

News Release

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Why Belt and Road is more than the sum of its parts

Announced by President Xi Jinping at Davos in January, China's inaugural Belt and Road Forum this May comes at an historic inflection point in the course of economic evolution. China will showcase major infrastructure projects to advance this ambitious initiative, but the tone world leaders adopt in their dialogue on trade could prove to be just as significant.

The backdrop to the forum is one of uncertainty. The new US administration is reversing past policies that were designed to increase global economic integration. The UK is trying to negotiate a new relationship with its continental partners in the EU. Recent elections in several countries have marked a political shift from the old order of left versus right to a new order of nationalist versus internationalist.

And as policymakers and negotiators wrestle with their new terms of engagement, trade is evolving too. Digital innovations, plus advances in logistics, are creating opportunities by opening new markets for businesses and challenging deeply-entrenched operating models.

"Whilst rapid increases in the complexity of global supply chains may have peaked, what we're now seeing is growing interest in inter- and intra-regional trade. China's role in driving these flows is increasingly important, and nowhere is this role more visible than through the Belt and Road Initiative (BRI)," said Mukhtar Hussain, Chief Executive Officer of HSBC Bank Malaysia Berhad.

"By investing in rail, ports and power plants along centuries-old silk routes, China is seeking to stimulate cross-border trade. This isn't just trade with China's neighbours, but with regions as far afield as Europe, Africa and the Middle East," added Mukhtar.

The commercial benefits of this initiative are already becoming apparent. In the first nine months of 2016 alone, Chinese companies signed 4,000 engineering contracts under the BRI umbrella, with a combined value of nearly USD70 billion.

Today these projects require construction materials, heavy machinery and engineering services. Tomorrow, the completion of new infrastructure will simplify supply chains, accelerate physical trade and push down the cost of doing business. Companies will adapt their manufacturing and distribution strategies to capitalise on these new opportunities, with the net result that the volume of trade will grow.

Indeed, China anticipates its trade with countries along the land 'belt' and marine 'road' will surpass USD2.5 trillion annually in the next decade. One example of a project contributing to this growth is the China-Europe freight rail service, which has run over 3,500 trains linking 27 Chinese cities to 11 European countries since it launched in 2011.

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As emerging markets continue to develop and become consumer-driven economies, their expanding middle classes will demand a greater choice of goods as well as services like healthcare, education and travel. We forecast that about three billion people in today's emerging markets will join the middle classes by 2030, a social change that will pull the centre of gravity of human consumption towards Asia.

Preparing for this growth, China has pledged to help Laos build a USD6 billion railway linking Vientiane to China's southern Yunnan province by 2020. Meanwhile a 7,000 kilometre Singapore-Kunming Rail Link is already taking shape, and Beijing has won the contract to build Indonesia's first high-speed rail link – a USD5.1 billion, 150 kilometre project connecting Jakarta to Bandung, Indonesia's third-largest city.

In promoting the Belt and Road Forum, the Chinese government has stated that it “will facilitate a number of major project and cooperation agreements” but that “China does not intend to monopolise all the benefits, or even take the lion's share of the benefits”. The goal is to “work with partner countries to make the pie bigger and divide it equitably”.

“As a statement of intent, the BRI is ambitious and positive. It says that by boosting investment we can boost trade, because this in turn will boost GDP. Given the uncertainties we face today, we should celebrate that world leaders are gathering in Beijing and exhort them to use the BRI as a catalyst for even greater international cooperation tomorrow,” concluded Mukhtar.

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