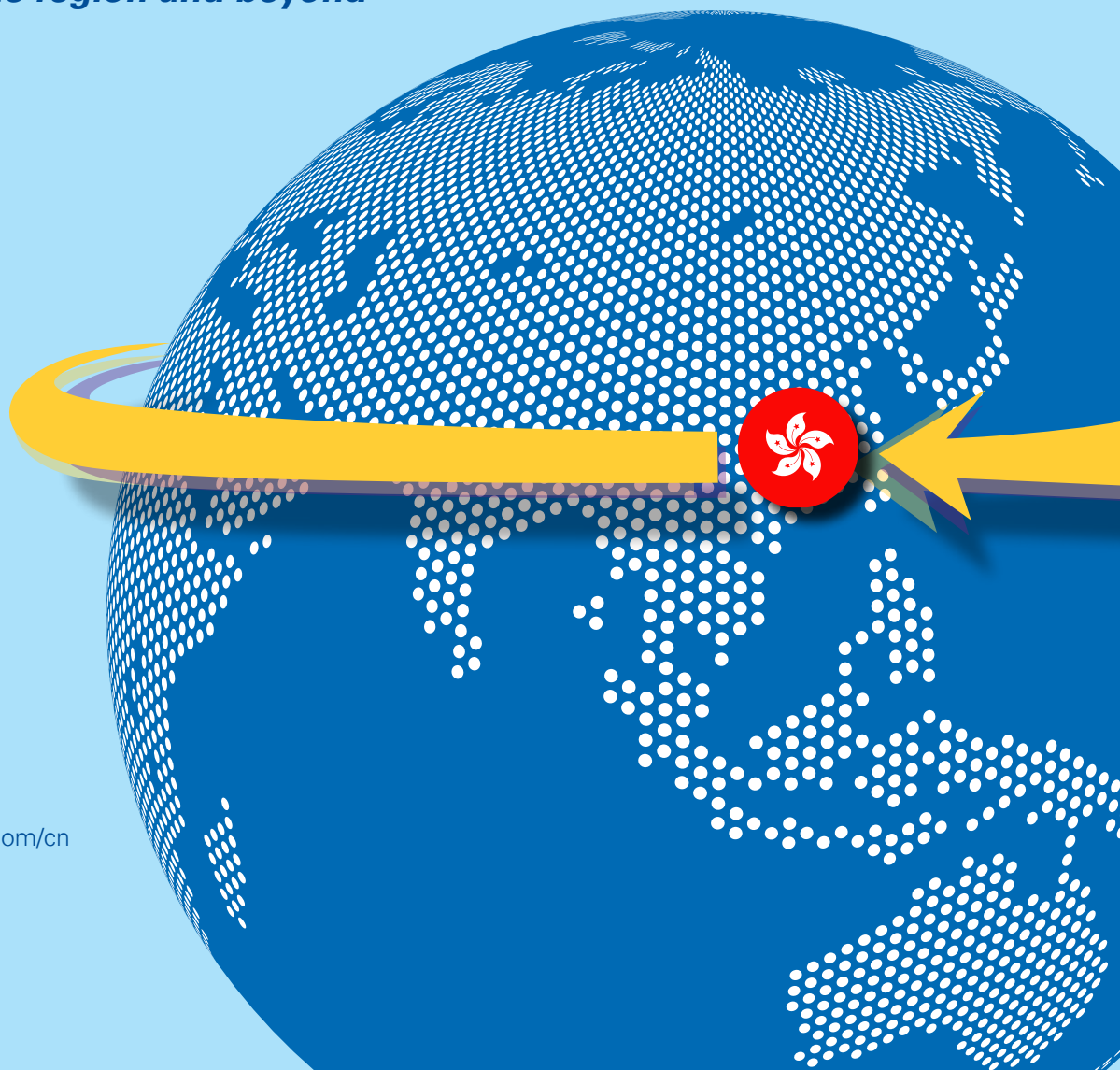




Collaborating along the Belt and Road

*Leveraging Hong Kong as a super-connector
to the region and beyond*



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Foreword

China's Belt and Road Initiative ("the Initiative" or "BRI") presents significant opportunities to promote economic cooperation and connectivity between countries, companies and people across the globe. In addition to infrastructure development, the Initiative is expected to lead to significant opportunities for a wide range of other business sectors such as real estate, consumer markets and financial services, to name a few.

As an international finance centre and global super-connector of trade and investment, Hong Kong is set to play a prominent role in supporting the delivery of the Initiative. China's 13th Five-Year Plan emphasises Hong Kong's role as a key contributor in helping the mainland open up to the world, as well as driving new BRI opportunities in international markets. In addition, at the 19th Congress of the Communist Party of China in October 2017, President Xi Jinping highlighted the Initiative as a priority, and expressed the importance of international cooperation to create new business opportunities along the Belt and Road for both Chinese and foreign companies.

Our view is that Hong Kong is positioned to be the BRI hub for capital markets activity, transport and logistics expertise and professional services talent. As a leading city within the Greater Bay Area ("GBA"), there are regional plans to position Hong Kong and the GBA as the future platform for BRI innovation and technology solutions.

