

China Market Strategy

Our expectation for the outcomes from the OBOR Forum

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- China will host [the Belt and Road Forum for International Cooperation](#) (the OBOR Forum) on 14-15 May, joined by 1,200 delegates including top leaders from 28 countries.
- The Foreign Ministry said the Forum will have four focal points: consensus, cooperation fields, key projects and supporting system.
- What we expect the Forum to deliver: (1) AIIB may announce the bond sales plan and invite other countries to finance OBOR projects together. (2) China and other countries may discuss feasible projects and build up project pipelines, to make the OBOR more actionable. (3) China's ministries may announce new measures or favourable policies to accelerate the progress.
- We use two charts to illustrate how we arrived at US\$313-502 bn Chinese investment in 62 OBOR countries over the next five years in our recent report because many clients asked. Our estimate is unique because it (1) focuses on not only Asia, but 62 OBOR countries; and (2) considers not only demand but supply factor.

Figure 1: Countries whose Presidents/PMs/State Counsellors confirmed attendance at the Forum (As of 18 April)

Region	Countries
Asia	Cambodia, Fiji, Indonesia, Kazakhstan, Laos., Malaysia, Mongolia, Myanmar, Pakistan, Philippines, Sri Lanka, Uzbekistan, Vietnam
Europe	Belarus, Czech, Greece, Hungary, Italy, Poland, Russia, Serbia, Spain, Swiss, Turkey
Africa	Kenya, Ethiopia
South America	Argentina, Chile

Source: Foreign Ministry of PRC

The Forum's focus

The Forum will be the highest-level conference held by China under the initiative. There will be a leaders' roundtable forum and a high-level conference. According to the Foreign Ministry, it will focus on four aspects. (1) Consensus: Documents to further identify goals, principles and docking strategies will be released. China is expected to negotiate and sign cooperation documents with ~20 countries and 20+ international organisations. (2) Cooperation fields for the next stage, cooperation plans for the next five years or longer and action plans. Chinese ministries are expected to work with their counterparts to formulate ~20 action plans. (3) Key projects: Project list will be laid down. (4) Supporting system: Policies and measures covering finance, science, tech and environment will be discussed and formulated.

Our expectations

Many clients also ask about our expectation for the potential outcomes from the Forum. First and foremost, despite increasing risk awareness, we believe China is still serious about the initiative and eager to have some big achievements. Below are our ideas:

(1) The Asian Infrastructure Investment Bank (AIIB) may announce its bond sale plan and invite other countries to jointly finance OBOR projects. It is AIIB's scheduled task in 2017 to expand beyond Asia, into non-sovereign guarantee projects, equity financing and more independent projects, and issue bonds. Hong Kong may strive to become a main market for AIIB's capital raising. The current equity base of the 70-member bank is ~US\$92 bn. [Japan just pledged to](#)

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[provide US\\$40 mn to ADB infrastructure fund on 6 May](#), signalling the heated rivalry between the two banks led by two rival countries.

(2) China may persuade other countries to make bigger commitments to the initiative and work out lists of actionable projects with them. As we understand, the progress in the past three years can hardly be called a good early harvest and Chinese leaders may not be very satisfied. The [Vision and actions on jointly building Belt and Road](#) released in March 2015 was too hollow to be actionable. This time, in addition to reiterating friendship and embracing globalisation, the countries may bring along their shopping lists and China may also take the opportunity to identify real feasible plans and build up project pipelines. We believe it is possible that some big deals will be struck and announced on the forum. However, agreement signing does not guarantee smooth progress, as indicated in the previous cases.

(3) On top of that, we also expect several Chinese ministries to announce new measures/favourable policies to accelerate OBOR progress.

Our method for US\$502 bn OBOR investment

Our recent report estimated China's overseas investment will reach US\$313-502 bn in 62 OBOR countries over the next five years. India, Indonesia, Iran, the Philippines and Pakistan may be the countries with the largest potential in Asia. Many clients asked us how we arrive at those numbers. We elaborated in page 6-13 in [Door Opens for China's Overseas Investment](#) and again illustrate in two charts below. ADB's February report estimated that Asia needs US\$1.7 tn infrastructure investment per annum from 2016 to 2030. Compared with ADB estimate, our estimate (1) focuses on not Asia but 62 OBOR countries; (2) considers not only demand but supply factor.

Figure 2: Scorecard to calculate decide final scores

Final score	Demand score (50%)	Infrastructure (50%)	WB LPI score < 3.0, 1 point	
		Investment (20%)	Investment ratio <30%, 1 point	
Final score	Willingness score (50%)	Cur A/C (20%)	Cur Account/GDP < 1%, 1 point	
		Per-capita GDP (10%)	Lower than China's, 1 point	
		Friendship (25%)	Friendship score >0.3, 1 point	All-weather friend, 1 point (25%)
				Neighbour, 1 point (25%)
				(Potential) military base provider, 1 point (25%)
				CN President & PM visits >2, 1 point (25%)
Resources (25%)	Rich in oil, gas, uranium or iron ore, 1 point			
FX debt (25%)	FX debt/GDP < 50%, 1 point			
FX reserves (25%)	FX reserves/FX debt > 30%, 1 point			

Source: Credit Suisse

Figure 3: Country groups and estimated investment

Final score	Class	# of countries	Est. investment
>0.6	A	32	4-6% of 2015 GDP, US\$291-437 bn
0.3-0.6	B	17	1-3% of GDP, US\$22-65 bn
<0.3	C	13	0

Source: World Bank, Credit Suisse estimates

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