

BELT AND ROAD: FEASIBILITY CONSIDERATIONS FROM A PRACTITIONER

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ABSTRACT

On its fifth birthday last year, China's ambitious Belt and Road Initiative 一带一路倡议 took a pause.

Unprecedented sums had been committed by China Development Bank, China EXIM, the World's four largest commercial banks (all of which are Chinese), Sinosure (which reinsures political risk), various regionally-focused funds and more. Countries as far afield as Chile and New Zealand were paying attention. But the West generally resisted, concerned at the lack of competitive bidding, untransparent terms, disregard for Environmental, Social and corporate Governance (ESG) standards and more. These concerns appeared vindicated as a slew of projects proposed in countries such as Malaysia, Myanmar and Nepal were reopened by host governments; and projects which had already been completed in countries such as Ethiopia, Kenya and Sri Lanka turned out to be hugely unaffordable.

Like every Export Credit Agency or bilateral development bank – albeit with a couple of extra zeros on the amounts involved – the objectives of BRI are to extend geopolitical influence and win business for its compatriots. However, even China has a limit to how much money it throws away on reckless projects or how many white elephants it is associated with and it is sensitive to accusations of “debt trap diplomacy”. Thus, behind the scenes, many of these projects are now being renegotiated or even dropped.

This reevaluation process is welcome but the success or otherwise of BRI also lies in the hands of other parties.

First, it is host governments which need to design, locate and scope the projects that BRI is to finance; then assure themselves as to the reasonableness of the cost and,

crucially, the ability of the benefits thus created (some of which will, in fact, be external to the project) to service the corresponding debt. Given that host government employees are often the least experienced and worst paid players in the picture, this is best done by taking and paying for advice then by inviting competition between private sector proponents and their financiers.

Second, other countries are responding to BRI with their own bilateral initiatives. The US has few competitive compatriots to support and negligible funding on offer; but Japan, long the deepest pocketed and most experienced investor in Asia, has ramped up its Partnership for Quality Infrastructure. Countries such as Russia, Iran and Turkey are better able to defend their interests than smaller and poorer ones can.

The full array of professional services in Hong Kong stands ready to help design the projects, negotiate terms and ensure fair resolution of the inevitable disputes.

China's outreach is a long tail story. Before Xi Jinping, Jiang Zemin had Great Western Development and Hu Jintao had March West but President Xi has injected the steroids. If even a fraction of what is envisaged for BRI actually comes to fruition, the world will be a better place. So, watch this space for the next twenty years.

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Andrew has been Lead Arranging and advising on infrastructure finance for 20+ years.

In 2003, he set up in business as Logie Group to advise across the whole investment cycle namely:



- governments and public sector on policy e.g. the MOF in Indonesia on some \$15 billion of support for PLN plus specific projects in water and transport; and with a leading management consultancy on financing a new state capital city in India;
- investors on strategy e.g. the largest Australian superannuation fund on how to expand into Asian infrastructure;
- transaction advisory such as early stage fund raising for projects e.g. the sale of a \$30 million portfolio of run – of – river hydro schemes in Sri Lanka; and
- acting as an expert witness in arbitrations such as the \$600 million Manila airport terminal 3; a \$125 million power plant in Cambodia; and a gold mine in one of the 'Stans.

Andrew worked originally as a Chartered Accountant with KPMG then PWC in London, Hong Kong and Sydney and is a Fellow of the ICAEW and HKICPA.

He then switched to investment banking, initially in the developed markets of Australia (Westpac) then the UK (Mizuho and UBS). Back in Asia since 1998, he was Head of Global Structured Finance, Asia Pacific for WestLB when it was a top five Lead Arranger of project finance globally.

He is published in the general and specialist press and is a speaker on a regular basis. He first came to Hong Kong in 1982 and returned in 1998.

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