KPMG in Hong Kong continues to play a significant role in facilitating the development of the BRI. Key activities include our sponsorship of the annual Belt and Road Summit – organised by the Hong Kong Government and the Hong Kong Trade Development Council – and participation in government and statutory body committees to strengthen the city's position as a hub for Belt and Road investment and business opportunities.

This publication provides an overview of the Initiative's opportunities and challenges, and serves as a guide as to how businesses can partner with KPMG in Hong Kong to capitalise on these opportunities and drive profitable growth along the Belt and Road.



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What is the Belt and Road Initiative?

The Belt and Road Initiative (“BRI” or “the Initiative”) represents a key policy initiative of the PRC. Originally proposed by President Xi Jinping in 2013, the Initiative spans more than 70 countries and represents a major driver of future investment in global infrastructure, trade and economic development. The BRI is comprised of two main routes – the 21st-Century Maritime Silk Road and the Silk Road Economic Belt – with these two routes further connected through six economic corridors.

There is also strong financial support for the BRI from Chinese policy banks and multilateral financial institutions. The Initiative will see significant investment from China in Belt and Road countries, with the private sector expected to be a key driver in developing projects and stimulating economic growth along the routes.

Five major goals of the Initiative

- 1. Policy co-ordination:** Multi-country collaboration to solve problems and develop policy solutions that will drive long-term social and economic development of BRI countries.
- 2. Facilities connectivity:** The prioritisation of construction needs to support the improved flow of people and goods. This involves removing barriers to transport connectivity through the development of new infrastructure and improvements to existing links.
- 3. Unimpeded trade:** Reduced trade barriers and tariffs, achieving lower trade and investment costs and improvements to industry supply chains across national borders.
- 4. Financial integration:** Greater monetary policy co-ordination of BRI countries, improved local currency settlement and exchange systems, and enhanced effectiveness of financial, regulatory and risk management frameworks.
- 5. People-to-people bonds:** Strengthening relations between the people of BRI countries and the promotion of increased awareness and cultural understanding.

Source: National Development and Reform Commission, People's Republic of China

How it started

2013

■ President Xi Jinping's announcement of the BRI during his visit to Kazakhstan

2015

■ Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road

2016

■ The National 13th Five-Year Plan

Mar 2017

■ Annual Government Work Report by Premier Li Keqiang

1 July 2017

■ Framework Agreement on Deepening Guangdong-HK-Macao Cooperation in the Development of the Bay Area

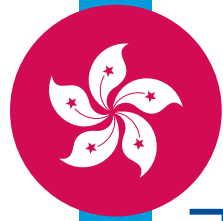
Oct 2017

■ 19th National Congress of the Communist Party of China

Dec 2017

■ HK-NDRC Arrangement¹

¹ http://gia.info.gov.hk/general/201712/14/P2017121400551_274123_1_1513241987560.pdf



The Hong Kong advantage



Hong Kong has a significant role to play in the development and success of the BRI. The city is regarded as one of the world's freest economies, with a vibrant capital market, an extensive network of financial institutions, a robust legal system and an experienced pool of human capital. As an international finance centre and shipping hub, Hong Kong is well-positioned as a super-connector to the fast-growing BRI economies, and is set to play a prominent role in facilitating trade and

investment, and encouraging cooperation in value-added sectors along the Belt and Road.

A policy agreement signed in December 2017 between Hong Kong and the National Development Reform Commission (NDRC) (referred to herein as the HK-NDRC Arrangement) is also set to expand Hong Kong's role in the BRI.

Six focus areas of the HK-NDRC Arrangement

1. Finance and investment:

- Ensuring Hong Kong is adopted as a BRI platform for financing solutions such as infrastructure finance, green bonds and RMB trade.
- Supporting financial services institutions to use Hong Kong as their regional hub, and encouraging the implementation of public-private partnership (PPP) projects.

2. Infrastructure and maritime services:

- Ensuring Hong Kong provides appropriate services to Chinese groups participating in BRI projects. These include professional services, insurance and risk management solutions, environmental and green technology expertise, and maritime, logistics and aviation sector knowledge.

3. Economic and trade facilitation:

- Encouraging mainland enterprises to establish their regional headquarters in Hong Kong to access BRI opportunities.
- Supporting Hong Kong to execute free trade and double taxation agreements with other jurisdictions.
- Stepping up efforts to further open up the mainland China market to Hong Kong.

4. People-to-people bonds:

- Facilitating knowledge sharing between Hong Kong and BRI higher education institutions, including exchange programmes and professional training.
- Generating BRI-related exhibitions in Hong Kong and mainland China, and supporting Hong Kong and BRI tourism.

