

**Backgrounds and progress on the “Belt and Road”  
and the recommendation to use the PPP model in the “Belt and Road”**

by Mr. Zhifeng HAN

Deputy Director-General, Investment Department

National Development and Reform Commission of the People's Republic of China

Setting up a special session in the 4<sup>th</sup> UNECE International PPP Forum to discuss PPP cooperation in BRI, is a substantial progress in implementing memorandum of understanding (related to the “One Belt, One Road” PPP cooperation) signed by the China National Development and Reform Commission and the UNECE in 2017. It is a substantial measure to promote the practical cooperation of the “Belt and Road”. We appreciate that.

In recent times, the China National Development and Reform Commission and the UNECE have carried out a number of cooperation. Ms. Olga, executive secretary of UNECE, participated in the Second Belt and Road Forum for International Cooperation, which held in Beijing from April 25<sup>th</sup> to 27<sup>th</sup>. During the meeting, Ms. Olga and Mr. Geoffrey communicated with us. In November last year, in order to conduct the international policy dialogue related to B&R and PPP, we participated in Second session of the Working Party on Public-Private Partnerships. After the meeting, with the support from UNECE, we conducted field study in Poland and the Czech Republic to get knowledge of the promotion of the PPP model. In December last year, the first joint meeting of the ECE PPP Center and its eight sub-centers was

held in Beijing, and an in-depth discussion was held on promoting PPP development and cooperation during the meeting.

Below, I briefly introduce the background and progress of the B&R. Also, I would like to talk about how to apply the PPP model to the “Belt and Road”, considering the latest situation in China,

In 2013, President Xi Jinping of China proposed an ambitious initiative of B&R. The “Belt and Road Initiative” is an initiative of “co-business, co-construction and sharing”, an initiative for peaceful development, an initiative for economic cooperation, and an initiative to promote the building of a community of human destiny. The Second Belt and Road Forum for International Cooperation, which was held in Beijing at the end of last month, summarized the progress of the BRI. Over the past five years, the construction of the “Belt and Road” has achieved important progress and remarkable results, which are mainly related to “Five-Pronged Approach”.

The first is **Policy coordination**. Up to now, China has signed 176 cooperation documents with 126 countries and 29 international organizations, including developing countries, developed countries. Meanwhile, companies and financial institutions in some developed countries tried to cooperate with China to explore third-party markets. In the digital economy, agriculture, taxation, energy, intellectual property and other professional areas, we tried to coordinate policies with different countries.

The second is **Facilities connectivity**. To build “six corridors, six roads, multi-port” to cooperate with different countries, a number of landmark projects have been made. In terms of the onshore economic corridor, the China-Laos Railway, the Zhongtai Railway, the Yawan High-speed Railway, and the Hungarian Railway have made sustainable progress. In terms of overseas port cooperation, Gwadar Port, Port of Hambantota, Port of Piraeus and Port of Halifa are progressing smoothly. In terms of the Aerial Silk Road, we have expanded our air rights arrangements with many countries. In terms of energy interconnection, we have extensive cooperation with countries along the route in the fields of electricity, oil and gas, nuclear power, new energy, and coal. As for the CHINA RAILWAY Express to Europe, the number of trains was nearly 15,000 by the end of March 2019.

The third is **Unimpeded Trade**. In 2013-2018, the total trade volume of goods between China and the countries along the “Belt and Road” exceeded US\$6 trillion, and direct investment in the countries along the “Belt and Road” was about US\$90 billion. China-Belarus Industrial Park, China-Arab (United Arab Emirates) Capacity Cooperation Park, and China-Ethiopia Economic and Trade Cooperation Zone have steadily advanced.

The fourth is **Financial integration**. By the end of 2018, China Export& Credit Insurance Corporation had accumulated insurance more than 600 billion US dollars in the countries along the B&R route. A capacity-building center was established jointly with the International Monetary Fund.

The fifth is **People-to-people bond**. A series of achievements have been made in

scientific and technological communication, educational cooperation, cultural tourism, green development, and foreign aid.

