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Belt and Road Presents a Rich Array of Opportunities

Savvy investors can potentially extract attractive long-term returns from China's infrastructure initiative — but in order to do so they must work with experienced partners and be alert to the risks.

China's Belt and Road initiative ("BRI"), President Xi Jinping's international infrastructure strategy, has attracted a lot of attention from investors since it was announced in 2013. That's no surprise, given its huge ambition and scale, spanning countries from Asia to Europe and parts of Africa. To support this initiative, Beijing has harnessed the funding power of its two major policy banks - China Development Bank ("CDB") and the Exim Bank of China, and launched new funding vehicles such as the US$40 billion Silk Road Fund.

While the BRI deliberately and tactfully lacks a precise definition or fixed list of member countries, a total of 68 countries have already formally agreed to participate. This list is growing as more countries embrace the BRI due to the potential for domestic economic gain, and likely longer-term trade and economic benefits.

The main rationale for the BRI is that new railways, roads, ports and pipelines will improve trade and connectivity between China, other parts of Asia, Europe and Africa. Asia alone requires US$26 trillion — or US$1.7 trillion a year — of investment in infrastructure by 2030, according to a report published last year by the Asian Development Bank. Ultimately, the initiative should open up trade routes and make economies more efficient and prosperous.

A Wide Variety of Opportunities

So far it has largely been Chinese institutions committing capital to BRI-related projects, but public and private entities from other countries are also increasingly eyeing the opportunities. Understandably, investors are asking how they can get in on the action. By 2030, it is expected that over half of BRI-related projects will be funded by private capital, multilateral banks and foreign governments.

Understandably, investors are asking how they can get in on the action. Infrastructure projects in the energy, utilities and transport sectors are the most obvious BRI assets for institutional investors to pursue. UBS estimates that BRI-related infrastructure investments will range between US$312 billion to US$581 billion over the next five years. A large portion of these investments will be in high-growth Asian countries with large infrastructure deficits and also parts of Central and Eastern Europe. However, infrastructure investments in these regions are relatively complex and require specialist expertise to originate, structure and mitigate risks.

There are also secondary opportunities stemming from the impact the construction projects will have on other industries, such as real estate, technology and telecommunications. For instance, a new railway can increase the value of property along its route.

To facilitate the BRI and promote further economic liberalization, there is a move towards more free-trade zones and free-trade ports along the route. The emphasis is as much on the inflow of foreign capital and services as the outward investment of domestic players. China has indicated it will further liberalise its own investment rules to attract more international participation, especially in the services sector. All of this will create new trading opportunities.

It is hoped that better market access, further opening-up of the services sector and improved intellectual property rights will encourage multinational corporations to set up or expand existing operations in China. This trend, along with the steady relocation of manufacturing sectors from coastal cities to inland regions, is likely to drive demand for office, industrial and logistical spaces in major Chinese gateway cities. There are also clear investment opportunities in the regeneration of the real estate stock in these cities.

Joining the Big Players

One way to hitch a ride on the BRI is to invest in the publicly accessible lenders, insurers, property trusts and reputable infrastructure funds that are targeting investments into BRI-related countries.

Capital has already been committed by Chinese institutions such as CDB, China Investment Corporation and Silk Road Fund, as well as large domestic insurance firms such as China Life and CPIC Life. China Life, the country's biggest insurance firm, is looking at foreign BRI-related investments, while CPIC is taking a more indirect, domestic approach. And the main state pension fund, the National Council for Social Security Fund, and other big state banks are all understood to be lining up investments under the initiative.

Overseas players have been slower to participate due to the nebulous nature of the initiative, but they are starting to make moves. Standard Chartered signed a deal in February whereby the state-backed CDB will make available up to 10 billion yuan (US$1.6 billion) to the UK firm to fund projects along the BRI route.

Meanwhile, David Cameron, former British Prime Minister, is seeking to raise capital for his US$1 billion UK-China infrastructure fund, which will support the BRI. In December it emerged that Japan plans to financially support private-sector partnerships related to the BRI.