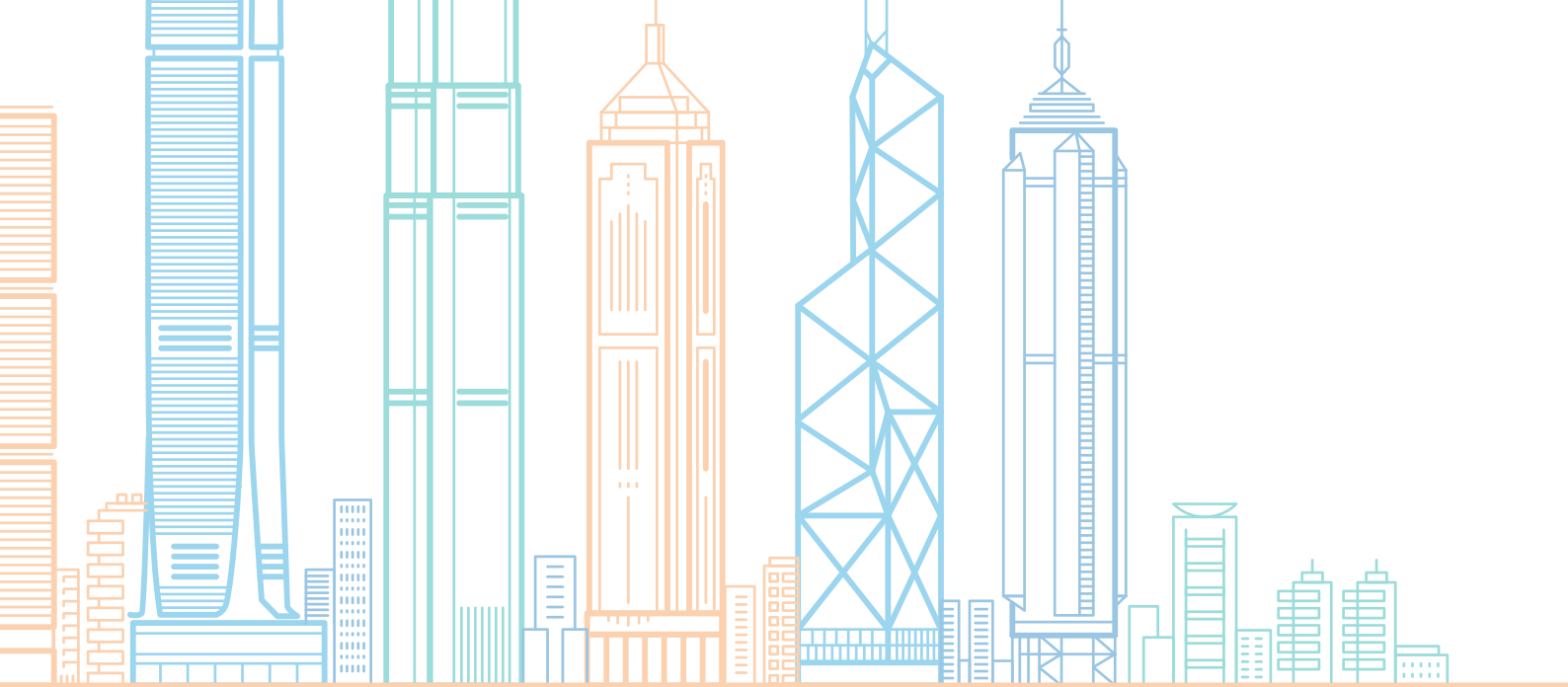
5. Taking forward the Guangdong-Hong Kong-Macau Bay Area development (Greater Bay Area):

- Establishing the Greater Bay Area as a technology and innovation hub to support knowledge and information sharing along the BRI, and positioning the Greater Bay Area as a key business and tech platform.

6. Enhancing collaboration in project interfacing and dispute resolution services:

- Encouraging communication and investment co-operation between Hong Kong and mainland China on BRI projects.
- Facilitating trade mission and promotional activities.
- Establishing Hong Kong as a centre for BRI legal and dispute resolution.

Source: HK-NDRC Arrangement, http://gia.info.gov.hk/general/201712/14/P2017121400551_274123_1_1513241987560.pdf



Hong Kong's key competitive advantages

1. Established international financial centre

The provision of financing and capital markets solutions represents a key driver of initial success for the BRI. At the outset, access to finance is a necessary element for the successful development of new infrastructure. If successful, this investment can stimulate further positive knock-on effects to sectors such as real estate, healthcare and industrial markets, leading to job creation, greater economic outcomes for BRI economies and a larger volume of global consumers.

One of the largest financial services centres worldwide, Hong Kong is well-placed to position itself as the long term partner of mainland Chinese and international groups seeking financial, banking, insurance and risk management solutions for BRI investment.

2. Connectivity with ASEAN

The ASEAN region comprises 10 Southeast Asian countries with a total population of more than 635 million,² all of which are Belt and Road economies. With a young workforce, a strong growth track record, and a middle class population that is projected to reach 400 million by 2020,³ ASEAN represents an attractive investment jurisdiction for groups seeking to invest and conduct business along the Belt and Road.

For Hong Kong, its geographic proximity and cultural connections with the ASEAN countries make it an attractive investment platform for entry into these markets. In addition, many Hong Kong companies possess a deep, lengthy and well-respected track record of investment and business operations in ASEAN.

² <https://data.aseanstats.org/>

³ <http://www.nielsen.com/content/dam/nielsen/global/apac/docs/reports/2014/Nielsen-ASEAN2015.pdf>

⁴ Hong Kong Census and Statistics Department

In November 2017, Hong Kong and ASEAN signed a Free Trade Agreement and a related Investment Agreement. The agreements will enhance legal certainty, investment protection and market access for the trade of goods and services, which will create new business opportunities and boost trade and investment between Hong Kong and ASEAN.

