

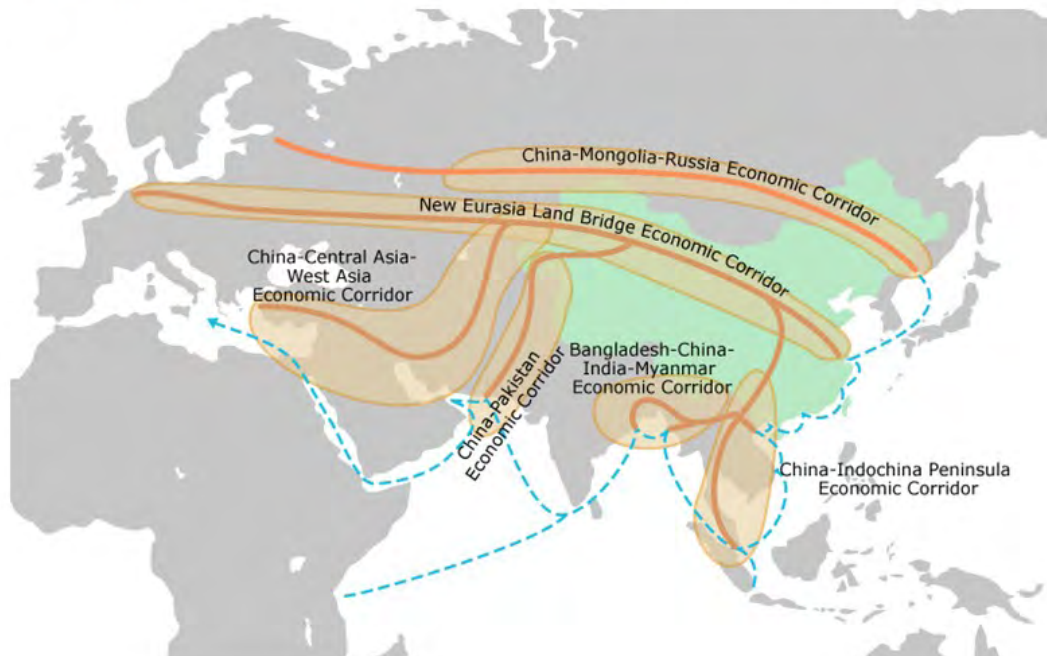
## China: Belt And Road Initiative And What It Means

### Belt & Road Forum Reaffirms China's Stance On Mutual Cooperation

In the recently concluded Belt and Road Forum for International Cooperation ("BRF", held in Beijing on 14-15 May), attended by more than 1,500 delegates from over 130 countries and some 70 international organizations, Chinese President Xi Jinping noted the need to join hands to meet the global challenges in the principle of extensive consultation, joint contribution and shared benefits. Therefore the Belt and Road Initiative (B&R) will be one means to align countries' policies and integrate economic factors and resources in a global scale to create synergy to promote world peace, stability and shared development.

Chinese President Xi Jinping noted that Belt and Road Initiative (B&R) is about building partnership and not forming alliances, suggesting the initiative is leaning largely towards a trade/commerce approach rather than from political angle. Another contrast is the position China has taken with B&R, that is towards more open, inclusive, and globalized trade, investment, commercial, cultural, and people-to-people exchanges, compared to increasing trends towards inward looking, nationalistic, exclusionary, and populist policies adopted by some major economies. The BRF also serves as a checkpoint for the Initiative first mooted by President Xi in 2013, to gauge the successes and challenges as it moves forward. The next BRF is scheduled to be held two years later in 2019.

### The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Source: HKTDC

### Size Of B&R A Force To Be Reckoned With

As seen in the table below, B&R countries along with China, are an economic force to be reckoned with as its size is equivalent or even larger than some of the trade blocs. While B&R is not a trade bloc, its economic size is equivalent to that of the TPP (including US) at 40% of global GDP, though with the US' withdrawal, TPP will be just a shadow its former self. B&R countries also have access to large block of population at 4.4bn, which is the largest compared to other potential trading blocs. This means that with infrastructure

especially transportation and communications network being built up, B&R will indeed present large scope of opportunities for commercial and people-to-people exchanges.