Navigating the Risks

While BRI presents numerous opportunities, there are also some risks and concerns. A number of BRI projects are located in countries that are seen as less stable from a political and regulatory perspective or involve taking significant development risks. Furthermore, there are increasing political roadblocks ahead for Chinese buyers of overseas infrastructure assets, the majority of which are SOEs. Identifying and executing economically viable infrastructure projects and then managing local regulatory and political stakeholders to deliver attractive returns requires deep infrastructure sector expertise from professional infrastructure fund managers, international lenders and advisers.

Investors are showing greater interest in partnering with infrastructure specialists and multilaterals, such as the Asian Infrastructure Investment Bank ("AIIB") or World Bank, to mitigate risks while still capturing the potential for premium returns in BRI countries.

Singapore Stands to Benefit

Singapore stands to reap greater benefits from the BRI than many other jurisdictions. The country's good governance, rule of law, educated workforce and respected position as a global financial centre put it in a prime position to play a key role in facilitating the initiative. Singapore has also been an active proponent of China's growth in recent decades and was an early supporter of the China-led AIIB.

Singapore's business services such as financing and legal practices may benefit in the early stage of this project, followed by companies involved in construction and the trading of raw materials, and eventually the benefits will trickle down to Singapore's real estate development, logistics and e-commerce sectors.

Moreover, Asian infrastructure and real estate fund managers are well placed to advise and provide investors with exposure to BRI projects or associated assets. Firms such as Singapore's ARA Asset Management already have expertise, network and investments in the relevant sectors and countries and strong awareness of the potential pitfalls. And there is a fast-growing array of ways for institutions and even private individuals to access BRI-related assets via fund-based, co- or direct investments. With all this in mind, and in light of the rising global interest in such private market strategies, it may make sense to get on board the BRI train before it gets too crowded.

KEY FACTS ABOUT

BELT AND ROAD INITIATIVE

1

In 2013, **President Xi Jinping** announced China's Belt and Road Initiative (initially known as 'One Belt, One Road').

2

Designed to boost intra-regional integration and trade between China and countries across Asia, Europe and Africa through **US$5 trillion** in infrastructure investment along the historic 'silk road' routes on both land and sea.

3

According to BMI Research, countries that have received **BRI-related investment** include **Bangladesh**, **Indonesia**, **Kazakhstan**, **Kenya**, **Laos**, **Pakistan**, **Sri Lanka** and **Vietnam**.

4

BRI comprises six trade corridors and covers about **69%** of the world's population and **51%** of world GDP. It currently encompasses **68 countries** across Asia, including the Middle East, Europe and Africa.

About ARA Asset Management Limited

Established in 2002, ARA Asset Management Limited ("ARA" or the "Group") is a premier integrated real estate fund manager driven by a vision to be the best-in-class real estate fund management company focused on the management of real estate investment trusts ("REITs") and private real estate funds.

ARA's business is focused on the following segments:

(a) REITs – ARA is one of the largest REIT managers in Asia ex-Japan and currently manages five listed REITs, namely Fortune REIT dual-listed in Singapore and Hong Kong, Suntec REIT and Cache Logistics Trust listed in Singapore and Hui Xian REIT and Prosperity REIT listed in Hong Kong. The Group also manages six privately-held REITs in South Korea;

(b) Private real estate funds – The Group manages nine private funds investing in real estate in Asia; and

(c) Real estate management services – The Group provides property management services and convention & exhibition services, including managing the award-winning Suntec Singapore Convention & Exhibition Centre

ARA's diverse suite of REITs and private real estate funds are invested in the office, retail, logistics/industrial, hospitality and residential sectors. ARA has distinguished itself over the years with its unique investor-operator philosophy, which nurtures each asset from acquisition to divestment to add value to every stage of the asset life cycle. Built on a foundation of strong corporate governance and business integrity, it counts some of the world's largest pension funds, financial institutions, endowments and family offices as its investors.

ARA has approximately 1,300 staff in 21 cities in eight countries. It manages over 90 properties measuring 57 million square feet in Asia Pacific, with approximately S$40 billion in assets under management.

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