3. Integration with the Greater Bay Area

Hong Kong's positioning within the Greater Bay Area (GBA) strengthens its status as a platform for BRI investment. Key elements include:

- **SOE concentration:** Chinese state-owned enterprises (SOEs) are expected to play a highly active role in the BRI, with many using the GBA as their national and international headquarters.
- **Transport and logistics:** The GBA is home to a world-class transport and logistics network that is continually expanding and will provide significant support to BRI investors with their trade requirements.
- **Innovation and technology:** There are plans to expand the GBA's positioning as a regional technology hub. An example of this is the agreement between Hong Kong and Shenzhen to develop the Lok Ma Chau Loop into one of the world's largest innovation and technology parks on the border of the two cities. For countries and companies participating in the BRI, leveraging innovation and technology in the GBA will support the acceleration of their economic growth and development.

4. Professional services community

Hong Kong has more than 250,000 professionals working in the financial services sector. In addition, its professional services workforce numbers more than 217,000 in areas such as legal, accounting and auditing, architecture and engineering, information technology, advertising and specialised design.⁴

What is the Greater Bay Area?

The Greater Bay Area represents a collaborative initiative between Hong Kong, Macau and Guangdong, focusing on integrating certain cities into a unified economic and business zone. The cities within the Greater Bay Area include Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing.



Source: InvestHK

Hong Kong's professional services community has in-depth experience working with international investors, lenders and public sector entities on their inbound and outbound work, underscoring the city's leading role in facilitating trade and investment both locally and along the Belt and Road.

5. Cultural diversity and human capital

The Hong Kong workforce represents a deep and diverse talent pool of resources with skills, multilingual capabilities and international experience suitable for companies seeking to be active in the BRI.

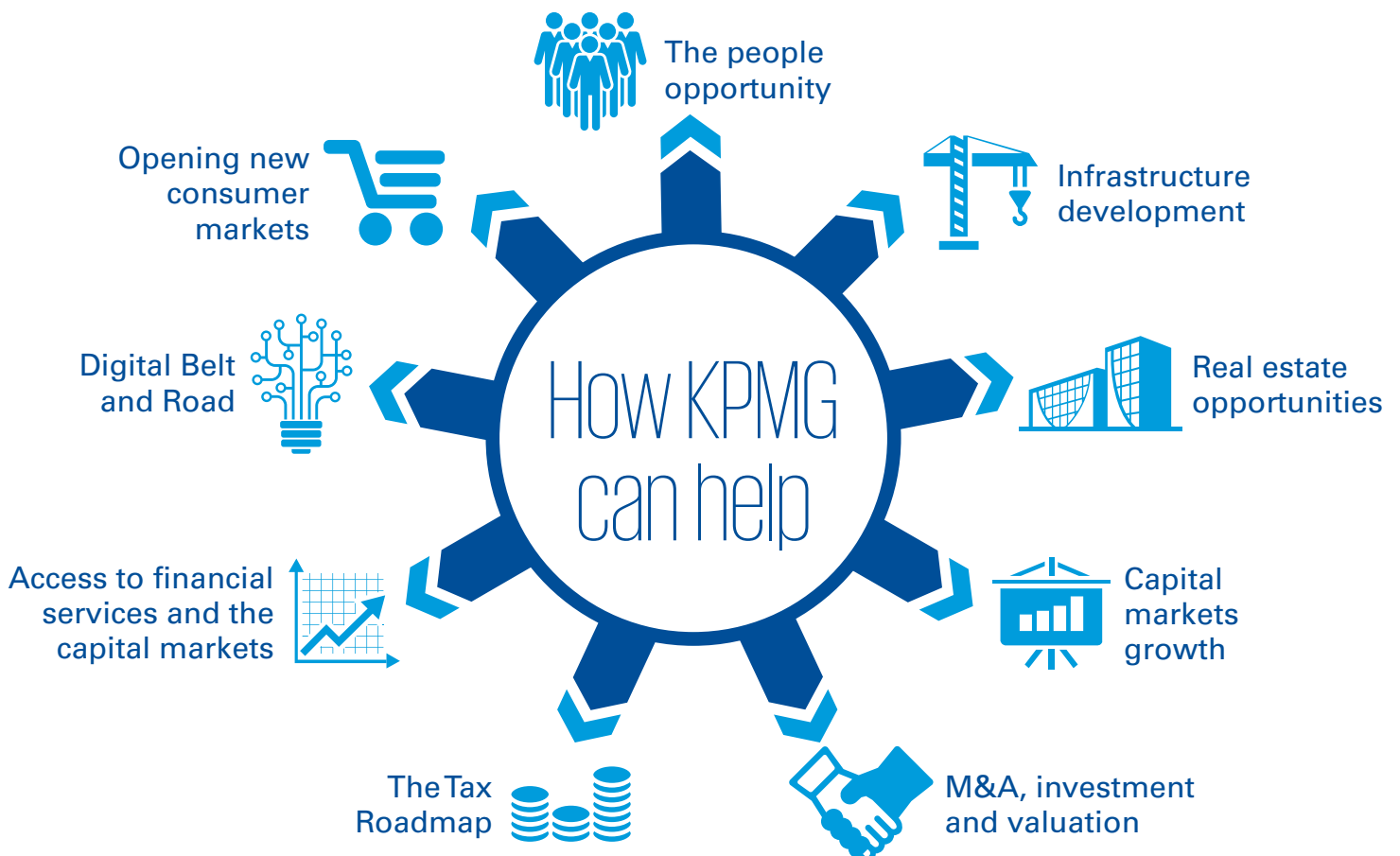
Female labour force participation in Hong Kong also continues to increase significantly, while there is a growing working population from diverse backgrounds and nationalities spanning Europe, North America and other parts of Asia Pacific.