Constructing the “Belt and Road” jointly will not only promote the economic development, increase employment, improve people's livelihood, and add high-quality assets to the countries along the route; but also will help to recover the economic situation in the relevant regions and the world.

From now on, the construction of the “Belt and Road” is shifting from the stage of drawing the whole picture to the stage of concentrating on details. China will adhere to the “Three Communists” (co-business, co-construction and sharing) and “Five-Pronged Approach” (Policy Coordination, Connectivity of Infrastructure, Unimpeded Trade, Financial Integration, and People-to-people bond), follow the market principles and international rules, and promote the high-quality development of the “Belt and Road”.

The “Belt and Road” construction requires long-term, stable, sustainable, and risk-controlled financial support, which is a huge investment opportunity. The PPP model adheres to the concept of equal negotiation, long-term cooperation, benefit sharing and risk sharing. And it is highly compatible with the spirit of Silk Road, which are peace cooperation, openness and tolerance, mutual learning, and win-win situation. President Xi Jinping pointed out at the opening ceremony of the First Belt and Road Forum for International Cooperation in 2017 that “we must establish a stable, sustainable, risk-controlled financial security system, innovate investment and financing models, and promote capital cooperation between government and private sectors”. The joint communique of the Second Belt and Road Forum for

International Cooperation stated that "We encourage third-party market cooperation, tripartite cooperation, capital cooperation among government and private sectors. We also welcome enterprises and international organizations to engage more, under the situation of complying with national laws and regulations." Infrastructure is the main application area of the PPP model, and the **Facilities connectivity** is the basis for cooperative development. The construction of "One Belt and One Road" provides a big room for the development of PPP model. It requires brainstorming, serious discussion, broadening horizons, enlightening ideas, to play the positive role of PPP model in the construction of "One Belt and One Road".

For the promotion of the "Belt and Road" PPP model, we have the following recommendations.

The first is to innovate the cooperative system and mechanism. Promoting the PPP model in the construction of the "Belt and Road" is a new topic. We should conduct the top-level design, clarify the implementation path and basic principles based on the previous experience in PPP field from other countries and the actual situation of the countries along the "Belt and Road". It is necessary to combine the national conditions of each country, start from a bilateral perspective to establish a multilateral-based cooperation and regulatory framework. Clarify the boundaries of responsibilities in government and companies, so that we can generate a good environment for development. Innovating financing tools of projects to make assets in PPP projects flow and attract more capital investment.

The second is to give the full role to the market. The PPP model requires a long-term, stable market environment. So, we should establish interaction and mutual

trust between the government and enterprises, as well as among enterprises themselves. It is necessary to guide enterprises to participate in the construction of the “Belt and Road” in an orderly manner, and regulate the external investment and business behavior of enterprises. Through a variety of incentive mechanisms, we must fully mobilize the enthusiasm of enterprises, form the overall synergy of enterprises, and create a good environment for the initial development of PPP.

The third is to play the role of the typical project. We should select qualified projects as typical cases, adopt strict standards for first trail, and explore the experience of PPP cooperation with different countries. Meanwhile, we should also consider the actual situation of each country. We can try to copy and promote typical project practices in countries and regions with similar conditions, in order to provide a good reference for the following projects.

The fourth is to speed up the establishment of service guarantee mechanism. The PPP model requires higher demands on participating governments and companies. It is necessary to carry out PPP professional training for government and officials of government along the route, organize meeting about international experience change, and deepen the understanding of PPP concepts in the countries along the route. We hope PPP expert, especially in the field of B&R can provide consultation and guidance on technical mechanism construction, project practice, management, legal, financial, taxation, and other financial aspects.

Ladies and gentlemen, the promotion of the “One Belt, One Road” PPP model is consistent with the UN Sustainable Development Goals requirements and the UN ECE people-first purpose. We believe that this forum will play an active role in

developing a healthy “One Belt, One Road” PPP model, and promote pragmatic cooperation to achieve more stable and greater results.

