companies

Global investors may participate in investment in the BRI through the establishment of multilateral or bilateral funds or investment companies. For example, **China Development Bank Capital** and foreign investors from the U.A.E, Portugal and France have jointly set up funds such as UAE-China Joint Investment Fund, China Portuguese Speaking Countries Cooperation and Development Fund and Sino French (Midcap) Fund. These funds directly invest in businesses or projects through ordinary shares acquired via equity investment. They also they invest in foreign project objects through quasi-equity investment, preference shares, convertible bonds and hybrid instruments.

The Silk Road Fund is also jointly set up by international investment institutions, namely Export-Import Bank of China and China Development Bank Capital. It focuses on mid to long-term development investment funds and provides financial support to the multilateral and bilateral communication. The Silk Road Fund also supports the connectivity of the BRI through diversified investment and loans, including equity investment, debt investment, loans and funds. The fund may also set up sub-funds based on regions, industries or project types for foreign investors to participate. At June 2017, the Silk Road Fund has invested in 16 BRI projects through equity investment, debt investment and sub-funds which introduced over USD6 billion (c.GBP 4.56 billion) in capital.

Table 3: Funds co-established by China Development Bank Capital and foreign investors

Fund	Contents
UAE-China Joint Investment Fund	This fund was founded in December 2015 with a sum of USD10 billion (c.GBP 7.6 billion) and an equal investment of USD4 billion (c. GBP 3.04 billion) from each side during the initial stage. **It is co-managed by Mubadala Development Company of Abu Dhabi, China Development Bank Capital and the State Administration of Foreign Exchange of the People's Republic of China.** The fund's operation is guided by commercial principles and it invests in traditional energy, infrastructure building and high-end manufacturing, clean energy and other high-growth industries mainly in China, the U.A.E and other high-growth countries and regions.

Sino-French (Midcap) Fund	**This fund was co-founded by China Development Bank Capital, Bpifrance and Cathay Capital** in March 2014 to promote the international development and growth of medium-sized enterprises in China, France and Europe. The target scale of the fund is EUR500 million. As cornerstone investors, China Development Bank Capital and Bpifrance have each committed EUR100 million to the fund. Cathy manages the fund based on the success of the private-equity fund Sino-French SME Fund, which was set up by China Development Bank Capital and Bpifrance in 2012. Sino-French (Midcap) Fund will focus on medium-sized enterprises in China and France but also extends to some European countries, particularly Germany. **The main means of investment will be controlling-share purchase (leveraged buyout) and key private-equity minority investments.** The fund aims to facilitate the development of medium-sized enterprises in the above-mentioned areas and accelerate Sino-French and -European collaboration, while playing a critical role in boosting economic growth and employment.
China-Portuguese Speaking Countries Cooperation and Development Fund	The private equity is committed to investment within the eight Portuguese-speaking member countries, namely China (including Macau), Angola, Brazil, Cape Verde, Guinea-Bissau, Mozambique, Portugal and East Timor. The fund has a total of USD1 billion, or c.GBP 0.76 billion). A sum of USD125 million (c.GBP 94.95 million) was received from **China Development Bank and Industrial and Commercial Development Fund of Macau** during the initial stage.
Silk Road Fund	The fund, a special fund complementing the BRI, was formally funded and established by the Chinese government in November 2014. **Its corporate shareholders include the Export-Import Bank of China, China Development Bank Capital, Seres Investment Co., Ltd. and Buttonwood Investment Holding Co., Ltd.** The fund has a total capital of USD40 billion. The initial capital of USD10 billion (c. GBP 7.6 billion) was committed by the State Administration of Foreign Exchange (USD6.5 billion, or c.GBP 4.94 billion), China Investment Corporation (USD1.5 billion, or c.GBP 1.14 billion), the Export-Import Bank of China (USD1.5 billion, or c.GBP 1.14) and China Development Bank (USD500 million, or c.GBP 379.79 million). Sub-funds may be set up according to regions, industries or project types. **The fund focuses on mid to long-term development investment and offers financing support to the multilateral and bilateral communication & connectivity of the BRI initiative through diversified lending means including equity investment, debt investment, loans and funds.**

Source: China Development Bank Capital

The types of overseas investments by bilateral / multilateral funds include common equity investments and mezzanine investments. The common equity investment covers major pre-IPO projects, strategic growth companies with significant valuation advantages and growth potential in the future, IPO cornerstone/ anchor projects of key strategic clients and long-term assets conforming to policy support. The latter mainly applies to overseas investment and mergers and acquisitions (M&As) of domestic businesses, refinancing of businesses listed abroad, privatisation and delisting financing and bridge financing. It simultaneously offers fixed income and returns from equity appreciation.

(3) Debt financing in local currencies of countries along the BRI and offshore RMB

To avoid foreign-exchange risk and large-scale cross-border capital flows, businesses are more inclined to have assets and liabilities in the same currency, which leads to a strong demand for debt financing in offshore RMB and local currencies of countries along the BRI. As a result, different financing models have been created including debt-equity combination financing and onshore guarantees for offshore loans alongside traditional bank loans and bond issuance.

Domestic developmental financial institutes and commercial banks in China now are actively offering offshore debt financing to Chinese-funded businesses along the BRI. International investment institutions that have been operating globally for many years or are already operating in countries along the BRI for years should leverage on their extensive experience and seek opportunities in this field.

1) The BRI capital and loans businesses of domestic developmental financial institutes

The China Development Bank actively broadens its overseas network to raise funds and channel foreign capital into BRI projects as it implements its global collaboration push for the BRI.

A first example is the debt-equity combination financing of the Jakarta-Bandung high-speed rail in Indonesia.

Capital for the Jakarta-Bandung high-speed rail project came from Kereta Cepat Indonesia China (KCIC), a Sino-Indonesian joint venture. China Development Bank provided commercial loans with a 50-year period plus grace period at an interest rate of 2%. The Indonesian government has not provided its government budget or sovereign guarantee for the project.

Table 4. Jakarta-Bandung high-speed rail in Indonesia

(China's first high-speed rail project abroad)

Project duration	Construction began in January 2016 and is expected to last for three years. A construction permit for the entire line was obtained in July 2017.
Project costs	A total cost of approximately USD5.5 billion (c.GBP 4.18 billion), which was subsequently adjusted to USD5.135 billion (c.GBP 3.9 billion).
Financing means	**China Development Bank offered 75% of the commercial loans with a 50-year period plus grace period at an interest rate of 2%, while the remaining 25% came from KCIC, a Sino-Indonesian joint venture. The Indonesian government has not provided its government budget or sovereign guarantee for the project.**
Project description	The rail spans about 150 kilometres in its entirety, connecting the Indonesian capital Jakarta and its fourth-largest city Bandung, and its highest design speed is 350 kilometres per hour. KCIC, a Sino-Indonesian joint venture consisting of Chinese (40%) and Indonesian (60%) state-owned enterprises brought together by China Railway and PT Wijaya Karya (Persero) Tbk respectively, is responsible for the construction and operations. The company has been granted 50-year franchising valid from 31 May 2019.
Project impact	The first high-speed rail in Indonesia. Once completed it will reduce the journey from Jakarta to Bandung from over three hours to just 40 minutes.