The Government of the Hong Kong Special Administrative Region (Hong Kong Government), through enhancement measures to its immigration policy, continues to look at ways to recruit top talent from outside Hong Kong. It also continues to offer financial incentives to individuals who pursue continuing education and training courses in order to broaden the knowledge and capabilities of the city's workforce and wider community.



Selected opportunities and challenges

The Initiative presents a number of opportunities and challenges to consider for local BRI governments, inbound investors and business partners. KPMG is well-positioned in Hong Kong to advise clients on their investments and business activities along the Belt and Road.





Infrastructure development



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Infrastructure investment, financing and construction are major areas of initial focus for countries and companies seeking to participate in the Initiative.

Key infrastructure development themes

- **Project feasibility:** To attract private investment and finance into infrastructure, BRI governments will need to promote projects that are financially and technically feasible. This requires careful analysis prior to bringing a project to market, with key aspects including analysis of the underlying economic drivers, costs and key risks.
- **Project procurement:** There are many ways to structure the delivery of infrastructure, including Design-Bid-Build, Design & Build and the various forms of PPP. Selection of the most suitable approaches will be influential in maximising international and private sector interest.
- **Risk and corporate governance:** BRI infrastructure projects present risks that will differ from market to market and project to project. Certain risks will be relatively manageable for international players, such as financial and commercial risks, while others will be less predictable and more challenging, such as corruption and political risks. The identification and optimal allocation of risks between governments and the private sector will assist in lowering risk pricing between counterparties and maximising overall returns. Mitigation strategies and appropriate corporate governance arrangements are also important elements for new entrants to consider.

- **Stakeholder engagement:**

Understanding the landscape of local stakeholders is critical to investment success for foreign players. Relevant elements of this include understanding local socio-economic and political drivers, as well as delivering long-term commitment to local communities.

- **Supply chain opportunities:**

Infrastructure development will lead to significant knock-on opportunities across the industry supply chain. This includes professional services work for lawyers, architects and engineering consultancies, as well as contracts for construction services groups, materials suppliers, equipment lessors and many others.

The KPMG infrastructure proposition

- **Dedicated Hong Kong team:** KPMG's Hong Kong Infrastructure Advisory team works with governments, investors, builders and operators across the region, and bring expertise from having advised on some of the most prominent projects in Hong Kong and regionally.
- **Mainland expertise and networks:** Our Hong Kong team is supported by our mainland China Infrastructure Advisory team, bringing deep knowledge of the strategic objectives of Chinese infrastructure players, as well as a wide network of contacts in the mainland market.
- **Global coverage:** Comprised of more than 3,000 dedicated professionals across 110 countries, our global infrastructure network provides us with immediate access to one of the largest pools of dedicated infrastructure advisory professionals worldwide.



Real estate opportunities



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The BRI will create significant opportunities for development, investment, operations and service provision across the traditional real estate sectors. Groups that are early to market in exploring the opportunities and building relationships with local partners are expected to yield the greatest results.

Key real estate themes

- **Land value capture:** Significant development and land value capture opportunities will be generated in areas of new public infrastructure development. Investors that are able to foresee infrastructure and land use planning in local markets and acquire land holdings early will reap maximum benefits.
- **Labour market industrialisation:** The industrialisation of many low-cost BRI labour markets is expected to be a prominent feature of the Initiative, particularly in cities and provinces in close proximity to major transportation hubs.
- **Continued urbanisation:** Urbanisation is a trend already being witnessed across many fast-growing BRI economies. Markets that can maintain consistent economic expansion are expected to experience continued urbanisation, which in turn will lead to growing demand for residential real estate and knock-on investment and development opportunities.

- **Tourism, entertainment and hospitality:** The development of new infrastructure, improved environmental conditions, the opening up of BRI economies and greater levels of discretionary income in emerging markets are expected to increase demand for the tourism, entertainment and hospitality sectors.

The KPMG real estate proposition

- **Breadth of coverage:** Our Hong Kong real estate, tourism and leisure sector professionals bring deep experience across the asset lifecycle. This includes expertise in asset planning, development, project management, valuation, operations, acquisition, fund raising, restructuring and divestment.
- **Sector insights:** Our global and local networks and transactions experience enable us to identify and ensure we have access to investment opportunities for our clients across all major real estate sectors, including residential, commercial, industrial, hotels, entertainment, health and education.
- **Global network:** Our global real estate practice includes over 4,500 specialist practitioners supporting our client base of private property companies, indirect investment vehicles, occupiers and governments. The experience and coverage of our global network ensures we are well-placed to support our clients in entering and exiting investment and business opportunities along the Belt and Road.



Capital markets growth



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Hong Kong remains a leading market for listing and trading securities, with a deep capital pool comprising both institutional and retail investors. As an international finance centre, the city continues to act as a key connector to global capital markets, which is expected to play an increasingly pivotal role in the development of the BRI.

