

November 10, 2017

# China's 21st Century Silk Road Ambitions Enshrined in Constitution



- The One Belt, One Road Initiative has been sewn into Communist Party constitution
- Initiative could develop much-needed infrastructure in developing nations, promote international trade, and support economic expansion in more than 60 countries
- Firms begin to weigh up opportunities

During the 19th National Congress of the Communist Party of China on 18-24th October, President Xi Jinping's ambitious 'Belt and Road Initiative' (BRI) was cemented into his Party's constitution, emphasising its significance and signalling an acute dedication to realizing the

vision.

*"... following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative."* - Additional statement added to China's Constitution

The project, which was first unveiled by Xi Jinping in 2013, is a loosely-defined set of interconnected bi-lateral trade agreements and infrastructure projects that seek to link China with Central Asia, the Middle East, Europe and Africa. It aims to revive the ancient Silk Road, connecting China to over 68 countries which combined, account for a third of the global economy. The initiative was catalysed by concerns about slowing domestic growth and over-production in China. Supporters believe that the BRI has the potential to help solve a global infrastructure gap, catalyse growth in developing nations and increase trade whilst generating investor returns.

Lloyds List, a maritime intelligence unit noted that with a minimum spend of \$1.4 trillion on total infrastructure investment, the BRI is estimated to be 12 times bigger in absolute US dollar terms than the Marshall Plan — the \$12Bn initiative to help rebuild western European economies after World War II.



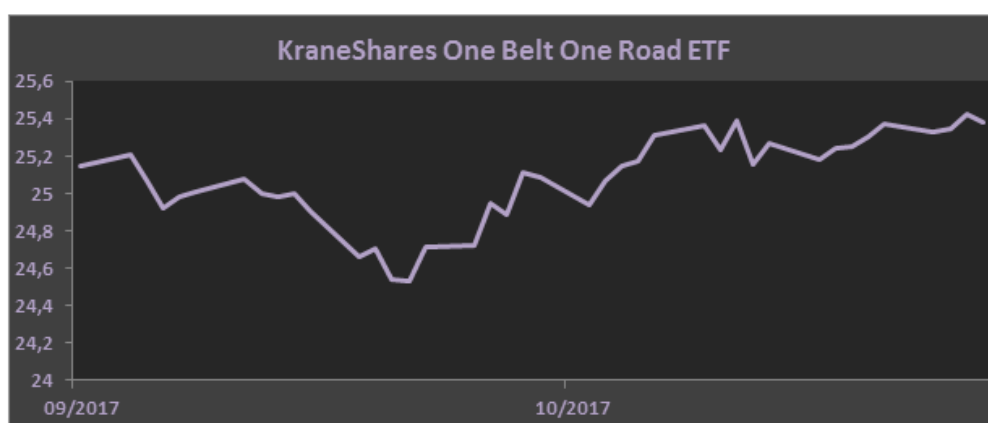
Source: Bloomberg, BIL

Already this year, a significant symbolic milestone was passed – the first freight train travelled from China to London, taking 18 days.

As Beijing has tightened its grip on foreign acquisitions by Chinese firms, whilst remaining accommodative to those which fall in sync with the BRI, we have seen an array of deal-making activities by Chinese firms arising in BRI states, such as the \$11.6 billion buyout of Global Logistics Properties in Singapore by a Chinese private equity consortium.

A white paper by consultancy firm PriceWaterhouseCoopers (PwC), suggests that there is significant opportunity for international investors and credit providers to partner with Chinese companies by providing capital and investments. BRI projects are often directly or indirectly supported by the Chinese government and therefore may offer an improved risk-return ratio in certain scenarios. A foreign company which has already positioned itself to benefit from BRI is General Electric. The company has evolved from being a supplier of construction equipment to an integrated solutions provider in financing and operations. It reported in June that its total orders from Chinese engineering, procurement and construction companies had grown threefold in the space of one year, according to PwC. The consultancy firm, Deloitte, has recently invested an additional \$200 million in its Chinese business, with \$40 million of this syphoned directly towards helping Chinese companies participate in BRI.

So vast are the perceived opportunities, various exchange traded funds (ETF) have arisen, offering exposure to firms involved in the BRI project.



Source: Bloomberg, B/L

Nonetheless, some view the project as over-ambitious and are sceptical that the roll-out will go smoothly given the inconsistencies across the various the regulatory regimes of the countries involved. Geopolitics could create major roadblocks, especially given that over the long life-span of the project, governments will likely change, bringing with them new foreign policy. Further, investors must consider that many of the participating nations have low or no credit ratings. In October Bloomberg reported that 60% of BRI partners have junk status or are not rated, for example Afghanistan, Iran and Syria. Therefore, investors and companies must be selective as to which specific programs they get involved in.

China is the world's growth locomotive and the Chinese Producer Price Index is the primary reflation signal. Heavy government spending and a reduction in China's domestic overcapacity could keep this figure supported. Furthermore, such strong dedication to the project could provide a boost for commodities, such as cement and steel. According to PwC, the construction of railways, pipelines and other projects along the BRI trade route could create demand for 272 million tonnes of steel. BHP Billiton, the world's largest mining company estimates that the project could create enough demand to keep China's steel mills operating at their current level

for a decade. Such demand for commodities, could seep into inflation prints causing a gradual uptick in long-term yields.

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