Source: China Development Bank

A second example is the successful issuance of the quasi-sovereign green bond in the international bond market in a bid to pave the green Silk Road.

On 9 November 2017, China Development Bank successfully issued the first quasi-sovereign international green bond including USD500 million (c.GBP 379.79 million) bonds and EUR1 billion bonds. The issue, which adopted a single debt rating and both coupons achieved negative premium issuance and ultra-high subscription, set a new model for the development of the international green bond market. The bond, which is executed strictly in compliance with the Green Bond Principles (GBP) and was awarded Climate Bond Certification by Climate Bonds Initiative (CBI), is listed on the Hong Kong Stock Exchange and the China Europe International Exchange. The funds raised are largely used to support green industrial projects along the BRI including the three major green areas of clean transportation, renewable energy and water resources protection. The funds provide strong financing support for the implementation of sustainable development and greening the Silk Road. This move reflects the positive development of China's development financing institutions to implement and take the lead in responding to the BRI and continue to

promote the interconnection of domestic and overseas markets. By integrating the concept of green finance into BRI construction, using various financial instruments including green bonds to guide resources, the funds support BRI cooperation and sustainable development. The ecological environment along the road can be improved while promoting economic development to support sustainable development and win-win results.

A third example is the joint effort with the Hong Kong market in the successful issuance of the BRI designated bond supporting the BRI.

On 20 December 2017, China Development Bank successfully issued the first "Belt and Road" themed special bond in Hong Kong that was worth USD350 million (c.GBP 265.85million) with a five-year fixed-rate through private placement. The bond was listed in Hong Kong to raise funds to support bookkeeping projects along the BRI for China Development Bank's Hong Kong branch. This bond is the first "Belt and Road" special bond issued by the bank, which is of great significance. This move proved that China Development Bank is the leader in guiding global capital crowded for BRI projects which achieved positive publicity. The move also meets the need for cooperation between financial institutions and monetary authorities in issuing quasi-sovereign BRI special bonds.

On 22 December 2017, the Export-Import Bank of China with the assistance of Bank of China, issued the first phase of "bond connect" green bond of 2017, with an amount of RMB2 billion and a maturity of three years. The interest rate is at 4.68% and a full-court subscription multiple of 3.46 times. The raised fund aims to invest in key green BRI projects through the specific capital arrangement and qualified credit project reserves of the Export-Import Bank of China. It offers foreign investors direct access to invest in greening the BRI.

2) Commercial banks in China offer debt financing to countries along the BRI

The Agricultural Bank of China continued to issue and underwrite RMB bonds in offshore markets in Hong Kong and Singapore when it became the first Chinese institution to issue RMB bonds in the Middle East in 2014. While funds were being raised for the BRI projects, the activity also supported the development of international bond markets in BRI areas and offshore RMB.

The 21st Century Maritime Silk Road Bonds, an offshore RMB bond issued by **China Construction Bank** for the first time in the world, was listed on the Kuala Lumpur Stock Exchange in 2015. Moody's Investors Service assigned an A2 rating to the bonds, which have a two-year period and an issuing interest rate of 4%. They were worth 1 billion yuan and the raised funds were committed to financing BRI projects to help Chinese enterprises enter the global market, particularly those related to the construction of key projects as part of the 21st-century Maritime Silk Road.

Since the first BRI themed bond was issued in the international bond market in June 2015, the Bank of China has so far rolled out four bundles of bonds amounting to USD10.8 billion (c.GBP 8.2 billion). BRI bonds were issued simultaneously by multiple issuers in multiple currencies and with multiple types. The issuance was implemented by 12 overseas

branches of the issuer within the BRI countries and extended regions. The offering, which was denominated in six currencies including the RMB, USD and EUR, making the best use of Bank of China's credibility in raising stable and cheap capital for BRI projects. Bank of China has repeatedly included BRI bonds in RMB denominated bonds to provide the market with investment tools denominated in RMB, aiming to promote RMB's internationalisation by spurring offshore RMB recycling. It is worth noting that the first offshore RMB bond in the African market was issued by Bank of China Johannesburg branch, setting a precedent for the following RMB bond issuance.

As the lead underwriter, Bank of China has assisted Poland, Hungary, Sharjah, The Philippines and other countries along the BRI in issuing RMB denominated bonds (i.e. Panda bond). The initiative has ushered these countries into the RMB bond market. As the co-lead underwriter and book runner, Bank of China helped Poland issue an RMB dominated bond worth RMB3 billion with a coupon rate of 3.40% on 25 August 2016. The bond received more than 5.9 billion in subscription. Bank of China has also assisted Hungary in issuing a three-year RMB dominated bond which was worth RMB1 billion in China's interbank bond market and completed the associated RMB1 billion currency swap business on 26 July 2017. On 1 February 2018, the bank assisted the Emirate of Sharjah in the United Arab Emirates on the issuance of a three-year RMB dominated bond worth RMB2 billion in the interbank bond market of China with a coupon rate of 5.8%. Bank of China has also assisted the Philippines in issuing a three-year RMB dominated bond worth RMB1.46 billion in the Chinese interbank bond market with a coupon rate of 5% on 20 March 2018.

3) BRI Foreign commercial banks offer debt financing to BRI projects

HSBC has acted as a Joint Global Coordinator and Joint Structuring Advisor for Industrial and Commercial Bank of China's inaugural Belt and Road Climate Bond. This is the first green bond where the green bond framework is aligned with both International Capital Market Association's (ICMA) Green Bond Principles and The People's Bank of China's (PBoC) Green Bond Categories by a Chinese financial institution. This bond also marks the first issuance dedicated to green projects following the BRI initiative. It will support projects in China's domestic provinces and in foreign countries key to the BRI initiative. The raised proceeds will finance, and refinance projects linked to renewable energy and low carbon emission transportation along the BRI, low carbon and low emission transportation. The ICBC's Green Bond Framework also includes energy efficiency as well as sustainable water and wastewater management.

Standard Chartered has a deep and long-standing presence in 45 of the markets along the proposed BRI routes to promote sustainable social and economic development. Over the course of 2017, they were involved in over 50 BRI related deals worth over USD10 billion (c.GBP 7.6 billion) across a range of products and services. To mark the ninth UK-China Economic and Financial Dialogue in Beijing, Standard Chartered announced on 15 December 2017 a further commitment to support the BRI by facilitating financing to the value of at least USD20 billion (c.GBP 15.19 billion) by 2020. On 31 January 2018, China Development Bank and Standard Chartered signed a MoU to formalise a strategic

partnership that aims to facilitate trade and investment related to China's BRI initiative. The MoU will enable China Development Bank to offer up to RMB10 billion in aggregate in the next five years to Standard Chartered to facilitate BRI projects.

(4) Financial institutions offer cross-border RMB products and information services

Financial institutions may offer BRI associated financing information services and cross-border RMB products leveraging on their expertise. Relevant initiatives have been attempted by some Chinese funded banks and their overseas branches.

