Introduction to Belt and Road Initiative
Announced in 2013 by President Xi Jinping, a new double trade and investment corridor is opening channels between China and more than 60 markets, ranging across Central Asia, the Middle East and Europe. “One Belt, One Road” (OBOR) is laying the foundations for a series of massive infrastructure projects, ranging from high-speed railways to ports and airports, bringing them into China’s economic orbit. The land (Belt) and maritime routes (Road) encompass China’s most ambitious economic diplomacy project, with comparisons being drawn to the European Recovery Plan which helped rebuild Western European economies after the end of World War II.

China is currently leading over US$900 billion worth of cross-border infrastructure projects under this initiative, with the aim of increasing regional connectivity and stimulating trade. The OBOR initiative has encouraged Chinese outbound investment in large-scale energy, rail, road and telecommunications infrastructure projects. Most projects are led by large Chinese state-owned entities (SOEs) in partnership with China's policy banks, and with funding from China's Silk Road Fund Co. Ltd.

Although unlikely to benefit from the direct investment, Australian companies will benefit through what the Chinese government has termed the “three-way handshake”, whereby Chinese and Australian businesses partner on projects.

Arbitration in OBOR Projects
Given the size and complexity of OBOR projects, it is likely that a number of them will result in disputes. Early indications are that international arbitration will be the preferred means of dispute resolution.

Seats of Arbitration for OBOR Projects
China International Economic and Trade Arbitration Commission (CIETAC) is China’s oldest and one of the world’s busiest arbitration institutions. We note that to coincide with the implementation of the OBOR initiative, on 1 October 2017, the International Investment Arbitration Rules of the China International Economic and Trade Arbitration Commission (Rules) came into force. The Rules are designed to regulate both investment treaty arbitrations and investor-state arbitrations.

Hong Kong plays a vital role in the initiative by bridging countries in the region together. The establishment of China International Economic and Trade Arbitration Commission Hong Kong (CIETAC HK) is a recognition by CIETAC of Hong Kong’s importance in the region. To that end, China’s Supreme People’s Court has already foreshadowed the attraction of the Hong Kong International Arbitration Centre (HKIAC) for the conduct of OBOR arbitrations.

Hong Kong currently enjoys an autonomous legal system and companies familiar with common law and the English arbitration system will find Hong Kong particularly attractive as a seat or governing law. Hong Kong is already the major deal making hub for Chinese businesses looking to exploit opportunities overseas. The Hong Kong government is promoting the territory as the go-to jurisdiction for parties looking to meet their Chinese counterparts half-way.

One of the greatest advantages of arbitration is the enforceability of awards. OBOR disputes will involve Chinese parties, which means that enforcement may take place in mainland China and against Chinese assets. We know that HKIAC and Hong Kong-based awards have a strong enforcement rate, by virtue of the 1999 Arrangement Concerning Mutual Enforcement of Arbitral Awards between Hong Kong and China. Hong Kong is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Arbitration Awards by virtue of China’s accession. Further, Hong Kong’s modern arbitration legislation, bilingual functioning and judicial independence make it a logical destination for hosting OBOR arbitrations.

Foreign parties can also take comfort in the fact that the Hong Kong courts have enforced awards against Chinese SOEs. Similarly, the Singapore International Arbitration Centre is in a geographically convenient location and supported by a physical, legal and political infrastructure that, like Hong Kong, is sophisticated, skilled and of high integrity.

Conclusion
Asia is transforming into a global, internationalised arbitration market, with the continued harmonisation of practices and procedures. Fuelled by an increasing demand for arbitral administration services because of the OBOR initiative, we expect to see progressive enhancements in the convergence of Chinese and international arbitration law, practices and norms.

Australian businesses can benefit from OBOR projects. For peace of mind, participants should seek experienced legal counsel when dealing with a contract’s arbitration provisions, such that disputes are resolved in a commercial and efficient manner.

Contacts

Brendan Reilly
Partner, Perth
T +61 8 9429 7611
E brendan.reilly@squirepb.com

Tim O’Shannassy
Associate, Perth
T +61 8 9429 7602
E tim.o.shannassy@squirepb.com