Key capital markets themes:

- **Cross-border capital flow:** The Stock and Bond Connect schemes between Hong Kong and mainland China continue to develop, with an increasing number of international and mainland Chinese investors trading securities across markets.
- **Listing of companies from innovative and emerging sectors:** Innovative sectors in China and globally are booming, and Hong Kong is well-positioned to capitalise on this growing trend. The Hong Kong Stock Exchange (the Exchange) is introducing a new listing regime for companies from emerging and innovative sectors. This new regime will allow the listing of 1) Biotech companies that do not meet any of the financial eligibility tests of the Main Board; 2) High growth and innovative companies with weighted voting right structures; and 3) Qualifying Issuers seeking a secondary listing on the Exchange.
- **International listing venue:** In addition to local and mainland Chinese companies, Hong Kong continues to attract listings from overseas companies – including many from along the Belt and Road – due to its high liquidity and significant investment opportunities.
- **H-share convertibility:** The China Securities Regulatory Commission introduced a pilot scheme that

allows mainland-incorporated companies listed in Hong Kong to convert their non-tradable equity into free-floating H-shares. The scheme could potentially increase share supply in the Hong Kong market, and will likely boost foreign interest in Hong Kong-listed Chinese companies.

The KPMG capital markets proposition:

- **Comprehensive service and global network:** Our global network comprises experienced professionals who advise companies on all stages of the listing process. We advise on initial public offerings (IPOs) and restructuring for listings on both local and international securities exchanges. We act as reporting accountants, performing financial statement audits and other listing-related assurance work, and advising on internal controls and comments raised by the regulators. As part of our pre-IPO services, we also advise on a company's listing preparations including its operations, finance and management teams, assist in liaising with the sponsors and other advisors, and facilitate the sponsors' financial due diligence.
- **Strong credentials in Belt and Road countries:** Through our extensive network of firms and professionals in the region, we have a strong track-record in working with clients from Hong Kong, mainland China and ASEAN countries on their IPOs and debt offerings both in Hong Kong and along the Belt and Road.
- **Capital Markets Group:** Our Hong Kong Capital Markets Group advises on the issuance and trading of both equity and debt securities, including listing opportunities for New Economy companies from emerging and innovative sectors. The group also works with clients on corporate finance and fundraising opportunities, both locally and internationally.



M&A, investment and valuation



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In addition to greenfield projects, the BRI is expected to offer significant M&A investment and financing opportunities for Chinese and international players. These include SOE privatisation programmes, joint venture (JV) investment opportunities and the acquisition of assets already in Belt and Road countries.

Key M&A, investment and valuation themes

- **Local partnering:** A key feature of Chinese investment in the BRI is expected to include partnering with groups that understand the local investment environment and challenges. Sectors such as infrastructure, energy and utilities, communication, technology, equipment manufacturing and finance are expected to attract high demand.
- **Technological know-how:** International groups with specialist skills and technologies are expected to be attractive partners to mainland groups as they execute their M&A and investment strategies along the Belt and Road.
- **Hong Kong as an investment platform:** Hong Kong, as the gateway into mainland China, is well-positioned as an investment platform, linking and facilitating business cooperation under the BRI. Hong Kong's status as an open economy, international finance centre and RMB hub is expected to lead to high volumes of M&A activity being executed from the SAR.

The KPMG M&A, investment and valuation proposition

- **Local and global strategy network:** Our Hong Kong and global strategy teams support our clients in developing robust Belt and Road market entry and M&A strategies to ensure they respond and adapt to changing trends and disruptive forces.
- **Comprehensive deal advisory services:** We bring comprehensive experience across the deal cycle to assist with the full range of Belt and Road deal opportunities. This includes assisting with implementing acquisition and divestment strategies, securing financing and funding for investment, handling complex turnaround and business restructurings, carrying out asset valuation requirements and supporting the execution of JV transactions.
- **Global China Practice:** Our specialists in Hong Kong leverage the expertise and network of the firm's Global China Practice, which has dedicated teams in nearly 60 locations worldwide, including countries and regions along the Belt and Road. The Global China Practice supports Chinese companies with their outbound investments.



The Tax Roadmap



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Enterprises participating in the BRI have to plan ahead and properly manage their investment and tax risks to mitigate potential exposures for both enterprises and their employees.

Key tax themes

- **Implementing effective investment holding and operating structures:**

Structures will need to address the investment objectives, effective debt funding required and repatriation of profits from projects to shareholders.

- **Double tax treaty relief:** The use of double tax agreements (DTAs) will be important in eliminating double taxation and reducing withholding tax (WHT) on repatriation of profits.

- **Permanent establishment (PE) and tax residency risks:** Mainland and international enterprises participating in BRI opportunities will be liable to overseas taxes with respect to profits generated. There may also be potential risk of overseas BRI entities creating tax residency in China if not properly managed. Enterprises need to carefully manage and establish appropriate operating protocols to ensure they do not create inadvertent overseas PE or tax residency risks in any of the countries in which they are operating or investing.

- **Capital structuring and transfer pricing (TP):** The mix of equity, debt and shareholder loans for BRI investments will be an important element for investors. The tax treatment of debt and equity can vary between jurisdictions, and TP and thin-capitalisation regulations will impact the effectiveness of shareholder loan structures. These elements need to be carefully considered to maximise tax

deduction and minimise tax costs such as interest and dividend WHT.