As nearly 40% of the global economy consists of emerging economies (in 2016, vs. 20% share in 1996), a more inclusive and open arrangement such as B&R, will be beneficial to their development, as that allows for greater participation of opportunities.

Comparison* Of B&R To RCEP And TPP						
Indicator	TPP	TPP (ex US)	B&R	B&R (ex China)	RCEP	FTAAP
No. of Economies	12	11	68	67	16	21
Population	800mn	490mn	4.4bn	3.2bn	3.5bn	2.9bn
Nominal GDP (US\$ tn)	27.5	9.4	22.0	12.0	22.6	43.8
% of Global GDP	40%	13%	40%	16.0	30%	60%
% Share of Global Trade	26%	15%	34%	22%	29%	50%

\*B&R (Belt & Road) is not a trade agreement and is included here for comparison purposes only.  
**TPP** (Trans-Pacific Partnership, 12 members): The US, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. US President Trump announced on 23 Jan 2017 the US' withdrawal from TPP.  
**RCEP** (Regional Comprehensive Economic Partnership, 10+6): ASEAN's 10 members plus China, Japan, South Korea, India, Australia, and New Zealand  
**FTAAP** (Free Trade Area of the Asia-Pacific): Currently all 21 members of APEC (the US; Australia; Brunei; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Philippines; Russia; Singapore; Republic of Korea; Chinese Taipei; Thailand; and Viet Nam)

Source: IMF, World Trade Organization (WTO), Bloomberg, UOB Global Economics & Markets Research estimates

## Lining Up Financing Support

Financing is at the centre of B&R Initiative and the Chinese government has announced a list at the BRF 2017 session in Beijing (see table below). Based on the figures disclosed, China will be committing at least RMB780bn at this stage. Two questions arise: what is the source of funding and whether this figure is sufficient for the B&R Initiative.

As for the source of funding, the bulk of the funding is in denominated in RMB, which means that Chinese government is eyeing greater use of the domestic currency in this project. With the Chinese central government debt ratio well below 20% of China's GDP, there is room to leverage up should there be a need to do so.

In terms of sufficiency, there is certainly much financial gap to fill as ADB estimates that Asia alone needs to spend US\$1.7tn per year in infrastructure investments until 2030. As the B&R Initiative is meant to be a mutual cooperation project, financing is expected to be coming from different sources, including multilateral agencies such as AIIB, ADB, World Bank, and private sector participation.








B&R: Dollars And Cents Announced During BRF In 2017	
Items	Amount
Silk Road Fund (additional injection)	RMB100bn
Overseas Fund Business in RMB for promotion of RMB usage	RMB300bn
China-Russia Regional Cooperation Development Investment Fund	Initial capital RMB10bn; total size RMB100bn
China Development Bank to set up the Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development	RMB 100bn equivalent
China Development Bank to set up Belt and Road Multi-currency Special Lending Scheme for Industrial Cooperation	RMB 100bn equivalent
China Development Bank to set up Belt and Road Multi-currency Special Credit Lines for Overseas Financial Institutions	RMB 50bn equivalent
Export-Import Bank of China to set up Belt and Road Multi-currency Special Lending Scheme	RMB 100bn equivalent
Export-Import Bank of China to set up Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development	RMB 30bn equivalent
Chinese government to increase its assistance to the developing countries along the B&R	At least RMB 60bn over next 3 years
Chinese government to provide emergency food aid to the countries along the B&R	RMB 2bn
China to replenish the South-South Cooperation Assistance Fund	US\$1bn
China to provide relevant international organizations with to jointly promote the implementation of international cooperation projects benefiting the countries on the B&R	US\$1bn