Bank of China has added new currencies and products to its product line and offered its customers hedging and risk aversion solutions, aiming to reduce the currency risk facing companies exploring international market following the BRI initiative. It also compiled the BRI RMB exchange rate index to help customers identify risks.

1) Increase currencies of the emerging markets to enrich product line of financial hedging tools

The Bank of China's currency services currently covers 62 currencies among which 51 of them are from emerging markets and 28 are from countries along the BRI. Bank of China's diverse product line also encompasses an array of hedging tools including the spot/forward settlement and sale of foreign exchange, spot/forward foreign exchange trading, foreign exchange swap, currency swap, non-deliverable forward and option. The Bank of China leverages its international financial market experience and expertise to help clients identify trends and trading opportunities. The bank uses a mixture portfolio of hedging tools to customise risk management solutions for projects to help a great number of companies going global hedge and avert risks. The total amount of transactions over the last five years has reached USD470 billion, or c.GBP 357 billion (among which transactions in HKD hit USD359 billion, or c.GBP 272.69 billion).

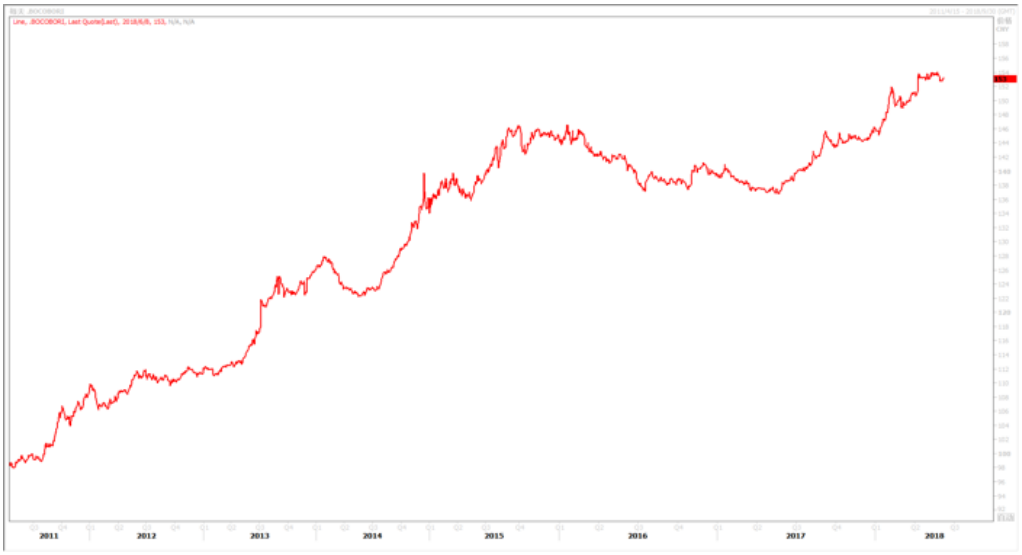
2) Compile the "Bank of China BOC OBOR RMB Index"

Bank of China published the "BOC OBOR RMB Index"[1] in December 2015. The index, which is an arithmetic-weighted average of a selection of 64 BRI countries' trading volume with China, serves as a comprehensive and unbiased reflection of the trend of the exchange rates between RMB and currencies of the BRI countries. Apart from the BRI general index, Bank of China has compiled a sub-index[2] by grouping countries with similar economic characteristics and currency exchange systems, taking into account the economy and exchange rate changes across different regions and countries. The indices have real-time quotes on Thomson Reuters Eikon and Bank of China have been publishing this periodic professional analytical report for the last two years.

[1] BOCOBORI on Thomson Reuters Eikon quotes.

[2] The three sub-indices are: OBOR RMB exchange rate Southeast Asia, OBORASIA on Thomson Reuters Eikon quotes. OBOR RMB exchange rate EMEA countries, OBOREMEA on Thomson Reuters Eikon quotes. OBOR RMB exchange rate developed countries, OBORACTI on Thomson Reuters Eikon quotes.

Figure 1: Bank of China BOC OBOR RMB Index



3) Compile "CFETS-BOC traded bond indices"

The "CFETS-BOC traded bond indices" are the first traded bonds indices for the inter-bank market jointly published by Bank of China and China Foreign Exchange Trade System in Shanghai on 14 June 2018. The indices are a basket covering the "CFETS-BOC traded treasury bond index", "CFETS-BOC traded policy financial bond index", "CFETS-BOC traded high credit rating bond index" and "CFETS-BOC traded high credit rating negotiable certificates of deposit (NDC) index". The indices are compiled based on trading factors including the trading features, volumes and the number of market makers that quote the bond, as well a selection of a moderate number of actively traded bonds as the samples. The indices, which provide local and foreign investors accurate and useful performance benchmarks, help to boost liquidity in the secondary bond market and reduce costs of bond issuance in the primary market. The indices are published 18:00 every trading day on www.chinamoney.com and Bank of China's official website.

The Singapore branch of Bank of China has launched RMB products, which are collaborative efforts between the bank and Singapore Exchange Limited including futures and a dual-currency bankcard with RMB and the Singapore dollar. It also offers cross-border M&As financing, bond underwriting and distribution, debt financing, guaranteed bonds, structured commodity finance and financial consultation. The **Industrial and Commercial Bank of China** has built a global information platform and set up a country-risk research team, global-economy research team and industry research centre. These teams share research results regularly with over 100 enterprises each year to allow them to understand global market trends and reduce the cost of information acquisitions. The bank also introduced cross-border offshore RMB release, cross-border RMB loans, cross-border two-way RMB capital pool, finance lease and factoring.

(5) Multiple financing channels offering integrated financial services

UK Export Finance (UKEF) is the UK government's export credit agency (ECA), which supports long-term economic growth and competitiveness by complementing the private market with insurance for exporters, loan guarantees to banks, and providing support for and provision of loans to overseas buyers of UK goods and services. UKEF has supported exports across a wide range of sectors including aerospace, construction, energy, oil and gas, mining and metals, petrochemicals, telecommunications, and transport. For instance, UKEF has provided EUR270 million to an African government to help financing the construction of a new international airport in the Kabaale region of Uganda. Serving as an ECA, the organisation works towards identifying and supporting international projects that use UK goods and services through providing long-term financing support with a repayment term of up to 18 years. UKEF has risk capacity of GBP25 billion to support buyers in over 198 countries and over 60 different currencies including RMB.

In March 2016, UKEF and the China Export & Credit Insurance Corporation (SINOSURE) signed an agreement to co-operate in supporting contracts in third countries involving both UK and Chinese exports. The move is designed to enhance the two ECAs' ability to support exports by increasing their risk capacity for projects sourcing goods and services from the UK and China. These projects cover infrastructure development including the building of airports, railways, roads, etc.

HSBC acted as an exclusive financial adviser to a China Resources Group-led consortium in its acquisition of a 30% stake in the 402MW Dudgeon offshore wind farm in the UK from Statkraft AS, with a purchase consideration of c.GBP 555 million. The deal was announced on 19 December 2017 and completed on 7 March 2018.