- **Tax planning and management:** Prior to making an investment in BRI opportunities, enterprises will need to identify, understand and evaluate the operational tax costs to develop and implement an efficient operating model for investment.

The KPMG tax proposition

- **Comprehensive tax support from Hong Kong:** Our Hong Kong tax team comprises a dedicated and experienced Deal Advisory, Mergers and Acquisitions Tax team that has participated in many high-profile cross-border transactions and restructuring deals. KPMG is well-positioned to support our clients that participate in the BRI with current in-depth tax advice throughout the deal cycle. This includes providing tax due diligence and structuring assistance, advising on appropriate financing arrangements, as well as potential tax-efficient exit strategies and tax modelling assistance. In addition, KPMG offers a broad range of tax services to support our clients including, but not limited to, TP, trade and customs, tax dispute resolution and controversy, personal tax planning and global compliance management services.
- **Global tax network:** KPMG has an extensive international network of tax professionals located around the world. We offer our clients in-depth technical and practical knowledge of the local tax rules across all sectors along the BRI. Our broad industry and sector experience ranges from real estate, infrastructure, financial services and private equity to the services sector.



Access to financial services



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The level of sophistication and reliability of local financial markets, systems and regulatory frameworks vary from country to country along the Belt and Road. The financing of BRI projects is key, and there is a need for a hub to consolidate financing needs and investor activity. As an international finance centre and global super-connector of trade and investment, Hong Kong holds a significant advantage.

Key financial services themes

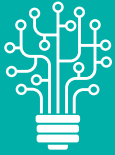
- **Asset management:** The range of investable BRI opportunities is expected to create high volumes of asset management opportunities for existing and new fund managers. This will generate fundraising opportunities for private equity, venture capital and other specialist capital investment groups, as well as knock-on business for asset management service companies such as trust companies, legal advisors and investment consultants. Hong Kong has also introduced a range of measures that promote the city as an asset management hub and complement its role in raising capital.
- **Foreign exchange (FX) risks:** Perceived levels of FX volatility, convertibility and access to flexible and cost effective FX risk management instruments are key considerations for foreign investors in deciding whether to enter new BRI markets. In particular, we expect RMB funding to play an important role in BRI activity, with Hong Kong well-positioned as a leading centre for global offshore RMB.
- **Legal systems and enforceability:** Governments that allow foreign investment agreements to be governed by the laws of internationally renowned contractual legal jurisdictions, such as Hong Kong, will be considered

appealing for international BRI investors. Countries with established legal systems that demonstrate adherence to the rule of law and a history of equitable treatment of foreign investors will also be considered investable jurisdictions.

- **Finance:** The government has emphasised Hong Kong's role as the financing centre for the BRI. The BRI is therefore expected to lead to more financing demand, including for leasing and green finance.
- **Insurance and risk management:** Entering new markets along the Belt and Road will require robust risk management processes and effective insurance coverage. Hong Kong's mature market is well-placed to provide direct insurance, insurance brokerage services and reinsurance coverage to mainland enterprises on their BRI projects. Groups that are able to identify their genuine risk exposures and implement insurance and risk mitigation strategies will dramatically increase their chances of BRI success.

The KPMG financial services proposition

- **Established footprint:** KPMG has an established footprint in Hong Kong since the opening of its office in 1945, and has a long history of working with some of the largest local and global banks and financial institutions.
- **Financial strategy:** Our dedicated specialists leverage their in-depth cross-border investment, syndicated lending and legal market knowledge to provide comprehensive and tailored solutions throughout the entire investment cycle.
- **Data analytics:** By leveraging big data and data analytics solutions, our professionals provide detailed insights to enable local, regional and international clients to create suitable businesses strategies along the Belt and Road.



Digital Belt and Road



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The ability to capitalise on state-of-the-art innovation and technology initiatives presents a leapfrog opportunity for many emerging BRI economies and companies.

Key digital themes

- **E-commerce and payment technology:** The proliferation of digital commerce and payment technology is having a significant impact on the way business is conducted along the Belt and Road. China is at the forefront of many of these technologies, with an increasing number of companies exploring commercial opportunities in these markets. Many BRI countries are also embracing these technologies, reducing the barriers to entry in these markets.
- **Sourcing talent:** The availability of well-developed technology talent is a big challenge for businesses. The development of the BRI helps companies address this issue, allowing the freer movement of labour and greater access to skills. This is particularly important for fostering innovation, as human capital is the key driver.
- **Big data and smart cities:** China's large population and its attitude towards information and data make it an ideal country for generating and harnessing big data. China's use of data with respect to urban planning, smart city development and other municipal initiatives stands as a model for other BRI countries to follow.
- **Ecosystem development:** The creation of value through the integration of technologies is a major global trend that will become increasingly prevalent along the Belt and Road. This integration includes the traditional enablement of technology, and new methods including APIs and other ways of making data more easily accessible to other companies or parties.

