China: Belt And Road Initiative And What It Means

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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.

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.

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 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.

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.

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