This is a landmark transaction for China Resources Group, representing its debut international investment in the renewable energy sector as part of its 'Go Global' strategy. This also represents the inaugural sale of A Contract-for-Difference ("CfD") based offshore wind project in the UK which allows access to a flagship offshore wind asset with prime wind resources, latest technology with Siemens highest 15-year CfD (space) strike price available in the market (at the time) and opportunity to partner with industry leaders, i.e. Statoil and Masdarm, as shareholders.

Linklaters advised the sponsors, led by British Petroleum (BP)and including CNOOC amongst others, on the USD8.7billion (c.GBP 6.61 billion) Tangguh LNG Train 3 Expansion Project, located in the Papua Barat province of Indonesia. This is one of the largest and most high-profile projects ever to close in Indonesia. Separate financing tranches (amounting to USD3.7billion in total, or c.GBP 2.81 billion) were provided by (i) a group of commercial banks from China, Japan, Germany, South Korea, France, Singapore; (ii) Asian Development Bank; (iii) Japan Bank for international Cooperation and; (iv) Indonesian banks and financial institutions.

Linklaters assisted the sponsors in navigating changes in the policies of international banks and multi-lateral financial institutions by modifying the New York law trustee borrowing

scheme traditionally used in Indonesian upstream oil and gas financings and drafted and successfully negotiated financing documents incorporating the revised structure with the new Indonesian upstream oil and gas regulator and the lender group to achieve a 'bankable' solution acceptable to all the stakeholder.

The London and Beijing offices of **Clifford Chance**, the global law firm and one of London's elite Magic Circle of law firms, advised Bank of China (London branch) and Industrial and Commercial Bank of China on the USD1.582 billion (c.GBP 1.2 billion) limited recourse project financing of a 540megawatt oil shale fired mine-mouth power plant at Attarat Um Ghudran in Jordan for which Sinosure provided buyer's credit export insurance. This was the largest foreign direct investment in Jordan at the time, the first limited-recourse financing of an oil-shale mine-mouth project and helps the country reduce its reliance on oil imports by the use of domestic reserves.

(6) Fintech companies promote digital inclusive finance in BRI countries

Many countries along the BRI are confronted with a lack of fundamental financial services, diverse payment methods and inefficiencies in financial services and as such are in urgent need of fintech. The deployment of fintech will create more effective, broader and convenient financial products and services fulfilling the present and future market demands and improving the standard of living.

Ant Financial has rolled out the regional versions of "Alipay" in nine countries and regions covering India, Thailand, Malaysia, and Indonesia. Ant Financial's Overseas Travel and Global Transaction businesses have expanded into dozens of the BRI countries and regions. At present, Ant Financial's three key international businesses have benefited over 300 million customers along the BRI through the offering of convenient, safe and reliable financial services.

1) Unveil regional e-wallet in overseas markets to fulfill the residents' digital life needs

In February 2015, Ant Financial partnered up with India's e-wallet giant Paytm in a strategic effort to develop its first regional version of "Alipay" in an overseas market. Until now, Ant Financial has rolled out nine local version e-wallets covering more than two billion people in countries and regions along the BRI via partnerships with local businesses. Among these efforts, Indian e-wallet Paytm has seen its customer base exploding from 30 to 250 million, making it the fourth largest e-wallet in the world.

The three outcomes from Ant Financial's successful "technology export" are:

(i) to help local partners to break through development bottleneck and achieve leapfrog development through technical empowerment;

(ii) providing convenience to the local residents from payment to smart lives, cultivating the development concept and mature business models in these countries with the continual export of digital inclusive financial models and;

(iii) to explore a localised model that is based on mutual trust and works best for the region as well as to teach them 'how to fish'.

Table 5: Ant Financial's Nine "regional wallets" along the BRI

Country & region	Partnership start date	Name of wallet	Partners	Covered population
India	Feb 2015	Paytm	E-wallet Paytm	1.324 billion
Thailand	Nov 2016	Turemoney	Payment company Ascend Money	69 million
South Korea	Feb 2017	Kakao Pay	Instant messaging company Kakao	51.25 million
The Philippines	Feb 2017	GCash	Digital finance company Mynt	103 million
Indonesia	Apr 2017	DANA	Internet enterprise EMTEK	261 million
Hong Kong SAR	May 2017	AlipayHK	CK Hutchison Holdings Limited	7.41 million
Malaysia	Jul 2017	Touch'n Go	Financial enterprise CIMB	31.18 million
Pakistan	Mar 2018	Easy paisa	Small and micro financial bank TMB	193 million
Bangladesh	Apr 2018	bKash	Mobile payment company bKash	163 million

Source: Ant Financial

2) Extend the reach of Alipay and continue pushing for Alipay's Global Transaction services

To rise to the challenge of fulfilling the strong demand from millions of Chinese tourists shopping in overseas countries Ant Financial has been continuing to push in recent years for its cross-border offline payment businesses in popular tourist destinations, with a focus on offering Chinese tourists mobile payment services and linkages to surrounding entertainment and travel services. Alipay has extended its reach into over 100,000 stores, 56 major international airports in 40 countries and regions, supported Uber and Grab in more than 70 countries and provided tax refund services in 24 countries. The above said services have all targeted the countries and regions along the BRI.

Furthermore, to meet the cross-border online shopping demands of customers in China and countries along the BRI, Alipay has partnered with over 250 financial institutions across more than 200 countries in providing its Global Transaction service which supports 27 major currencies and effectively interconnected online payments across the world.

Of the counties and regions covered by its services, more than a quarter is along the BRI. Today, online shoppers can complete payment with their local payment methods on any e-commerce site, whether it is a Chinese or international platform in Alibaba's system or an overseas third-party site. This serves as an important pillar to eWTP. The services mentioned above enabled not just Chinese customers to shop through Tmall and AliExpress in the BRI countries' stores but also customers in these countries to purchase from Chinese merchants.

Jingdong Finance has actively responded to the BRI by introducing digital inclusive financial services into countries along the BRI. In September 2017, Jingdong Group and Jingdong Finance teamed up with Central Group – Thailand's largest retail business and Provident Capital in starting two joint ventures with a total investment of USD500 million (c. GBP 379.79 million) . The two joint ventures are going to be providers of e-commerce and fintech services, respectively, bringing convenience and inclusive digital financial services to the Thai people and digitalising the Thai society with the import of Jingdong's fintech capabilities. On the technical abilities front, Jingdong has developed and used in financial applications a vast range of cutting-edge application model systems such as a risk quantification model system, precision marketing model system, intelligent investment consultancy model system and user analytics model system. These systems are built through deploying new technologies such as artificial intelligence, biometrics, cloud computing and blockchain and replying on the myriad of supply of e-commerce data, financial data and other various types of third-party data from its hundreds of millions of customers and business partners. On the digital inclusive finance front, Jingdong Finance reduces the financing cost for the vast small and medium enterprises (SMEs) and rural population and provides them with convenient financing through its consumer finance, supply chain finance and rural area finance businesses. Many of these business practices of digital inclusive finance have won recognition from various international organisations. For example, the "Digital Agricultural Loan" which provides rural financial services based on quantitative model of agricultural production has acquired RMB400 million RMB long-term loans from International Finance Corporation (IFC) – a member organisation of the World Bank Group.