The KPMG innovation and technology proposition

- **Data analytics:** KPMG provides a comprehensive suite of data analytics tools and services. At the firm's Insights Centre – an executive digital workspace in Hong Kong – our specialists collaborate with clients to extract and harness real-time data to help them develop effective and informed business strategies. By visualising and combining regional macroeconomic and microeconomic trends with our clients' data, our professionals work closely with our member firms in the region to identify business opportunities for clients along the Belt and Road.
- **Technology-related retail and e-commerce advice:** Our experienced professionals provide comprehensive technology-related advice to our clients engaged in the e-commerce and retail industries, and have helped several major companies launch in China and other key markets. This expertise and advice includes everything from the development to the execution of strategies – identifying suitable technology partners, and helping to both build and implement systems and platforms.
- **Ecosystem integrator:** Our team acts as an ecosystem integrator for BRI projects, connecting businesses with relevant partners in the market. Our depth of knowledge and experience enables us to advise and partner with a broad range of clients, ranging from innovative start-ups focused on niche technology, to major companies with more established platforms and solutions along the Belt and Road.



Opening new consumer markets



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The Initiative is expected to create significant economic and social development opportunities for the countries along the Belt and Road, which will generate growth opportunities for new and existing brands, retailers and manufacturers in the region.

Key consumer markets themes

- **The growing Asian middle class:** By 2030, it is forecast that two-thirds of the global middle class will be living in Asia.⁵ As their influence continues to grow, the preferences and buying behaviours of this group will increasingly become key factors in the investment and business decision-making processes of BRI investors.
- **Millennial consumers:** The rapid growth of the global millennial consumer group – now a critical demographic for manufacturers, retailers and supply chains – is expected to be a major contributing factor to the economic development of many BRI countries.
- **The rise of e-commerce:** The increasing take-up of smartphone devices represents a global trend that continues to gather pace, and is expected to have positive long-term commercial and economic impacts for BRI countries. The rise of e-commerce – spurred on by the use of smartphone technologies – is creating a larger consumer base, increasing demand and providing easier access to a wider range of goods and services.

The KPMG consumer markets proposition

- **Dedicated Hong Kong team:** Our Hong Kong consumer markets specialists provide a comprehensive range of audit, tax and advisory services to some of the leading Hong Kong, mainland Chinese and international players in the consumer markets space. This experience positions us well to support our clients in understanding and acting on the diverse range of opportunities and challenges presented by the BRI.
- **Global consumer markets network:** Our global network of consumer markets specialists works closely with a broad range of clients worldwide on their investments and business operations relating to consumer and retail markets along the Belt and Road.
- **Customer advisory:** KPMG's Customer Advisory practice comprises a global team of professionals focused on enabling clients to achieve profitable growth through improved customer experience, customer-centric thinking, Omni-Enterprise transformation, and optimising marketing, sales and service through transformation.

⁵ Brookings Institution, https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf



The people opportunity



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In order to achieve long-term BRI success, it will be important for companies to put the right people and organisational structures in place.

Key people themes

• Navigating cultural differences:

Foreign players with limited experience in BRI markets will need to focus on understanding business and cultural differences across jurisdictions. Patience, long-term commitment and a willingness to understand local behaviours and expectations will be key.

• Skills and labour shortages:

BRI markets at the early stage of industrialisation will have limited pools of skilled or experienced unskilled labour that can be relied upon to support BRI activities. As such, training and rapid upskilling, along with labour migration, are expected to be prominent themes in certain markets.

• Migration of labour:

The movement of labour across borders is expected to be a common theme for BRI projects. Expanding business overseas, engaging with a mobile workforce and encountering new regulatory requirements creates complexity and risk. To be successful, BRI investors need to be mindful of cultural perceptions and expectations of compliance with local employment, immigration and tax regulation.

• Organisation and capabilities:

Companies should ensure that they are agile enough to respond and adapt to new opportunities along the Belt and Road. This includes ensuring the right capabilities and organisational structures are in place, and managing that transition.

The KPMG people proposition

• **End-to-end solution:** Our experienced Hong Kong People and Change practitioners work to plan and deliver change programmes in support of cultural and organisation transformation objectives. Specifically, we focus on:

- Cultural transformation: Our proven approach to cultural analysis and change builds on global best practices to reconcile cultural issues associated with operating in new or different cultures, organisational scenarios and cultural transformation to ensure the organisational culture is aligned to, and enables, the business objectives and strategy.

- Organisation transformation: We define transformation programmes to enable our clients to transition into new markets, locations and/or ways of working. This entails aligning our globally proven approach and capabilities in the areas of change management, organisation design, talent management and workforce transition.

• Global expertise with mobility:

Whether talent is sourced from international hire, secondment or frequent travel, robust mobility policies enable a business to be compliant with local immigration and tax requirements, while remaining agile and responsive to the needs of the business. Using Hong Kong as a key regional hub, KPMG enables clients to access its network of global mobility professionals in 140 countries to provide tailored solutions that support international deployment of labour.

• Executive recruitment capabilities:

KPMG is one of the few large professional service organisations in Hong Kong that has its own recruitment consultancy. With more than 30 years of experience, this business unit offers a wide range of customised services across all aspects of the recruitment process, from advertising to executive search.





About KPMG

KPMG China operates in 16 cities across China, with around 12,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.



KPMG's Belt and Road Centres of Excellence

KPMG has three global Belt and Road Centres of Excellence that serve the needs of our clients seeking to access opportunities along the Belt and Road.

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Publication number: HK-MARKETS18-0001

Publication date: March 2018