## **About encouraging investment from foreign companies and supporting Chinese enterprises to go to the world**

In accordance with the requirements of the meeting, I will briefly introduce the policies on encouraging foreign investment, supporting Chinese enterprises to go to the world and encouraging private companies to participate in PPP projects.

### **First, a brief introduction to China's foreign investment policy and results.**

In recent years, China has adhered to opening to the world, establish a series of policy measures to create a more open, fair and convenient investment environment. We then assured the main position of company investment and we also actively encouraged foreign investment. Right now, we got positive results.

The first is the introduction of the Foreign Investment Law, which will be implemented on January 1, 2020. The law set the keynote as the opening to the outside world, and also determined the basic system of foreign investment for the promotion, protection and management. The law also emphasizes the fair competition between domestic and foreign-funded enterprises, which will provide a more comprehensive and powerful rule of law guarantee for foreign investment parties.

The second is to fully optimize the foreign investment environment. Since 2017, three comprehensive foreign-funded policy documents have been issued continuously, and 65 measures including industry, technology, competition, taxation, investment promotion, and talents have been proposed.

The third is to substantially relax foreign investment access. In 2017, the “Guidance Catalogue for Foreign Investment Industries” was revised, and foreign investment

restrictions were reduced by nearly one-third. In 2018, a new version of the foreign investment access list was introduced, and foreign investment restrictions were reduced by about a quarter. A series of open measures were introduced in the fields of automobile, finance, transportation, infrastructure, and energy resources. At the same time, those measures were tried in the Pilot Free Trade Zone.

The fourth is to promote fair competition between domestic and foreign-funded enterprises. It is clearly required that all regions and departments should give equal treatment to domestic and foreign-funded enterprises in terms of industrial policies, science and technology policies, government procurement, standards development, and corporate financing.

The fifth is to implement a policy of encouraging foreign investment. Encourage foreign investment to comply with the direction of China's industrial structure adjustment and optimization and encourage foreign investment projects to support taxation and land. For foreign-invested enterprises, they are not subject to withholding tax on the reinvestment of profits.

The sixth is to reform the foreign investment management system. The implementation of foreign-invested “trial and reform preparation” has changed from comprehensive examination to approval filing. More than 97% of foreign-invested projects are currently doing the approval filing.

By continuously improving the level of openness and promoting investment facilitation, China has gradually become one of the major destinations for global cross-border investment. Since 1992, China has been ranking the first place among the developing countries to attract foreign investment during the last 27 years. Since 2008, it has remained in the top three in the world. Against the background of the slow recovery of global cross-border investment and the complex and ever-changing

international trade relations, China has realized steady growth in attracting foreign investment. In 2018, it attracted foreign investment of 138.3 billion US dollars, ranking second in the world, and its scale reached a record high.

**Secondly, briefly introduces the policies and results of supporting enterprises to “go global”.**

While encouraging foreign investment, in recent years, China has actively supported Chinese enterprises to go global, establish the main position of foreign investment, adhere to markets main role, market orientation, business principles, and international rules. China also promote mutual benefit and common development between enterprises and host countries. The “Measures for the Administration of Overseas Investment of Enterprises” was promulgated, and more than 98% of foreign investment projects were filed online and closed for a limited time to facilitate enterprises to carry out foreign investment cooperation. Formulate relevant behavioral norms for overseas investment and management of enterprises, require enterprises to abide by the laws and regulations of host countries, actively fulfill their social responsibilities, and promote mutual benefit and common development between enterprises and host countries.

In 2018, China's foreign investment was US\$129.83 billion, a year-on-year increase of 4.2%. It continued to maintain a stable, orderly and healthy development, and made positive contributions to the economic and social development of the host country and the improvement of people's livelihood.

Ladies and gentlemen, China will continue to promote the “One Belt and One Road”, adhere to the joint construction and sharing, and work with relevant countries to

promote the construction of major projects. On the one hand, streamlining foreign trade access to negative lists, reducing investment restrictions and increasing the level of investment liberalization. On the one hand, encourage more Chinese enterprises with strength and good reputation to carry out investment cooperation with countries along the route, deepen exchanges and cooperation in various fields such as ecology and people's livelihood, and provide an international platform for development cooperation.