By exploiting these technical capabilities and experiences, and in conjunction with Central Group's vast offline shopping scenarios, Jingdong Finance has broken into the mobile payment business. This breakthrough offers Central Group's consumers a shopping experience of better convenience and prompting Thailand to leapfrog towards a digital society. In addition, this development paves the way for the upcoming digital inclusive finance businesses by accumulating massive payment data and client resources. Another joint venture formed by Jindong and Central Group is helping Central Group to migrate its offline retail businesses online to optimise local e-commerce and the financial environment. The two ventures are taking the steps to build an online to offline (O2O) ecosystem through combining the core competencies of Jingdong Group, Jingdong Finance and Central Group. This ecosystem is poised to extend its reach into insurance, asset management and other affiliated financial services as it continues to expand its operations in digital inclusive financial services such as consumer finances, supply chain finance and rural area finance with its rich collection of diverse scenarios.

03

The System and Mechanism that Drive the BRI Investment and Financing System

I. Innovative development and opening-up of financial markets, while building a diverse and inclusive BRI investment and financing system

II. Promote the internationalisation of RMB and the innovation of cross-border RMB business to build a local currency-based BRI investment and financing system

III. Optimise the advantage of international and regional financial centres to establish a regional framework for the BRI investment and financing system

IV. Perfect multinational financial collaboration to reinforce the political framework of the BRI investment and financing system

The System and Mechanism that Drive the BRI Investment and Financing System

The building of a fit-for-purpose BRI investment and financing system requires the integration of national strategic goals. Institutional support for the development of the investment and financing system should also be provided. The following systems and mechanisms are actively promoted within the framework of multilateral and bilateral collaboration including capital market and financial infrastructure connectivity, gross settlement, financial-security network and collaboration among regulatory authorities.

I. Innovative development and the opening-up of financial markets, while building a diverse and inclusive BRI investment and financing system

An estimation by the BRI Facilities Interconnection Research Group under the Development Research Center of the State Council predicted that the collective infrastructure investment requirement by countries along the BRI amounts to at least USD10.6 trillion (c.GBP 8.05 trillion) during the period from 2016 to 2020. The Asian Development Bank predicted the infrastructure investment requirement in Asia would reach USD26 trillion (c.GBP 19.75 trillion) by 2030. A large gap between the supply and demand for financing will arise if we continue to rely solely on multilateral collaborative financial institutions. To address this issue, fund-raising channels and quantities of BRI projects must diversify. Capital markets should gradually open up while the building and development of financial markets related to the BRI initiative should be more inclusive in order to create a BRI equity-and-debt investment market that is multi-tiered, multi-dimensional, multi -body and multi-currency.

1. Development finance institutions must continue to lead and offer support

In recent years, China Development Bank and Export-Import Bank of China have launched a range of projects along the BRI. They have generated a certain amount of returns and maintained financial sustainability without financial subsidies, which may serve as an example of development financing and a reference for the building of the BRI investment and financing system. **Firstly,** China can share its experiences in development financing with other countries along the BRI to promote it in these countries. **Secondly,** strengthening collaboration among development finance institutions from countries along the BRI is a priority. **Thirdly,** it is also important to establish collaboration between development and commercial financing to allow the former to play a leading role during the initial stage until profits set in, and then it may transfer some of the lending to the latter. The newly available sum may then be used for other development-finance projects to achieve a positive capital turnover. **Fourthly,** it is crucial to have continuous exploration of the best international practice of development financing. The key features of development financing should be based on the principle of "minimal standard, maximal practice" to allow information to be gathered and converted into international experience that can be duplicated and promoted, including planning and piloting, economies of scale and agglomeration and policy support.

2. Encourage different main bodies to set up equity funds to invest in projects related to the BRI

On a national level, China has set up the Silk Road Fund to invest primarily in the infrastructure and energy sectors in countries along the BRI. Other main bodies of the capital markets including banks, trusts, insurance companies and social-security funds should also be motivated to carry out equity investment in BRI projects. On 24 June 2015, China CITIC Bank announced the establishment of the BRI Fund, with investments going to projects covering urban infrastructure, urban rail transit, general urban development, mergers and restructuring, industrial investment and projects related to the "go out" strategy. BRI equity-investment funds set up by different capital have also mushroomed across Chinese provinces, whose foundation during the initial stage of the BRI initiative should be encouraged, supported and guided by the government. It is also necessary to regulate their operations according to laws and regulations.

3. Issue Silk Bonds to diversify the financing channels of the BRI initiative

Silk Road bonds, which have been issued to finance cross-border and foreign BRI projects, may also help development finance institutions (Asian Development Band and Silk Road Fund) to raise capital and thus diversify their channels of capital increment.

The bonds can be issued both at domestic and overseas markets and price fixing in RMB, foreign currency or Special Drawing Rights (SDR). It is recommended that assets and liabilities should be in the same currency. The use of RMB is encouraged in issuing and pricing. The bonds can be issued through public offering or private placement, but the issuing conditions and targets must meet national legal requirements and market rules of the places where they are issued. Capital raised from the issuance of bonds can only be used for the construction, operation and equipment procurement of specific projects. The capital, however, cannot be used to replace the existing capital of any project or to pay off any debt related to the projects. The internal rate of return of the invested projects should, in principle, be greater than 8%. The percentage, however, can be reduced accordingly but in general should still be no lower than 6% for projects spanning over 20 years. Credit rating should also comply with the requirements of individual markets. For offering in China, qualified credit-rating agencies must be sought to conduct debt and corporate-credit ratings and regular follow-up ratings.

The Silk Bond should satisfy the principles of adequate cost, reasonable rate, longer period and manageable risks. The cost and income of a project should balance out based on the rate of return of national debt issued with the same maturity in the market. The benchmark should generally not exceed 200. The bond maturity should match that of project asset terms and not shorter than five years, while the maturity of RMB-denominated bonds should not be shorter than 10 years. Currency mismatch is inevitable in offshore investment. In the case of investment currency other than RMB, it is recommended to fully utilize foreign exchange forwards, options, swaps and other derivatives to control exchange rate risk exposure.

Due to the disparity in global interest rates and the increasingly internationalised channels of debt financing, financing bodies may choose whatever that suits them whether it is Chinese-funded enterprises with foreign debt or foreign-funded enterprises with Chinese

debt. On the policy front, the mechanism of the bond market in China needs to be perfected and the market needs to open up to attract foreign enterprises to issue bonds denominated in RMB. Meanwhile, Chinese-funded enterprises issuing bonds abroad must be regulated and supervised.