Source: yidaiyili.gov.cn, UOB Global Economics & Markets Research estimates

## B&R By The Numbers:

- B&R which was first unveiled in 2013 consists of 6 economic corridors and spans 68 countries representing more than 60% of the global population and around 40% of global GDP. The B&R will connect Asia, Africa, the Middle East and Europe.
- Chinese investments related to the B&R Initiative have totalled US\$60bn since 2013 and set to pick up with US\$600-800bn investments planned for the next five years – equivalent to US\$120-130bn per year over the period. Although the amount is large, it dwarfs in comparison with Asian Development Bank's (ADB) estimates that developing Asia alone needs to spend US\$1.7tn per year in infrastructure investments until 2030 of which Southeast Asia's annual requirement is US\$210bn. The greatest requirements will be in the power and transport sectors. China is expected to fill a large part of the infrastructure investment gap.
- China's annual trade with countries involved in B&R is expected to exceed \$2.5tn within a decade, from US\$954bn in 2016 (25.7% share of China's total cross-border trade) and US\$877.2bn in 2012 (25.1% share of China's total cross-border trade volume).
- Top 10 largest B&R trade partners with China (total trade): Vietnam, Thailand, Singapore, UAE, Russia, Indonesia, Philippines, India, Malaysia, Saudi Arabia.
- The investment and trade opportunities arising from the B&R Initiative will lead to economic development and jobs creation. Between 2013 to 2016, more than 180,000 local jobs were created and paid US\$1.1bn in tax to local governments.
- The China-led Asian Infrastructure Investment Bank (AIIB) which was launched in early 2016 with US\$100bn of initial capital, has granted US\$1.7bn loans for nine projects, while the government-backed Silk Road Fund has lent about US\$4bn of funds, including for a water dam project in Pakistan. Shanghai-based New Development Bank is another source of funding with US\$50bn initial capital.
- China Development Bank has granted US\$168.2bn worth of loans for more than 600 projects since the Initiative was unveiled in 2013 while Export and Import Bank of China has loaned out about US\$100bn.
- China has committed to inject at least RMB780bn (US\$113bn) via its state funds and banks to finance projects in the B&R Initiative. This comprises RMB100bn increase to the Silk Road Fund, increase special overseas loans by China Development Bank and Export and Import Bank of China by RMB250bn and RMB130bn respectively, and encourage Chinese banks to set up overseas funds worth about RMB300bn to help belt and road funding.

### The Global Competitiveness Index: Infrastructure Ranking (Rank/138 Countries)

	 Infrastructure Ranking	 Quality of Roads	 Quality of Railroad	 Quality of Port	 Quality of Air Transport	 Quality of Electricity Supply	 Mobile Phone Subscriptions
Singapore	2	2	5	2	1	2	24
Malaysia	24	20	15	17	20	39	27
Russian Federation	35	123	25	72	65	62	13
China	42	39	14	43	49	56	105
Thailand	49	60	77	65	42	61	55
Indonesia	60	75	39	75	62	89	38
India	68	51	23	48	63	88	123
Brunei	78	41	na	87	84	52	85
Vietnam	79	89	52	77	86	85	40
Philippines	95	106	89	113	116	94	65
Cambodia	106	93	98	76	99	106	35
Lao PDR	108	91	na	132	100	77	131
Mongolia	110	109	69	137	124	97	93
Pakistan	116	77	53	84	91	121	130

Source: World Economic Forum, The Global Competitiveness Index Report 2016-17, UOB Global Economics & Markets Research

## Potential Beneficiaries Of B&R Initiative

### RMB Internationalization

From trade and investment flows' perspective, increased activities in B&R would naturally lead to greater scope for RMB usage and internationalization. Of note is that the Chinese government has committed RMB300bn to Overseas Fund Business in RMB to promote the usage of RMB, according to official document.

Expanded goods and services trade ("current account" flows), financing the supply and demand gap for infrastructure investment in B&R countries coupled with increased outward direct investment (ODI) by Chinese enterprises, banks and government ("capital account" flows) are likely to provide enlarged RMB flows going forward. The share of total goods trade by B&R countries accounted for about 34% of world's total trade. B&R countries' total trade with China accounted for 25.7% share of China's total trade in 2016. China's total services trade with B&R countries reached US\$122.2bn in 2016, accounting for 15.2% of China's total services trade, and 3.4% point higher than in 2015. According to one estimate, from January 2012 to September 2015, the amount of China's ODI settled in RMB increased from RMB 0.2bn to RMB 20.8bn, the latter accounting for 20% of China's total ODI as of September 2015.