Thank you all.

## **About the promotion of PPP mode and experience in the field of transportation**

In accordance with the requirements of the meeting, I will take the transportation sector as an example to briefly introduce the application and experience of promoting the PPP model.

The transportation field is an important area for China to apply the PPP model to promote infrastructure construction. In 2010 and 2014, the State Council of China successively issued “Several Opinions on Encouraging and Guiding the Healthy Development of Private Investment” and “Guiding Opinions on Encouraging Social Investment in Investment and Financing Mechanisms in Key Areas of Innovation” to further relax restrictions and encourage social capital to participate in transportation.

Among them, roads are the first industry to apply PPP mode in the transportation field. In recent years, the road infrastructure has been actively promoted to adopt the PPP model. In 2016, the “Notice on the Approval of the Newly Established Government and Social Capital Cooperation Projects of the National Expressway Network” and the “Notice on Further Improving the Preliminary Work of the Government and Social Capital Cooperation Projects of Toll Highways” were issued, which clarified the PPP model on national high-speed construction. The road network new project approval method will make targeted adjustments to the advancement of the toll road PPP project. The above policies have played a good guiding role in the application of PPP mode in the highway field, and also provided a useful reference for the Chinese enterprises to “go out” to carry out the construction of highway PPP projects.

Previously, in practice, the road sector mainly applied the BOT (Build-Operate-Transfer) model, which is also a mature model widely adopted internationally. For example, in 2007, Guizhou Province of China adopted the “BOT (Build-Operate-Transfer)+EPC (Design-Purchasing-Construction)” model to build the Guiyang-Duyun Expressway. Since then, this model has been widely used. This model not only makes good use of the construction funds, promotes the rational use of resources; but also facilitates project capital control and project schedule coordination relying on the EPC model. Currently, China Jiaotong Construction, China Railway Group, China Railway Construction, China Construction and other enterprises are widely using the same model in the construction of expressway projects. As of the end of March this year, China's Guizhou Province has attracted social capital investment to more than 50 expressway projects through the PPP model. The total investment is more than 500 billion RMB and a cumulative mileage is more than 4,000 kilometers.

Besides the road sector, in terms of railway sector, in 2015, the “Implementation Opinions on Further Encouraging and Enlarging Social Capital Investment in Railway Construction” and the “Notice on Doing a Good Job in Social Capital Investment Railway Projects” were issued. Those documents helped to achieve the last mile on Social Capital Investment in railway sector. Eight social capital investment demonstration projects were proposed. In 2017, as one of the eight social capital investment demonstration projects, Hangshaotai Railway became the first one to apply PPP model in the railway field. Subsequently, the Hangwen high-speed rail PPP project was launched. And the PPP model of Hangzhou-Ningbo Railway and other PPP projects were successively approved. The cooperation between the government and private sector had played a positive role in railway sector.

In recent years, during the process of the construction of overseas infrastructure, the PPP model has been actively explored. In the relevant overseas construction, China adopted various financing methods such as setting up a government equity investment fund, relying on the government to provide repayment guarantees, and encouraging overseas policy banks to provide preferential loans. Those methods not only increased the source of funds, but also reduced the financing costs and formed a replicable experience. To put in another word, those methods effectively supported the participation of Chinese companies in overseas infrastructure construction. For example, in the Jamaica North-South Expressway project, China Communications Construction Group (Limited) participated in the Jamaican government's investment promotion and got the chance to get involved in the project. The company adopted the BOT model into the project. The total length of the project is 66.13 kilometers. It adopts a two-way 4-lane expressway construction standard, with a design speed of 80km/h (60km/h in some mountain areas). The total investment is about 734 million US dollars. Under the PPP framework, the project obtained a 50-year franchise, and a preferential policy of exemption from corporate income tax for the first 20 years after completion.

Thank you all.