4. Encourage domestic and foreign capital to participate in BRI initiative financing through means such as public-private partnership (PPP)

The BRI involves a large number of infrastructure-construction projects, which makes PPP a practical model due to its distinctive public feature. However, as BRI projects span over extensive time periods, private sectors may lack motivation to invest their capital. The adoption of a PPP creates a partnership between governments and social capital, which will actively mobilise private capital from both foreign and domestic destinations, to help bring stakeholders closer due to mutual benefits generated from collaborating with foreign enterprises.

5. Promote derivatives for diversification and hedging

Promoting the development of derivatives can help enterprises and financial institutions to fend off risk by taking advantage of them. Apart from funding gaps, the BRI faces a range of risks and challenges in the financial area, including uncertain infrastructure investment, potential country risk, geopolitical conflict risks and pronounced local credit risks. These risks and challenges can be avoided and hedged through derivatives such as interest rates and exchange rates. However, the scale and openness of the derivative market in China is currently lagging far behind. The offshore RMB still has large room for improvement and, the number of professional macro hedge funds in China is relatively low. The development of derivatives should be comprehensive to expand both scale and diversity. A sound market mechanism should be in place and enterprises and financial institutions should be encouraged to avoid and spread risk through derivatives.

II. Promote the internationalisation of RMB and the innovation of cross-border RMB business to build a local currency-based BRI investment and financing system

China has gradually lifted restrictions on the use of RMB in cross-border transactions since 2009. The rapid growth in the cross-border use of RMB has seen distinctive progress in international trade, investment and financial transactions. Currently, RMB is the third-largest trade-finance currency and the fifth-largest payment and most-traded currency globally. The active promotion of the internationalisation of RMB and its cross-border use is a critical premise for the development of the BRI as well as a key foundation to build a fit for purpose BRI investment and financing system. More specifically, it will encourage departments in China and motivate countries along the BRI to participate in the BRI, which will expand the scale of related trade and investment. Allowing settlement to be done in RMB will prevent exchange gains and losses of commodities due to fluctuations in the US dollar and thus, protect the income of countries along the BRI at maximum level.

1) It is important to continue deepening currency cooperation with countries along the BRI. The scale and scope of currency exchange between China and countries along the BRI must be expanded and the mechanisms for this must be improved. The building of the

CIPS needs to be expedited while pilot agencies for cross-border RMB trade settlement should be expanded. The second phase of the CIPS should be swiftly launched based on the success of the first in order to boost the use of RMB in international payments.

2) It is crucial to uphold current account convertibility, and actively explore the feasibility of capital account convertibility. The support and promotion of the use of RMB in trade investment in countries along the BRI for cross border payment and settlement will continue to elevate RMB usage. It is also important to continue to exercise the functions of the RMB clearing banks in marketing, RMB products R&D, foreign exchange risk management and promoting overseas usage of RMB. China's opening up of the capital account should serve the BRI construction with equal focus on the capital inflow and outflow, deepening the dual-way investment cooperation, spurring the free movement of capital and other factors and, promoting the integration of the global markets.

3) Broadening the use of RMB in pricing and settling for the BRI transactions is necessary. Other initiatives include endorsing the use of RMB in pricing contract, loans, support financing, etc. for the BRI key construction projects as well as promoting the use of RMB in pricing staple commodities. It is important too to explore the opening up of the futures market of RMB denominated staple commodities and to exploit our edge in the stable commodities to elevate China's clout in the international staple commodities market. It is also necessary to support financial institutes' efforts towards a win-win or multi-win outcome for all parties via completing financial service network, push for the use of RMB in exporting to China from the countries running projects, and accumulate RMB funds for the payment of Chinese construction.

4) It is crucial to broaden the RMB's functions in investment & financing and asset allocation for the BRI construction projects. Supporting domestic financial institutes' initiation of cooperation in RMB with countries along the BRI, encouraging these institutions to launch into RMB overseas funding businesses is recommended. It is important to bolster cooperation with international and multilateral financial institutes and to support all efforts to raise RMB capital and carry out RMB loans, etc. By setting up financial infrastructure construction, connections between Chinese and foreign financial markets are strengthened and the movement towards the direct transaction in RMB with the targeted countries is enhanced.

5) It is necessary to incentivise innovation in financial products denominated in RMB. The innovation of offshore RMB-related business may be powered by taking full advantage of free-trade areas and pilot comprehensive financial-reform border areas. To encourage innovation in cross-border RMB business, every means available should be utilize, for example through the free trade zones, border financial comprehensive reform pilot zone, etc. It is important to have drivers for trade, investment and financial product innovation in order to advance the internationalisation of RMB. Through encouraging financial institutions to play a more active role in inventing widely-accepted RMB denominated funds, it helps to meet the demand for RMB globally. A multi-discipline system of cross-border RMB products should be built to cover the retail of RMB and foreign currencies, bankcards and online-banking services as well to offer ordinary investors and consumers different means to bring back their offshore RMB.

III. Optimise the advantage of international and regional financial centres to establish a regional framework for the BRI Investment and Financing System

Global institutional investors control over USD100 trillion (c.GBP 75.96 trillion)-worth of assets and hold tremendous investment potential for BRI projects. Regional and international financial centres in countries and regions along the BRI, such as London and Hong Kong, not only have a sizeable number of institutional investors but also connect them globally, thus making them critical channels to finance BRI projects. International financial centres are also home to major global financial and professional service firms, e.g. accounting and auditing firms, which are able to offer BRI projects professional services such as financing and risk management, in order to effectively manage financial, legal, environmental and market risks. While taking advantage of international financial centres in areas along the BRI will propel the development of regional financial markets, the optimisation of the BRI investment and financing system will also be positively supported.

First of all, the building of offshore RMB markets by international financial centres must be augmented. With the advantage of regional agglomeration and international financial centre's professional agglomeration, we can further deepen the construction of offshore RMB market to support its functions of investment & financing including the RMB operations. This will help BRI projects in terms of fund raising, as well as to provide professional services such as project financing, accountancy, audit, risk management, etc. to these projects. Through offering investment and financing and financial hedging products that meet the need for BRI projects, this will help to drive more market resources towards investing in these financial products. The promotion of offshore bonds denominated in RMB must be stepped up with a key emphasis on countries along the BRI.

Secondly, the development of an offshore non-deliverable forward (NDF) market and its related foreign-exchange derivatives in international financial centres will facilitate foreign institutional investors to manage currency risk. The BRI involves over five-dozen countries some of which will become key economic and trade partners for China. However, challenges such as tight foreign-exchange control and a lack of market depth may arise. Consequently, the offshore development of foreign-exchange derivatives, such as NDF products with RMB and local currencies as the reference currencies, in international financial centres may help investors from countries along the BRI manage currency risk.

Thirdly, actively research and explore financial collaboration and communication between onshore and offshore RMB markets, whereby the interconnectivity with onshore Chinese market is actively sought and the interactivity between onshore and offshore RMB markets perfected. The starting points are as following: inflow/outflow channels for onshore and offshore, taxation in onshore and offshore markets and accounting rules.