### ASEAN

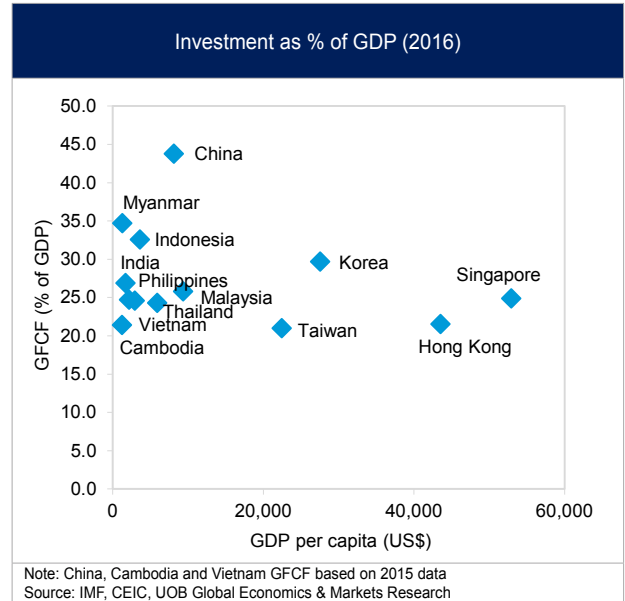
Due to geographic proximity, historic relations, availability of resources and an emerging market, ASEAN is expected to benefit as activities pick up in B&R. This is already reflected in the top 10 trade partners' list with China, where ASEAN countries comprised of 60% of the share. In addition, under B&R, China has a range of arrangements and agreements with ASEAN, including the China-Indochina Peninsula Economic Corridor (as one of the 6 B&R economic corridors), China-ASEAN Free Trade Area, ASEAN and China Production Capacity Cooperation, and in areas such as maritime, port development, connectivity, tourism, health, environment, among others.

### Industries/Sectors To Benefit In B&R Initiative

While it is obvious that infrastructure-related development would be the first areas to benefit from B&R, the Initiative is more than just infrastructure such as sea/land/air transport, energy, water, information communications, and pipelines. Greater flows of commercial, cultural and people-to-people exchanges will help boost demand for tourism-related industries such as F&B, hotel, recreational, and shopping, education, and healthcare.

### Closer Integration Amidst A Protectionist/Anti-Globalization Environment

Amidst a rising protectionist, populist, and anti-globalization tendency in parts of the world, the B&R Initiative stands in sharp contrast as it aims to promote peaceful cooperation and common development around the world to promote efficiency in the flow of production factors and integration of markets, in order to achieve diversified, independent, balanced and sustainable development. As such, the Initiative should bring about greater level of economic activities among the participants as compared to an isolationist approach.



### Key Infrastructure Projects (As of May 2017)

China-Europe Railway Express was launched in January 2017. The freight network spans 12,000 km, crossing Kazakhstan, Russia, Belarus, the EU and the UK.

China-Iran Railway freight network became operational in February 2016 where trains pass through Kazakhstan and Turkmenistan before entering Iran.

The Khorgos Gateway dry port connects Kazakhstan to China by rail.

414 km rail line between China and Laos and another more than 800 km long rail to link the Thai-Laos border of Nong Khai with Bangkok as well as Thailand's main deep-sea port in eastern Thailand.

China-funded ports and East Coast Rail Line (ECRL) will connect ports on the east and west coasts of Peninsular Malaysia

300 miles Nairobi-Mombasa railway in Africa.

China-Pakistan Economic Corridor (CPEC) consists of an estimated US\$54bn worth of infrastructure projects. One of the key projects is to connect Pakistan's south-western Gwadar port with Kashgar, a city in China's north-western Xinjiang province.

The US\$7.3bn Central Asia-China Gas Pipeline is a natural gas pipeline system developed as an extension of an earlier pipeline begun by the Soviets.

Source: Newswires; UOB Global Economics & Markets Research compilation



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