As the world's leading financial centre, London plays an important role in supporting the BRI project financing. Green Investment Group, a specialist in green infrastructure principal investment, project delivery and the management of portfolio assets, and related services, has been actively engaging with Chinese stakeholders in order to explore how the Group can best support green infrastructure development along the Belt and Road. Utilising London as a global financial hub the Group has already invested in

Belt and Road countries in Africa and is now expanding its activities in Eastern Europe and South East Asia to supporting the growth of the global green economy.

London provides an ideal hub for global cooperation in all of the six key areas of opportunities for BRI implementation identified by PwC: as investors, as suppliers, as partners in EPC, as experts in international project management, as operators of new facilities and managers of the newly constructed infrastructure and as sellers of assets. With its diversified and forward-looking investor base, one of the most internationalised capital markets, and new innovative financing models, London has much to offer to China in finding appropriate ways to build sustainable finance for Belt and Road projects in the years to come. London also offers rich and unparalleled expertise in insurance, legal, regulatory support, project assurance, project management, post project integration, and many more other specialist areas. It would provide a natural home to set up global hubs to cover various aspects of the support and services required by Belt and Road projects.

IV. Perfect multinational financial collaboration to reinforce the political framework of the BRI Investment and Financing System

The overall concept of the building of the BRI investment and financing system is to plan and integrate financial resources, continuously innovate finance and facilitate the economic development of countries along the BRI and the real economies. To consistently implement the overall strategic deployment of the system, it is necessary that policy support from countries along the BRI come into full play, while policy communication and planning coordination must be enhanced. Additionally, cross-border financial collaboration and joint financial regulation must be augmented to form a joint force of development.

Firstly, intensify planning and top-down system design. Government departments must strengthen window guidance to ensure financial institutions properly arrange investment and financing scales and structures. Meanwhile, large foreign investment of businesses in infrastructure must be coordinated to avoid destructive competition and enhance overall compatibility and efficiency in the investment. Furthermore, top-down design for the long-term planning of regional collaboration among countries along the BRI must be coordinated, while complementary regulations and measures must be introduced and detailed rules and regulations for execution formulated to ensure sustainable development.

Secondly, develop multilateral financial institutions and intensify cross-border financial collaboration. It is essential that central banks and financial regulatory departments of countries along the BRI build mechanisms of financial coordination and collaboration, so that multilateral events may be regularly held to discuss financial issues arising from the building of the BRI investment and financing system, including interest adjustment, conflict resolution and the provision of financial support. The key mechanisms primarily include a coordination-and-collaboration mechanism for finance and law, a financial information sharing mechanism and a coordination-and-collaboration mechanism for financial risk management, which will see resources more extensively allocated, thus satisfying the development demands of regional economies. Furthermore, multilateral financial institutions must be actively developed

to strengthen trust and ties in the financial field among countries along the BRI.

Thirdly, intensify collaboration in financial regulation and build pre-warning systems for regional financial risk. Financial regulators should step up communication of information to effectively aid mutual understanding and trust, including local macroeconomic and financial-market development, financial regulatory principles and regulations, investment opportunities and risk, local operations of major banks and risks. They also need to communicate precisely and thoroughly on local market access while understanding and handling their relationships, so as to remove any unreasonable obstacles and limitations to access and offer regulated environments that are open, fair and orderly. Additionally, to fend off risks and better maintain confidence and stability of regional financial markets and systems, the regulatory authorities must augment collaboration in areas such as the handling and crisis management of cross-border institutions, anti-money laundering and macro prudential regulation. The signing of memoranda of understanding on bilateral regulation collaboration should be promoted, so as to gradually build a highly efficient regulatory and coordination mechanism in regions.

Fourth, strengthen policy communication and coordination to increase global collaboration. In the face of unbalanced socioeconomic development in countries along the BRI, China should strengthen policy communication and coordination with other countries to eliminate concerns and resolve disputes, particularly in political instability, religious conflicts, economic inequality, underdeveloped law systems, unequal collaboration standards, pre-existing misunderstandings and conflicts of interest.

Conclusion

This report concludes that multinational financial collaboration from both governments and commercial players is important to form a successful BRI investment and financing system. It reiterates the importance of utilising international and regional financial centres to establish a regional framework in the BRI investment and financing system. This report suggests that the ideal BRI investment and financial system should have long financing period, reasonable cost of funds, the use of development financing as a driver to attract commercial financing over time, the use of local currencies and, the stimulation of international collaboration.

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Attachment 1

Overview of bilateral currency swap between People's Bank of China and central banks or monetary authorities in BRI countries

(Up to end of July 2017)

No.	Country	Date of agreement signed	Quota of Swap	Period
1	Malaysia	8 February 2009 8 February 2012 (renewed) 17 April 2015 (renewed)	RMB80 billion/MYR40 billion RMB180 billion/MYR90 billion (renewed) RMB180 billion/MYR90 billion (renewed)	3 years
2	Belarus	11 March 2009 10 May 2015 (renewed)	RMB20 billion/BYR8 trillion RMB7 billion/BYR16 trillion (renewed)	3 years
3	Indonesia	23 March 2009 1 October 2013 (renewed) (void)	RMB100 billion/IDR175 trillion RMB100 billion/IDR175 trillion (renewed)	3 years
4	Singapore	23 July 2010 7 March 2013 (renewed) 7 March 2016 (renewed)	RMB150 billion/SGD30 billion RMB300 billion/SGD60 billion (renewed) RMB300 billion/SGD60 billion (renewed)	3 years
5	Uzbekistan	19 April 2011 (void)	RMB700 million/UZS167 billion	3 years
6	Mongolia	6 May 2011 20 March 2012 (expanded) 21 August 2014 (renewed) 6 July 2017 (renewed)	RMB5 billion/MNT1 trillion RMB10 billion/MNT2 trillion (expanded) RMB15 billion/ MNT4.5 trillion (renewed) RMB15 billion/ MNT5.4 trillion (renewed)	3 years
7	Kazakhstan	13 June 2011 14 December 2014 (renewed)	RMB7 billion/KZT150 billion RMB7 billion/KZT200 billion (renewed)	3 years
8	Thailand	22 December 2011 22 December 2014 (renewed)	RMB70 billion/THB320 billion RMB70 billion/THB370 billion (renewed)	3 years
9	Pakistan	23 December 2011 23 December 2014 (renewed)	RMB10 billion/PKR140 billion RMB10 billion/PKR165 billion (renewed)	3 years
10	The U.A.E	17 January 2012 14 December 2015 (renewed)	RMB35 billion/AED20 billion RMB35 billion/AED20 billion (renewed)	3 years

No.	Country	Date of agreement signed	Quota of Swap	Period
11	Turkey	21 February 2012 26 September 2015 (renewed)	RMB10 billion/TRY3 billion RMB12 billion/TRY5 billion (renewed)	3 years
12	Ukraine	26 June 2012 15 May 2015 (renewed)	RMB15 billion/UAH19 billion RMB15 billion/UAH54 billion (renewed)	3 years
13	Hungary	9 September 2013 12 September 2016 (renewed)	RMB10 billion/HUF375 billion RMB10 billion/ HUF416 billion (renewed)	3 years
14	Albania	12 September 2013 (void)	RMB2 billion/ALL35.8 billion	3 years
15	Sri Lanka	16 September 2014	RMB10 billion/LKR225 billion	3 years
16	Russia	13 October 2014	RMB150 billion/RUB815 billion	3 years
17	Qatar	3 November 2014	RMB35 billion/QAR20.8 billion	3 years
18	Armenia	25 March 2015	RMB1 billion/AMD77 billion	3 years
19	Tajikistan	3 September 2015	RMB3 billion/TJS3 billion	3 years
20	Serbia	17 June 2016	RMB1.5 billion/RSD27 billion	3 years
21	Egypt	6 December 2016	RMB18/EGP47 billion	3 years
Sum			RMB982.2 billion (invalid: RMB102.7 billion)	

Overview of RMB clearing banks in BRI countries

(Up to June 2017)

No.	Country & region	Date	Clearing Bank
1	Singapore	February 2013	Industrial and Commercial Bank of China Limited, Singapore Branch
2	Qatar	November 2014	Industrial and Commercial Bank of China Limited, Doha Branch
3	Malaysia	January 2015	Bank of China (Malaysia) Berhad
4	Thailand	January 2015	Industrial and Commercial Bank of China (Thai) Public Company Limited.
5	Hungary	June 2015	Bank of China Limited Hungarian Branch
6	Russia	September 2016	Industrial and Commercial Bank of China (Moscow)
7	The U.A.E	December 2016	Agricultural Bank of China (ABC) Dubai Branch

Appendix 1

Guiding Principles for Financing the Development of BRI

The BRI aims to promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people exchange among the countries along the Belt and Road (hereinafter referred to as "countries involved"), promote orderly and free flows of economic factors, efficient allocation of resources and deep integration of markets, and jointly create an open, inclusive, and balanced regional economic cooperation framework that benefits all. Financial integration is an important underpinning for implementing the BRI. Therefore, we, Finance Ministers of Argentina, Belarus, Cambodia, Chile, China, Czech, Ethiopia, Fiji, Georgia, Greece, Hungary, Indonesia, Iran, Kenya, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Qatar, Russia, Serbia, Sudan, Switzerland, Thailand, Turkey, United Kingdom, call upon the governments, financial institutions and companies from countries involved to follow the principles of equal-footed participation, mutual benefits and risk sharing as they work together to build a long-term, stable, sustainable financing system that is well-placed to manage risks.

1. We recognize that strong support from governments is essential for building an enabling financing system and environment. As such, governments of countries involved should strengthen policy communication, consolidate cooperation intention, and jointly send a positive signal of supporting and financing the development of the Belt and Road.

2. We encourage countries along the routes to establish common platform(s) whereby countries in the region, while forging synergies of their development strategies and investment plans, map out strategies or plans for regional infrastructure development, formulate principles for identifying and prioritizing major projects, coordinate their supporting policies and financing arrangements, and share experiences on implementation.

3. We support channelling of financial resources to serve the real economy of countries and regions involved, with priority given to such areas as infrastructure connectivity, trade and investment, industrial capacity cooperation, energy and energy efficiency, natural resources and SMEs.

4. We reaffirm the important role of infrastructure in sustainable economic and social development. We encourage countries involved to open public service markets as appropriate, while maintaining a sound and stable legal, policy and regulatory framework and develop public-private partnerships to channel funds and improve the efficiency and quality of infrastructure supply. We encourage the interested parties to establish effective information flow between private sector and financial institutions which support sustainable development through financing infrastructure investments.

5. We value the guiding role of public funds in planning and building major projects. We will continue to utilize existing public funding channels such as inter-governmental cooperation funds and foreign assistance funds, and coordinate with other funding channels to support

the development of the Belt and Road, including strengthening cooperation in people's welfare, people-to-people exchange among relevant countries and regions.

6. We encourage policy financial institutions and export credit agencies of countries involved to continue offering policy financial support for the development of the Belt and Road. We also encourage these institutions to strengthen coordination and cooperation, and play their role in financing promotion and risk-sharing through various means such as loan, guaranty, equity investment, co-financing, etc.

7. We call upon development financial institutions to consider providing more financial support and technical assistance for countries involved. We encourage multilateral development banks and national development financial institutions to actively participate in the development of the Belt and Road within their mandates, particularly cross-border infrastructure construction through loan, equity investment, guaranty, co-financing, and other relevant financing channels. We support these institutions in strengthening of coordination and collaboration to provide sustainable financing, institutional know-how and consulting services to countries involved.

8. We recognize the decisive role of the market in financial resources allocation. We envisage all types of commercial financial institutions such as commercial banks, equity funds as well as insurance, leasing, guarantee companies to provide funds and other financial services for the development of the Belt and Road. We welcome proactive participation of long-term institutional investors such as pension funds and sovereign wealth funds, in particular in the area of infrastructure development, as appropriate and subject to their institutional arrangements.

9. We support further development of local and regional financial markets. We welcome the development of local currency bond markets and equity markets in countries involved to diversify long-term financing sources and reduce currency mismatch risks.

10. We support orderly opening-up of local and regional financial markets, while respecting the international obligations of the countries involved, if any. We encourage steady expansion of market access of banking, insurance and securities sectors as appropriate to national circumstances, support financial institutions to set up subsidiaries and/or branches in each other's countries, and further facilitate the application and approval for the establishment of financial institutions, in accordance with domestic law and regulations of host countries.

11. We encourage financial innovation that responds to the needs of funding the development of the Belt and Road and to the needs of countries involved. We support the innovation by financial institutions in terms of financing models, channels, tools and service sunder the precondition that risks are well managed.

12. We call upon the countries involved to deepen cooperation in financial regulation and strengthen coordination on cross-border supervision, in order to create a fair, efficient and stable regulatory environment for financial institutions, while respecting the international obligations of the countries involved, if any.

13. We advocate for a transparent, friendly, non-discriminatory and predictable financing environment. We support greater openness to FDI as appropriate, speeding up trade and investment facilitation where needed, and opposing trade and investment protectionism of all forms. We advocate for fair, equitable, open and efficient legal systems, as well as mutual-beneficial and investor-friendly taxation regimes. We support the settlement of debt and investment disputes in a fair, lawful and reasonable way to effectively protect the legitimate rights and interests of creditors and investors.

14. We underscore the need to strengthen social and environmental impact assessment and risk management of projects, improve cooperation on energy conservation and environmental protection, fulfil social responsibilities, promote local employment and ensure sustainable economic and social development. We also need to take into account debt sustainability in mobilizing finance.

15. We recognize that financing arrangements for the development of the Belt and Road should benefit all businesses and populations in a way that supports sustainable and inclusive development. Financing should also be provided for enhancing technological capabilities, skills development, job creation particularly for the youth and women. We vigorously support efforts to promote inclusive finance, encourage governments, policy financial institutions, development finance institutions and commercial financial institutions to strengthen cooperation to ensure access to financial information and services for all, and provide proper, stable and affordable financial services for SMEs.

Source: Ministry of Finance

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