News Release

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China to extend its long-term outbound strategy by riding the Belt and Road Initiative

China's introduction of stricter capital outflow controls has raised concerns around the prospects of the country's outbound direct investment. There should be little impact in the long term and the Belt and Road Initiative will be a key catalyst to accelerate China's outbound investment flows.

In 2016, the value of the renminbi depreciated over 6 per cent against the US dollar whilst China's foreign exchange reserves dropped sharply. Such magnitude of changes have caused concern for Beijing and global markets. There is no easy solution, China's policy makers have to either control speculative capital outflows or allow the renminbi to weaken further, which in turn would exacerbate the former.

China has chosen capital restrictions and the dilemma it now faces is that while the capital controls may ease depreciation pressures on the renminbi, they have also curbed the overall volume of outbound acquisitions and investments.

While this decision seems like an uncomfortable turning point, it appears targeted and likely short term for the benefit of the wider economy.

"There are strong signals that Beijing is confident that their current approach will not impede or reverse China's long-term overseas investment trend. President Xi Jinping has made it clear that China will continue to reach out to the world and invest in key sectors In the next five years China expects to invest 750 billion dollars overseas and ODI will continue to play a key part in supporting the country's economic transition[1]," said Mukhtar Hussain, Chief Executive Officer of HSBC Bank Malaysia Berhad.

Not only that, the Belt and Road Initiative will stimulate the next phase of China's ODI. China has expressed confidence in the future of its Belt and Road initiative, a plan that could also increase Beijing's global influence in trade and geopolitics. This far-reaching economic development plan which focuses on improving infrastructure and network connectivity covers more than half of the world's population, and 29 per cent of world's GDP across Asia, Europe and Africa.[2] This will not only open up more markets for Chinese companies but facilitate deeper global trade, investment and capital flows as a result of improved connectivity.

[1] http://news.xinhuanet.com/english/2017-0h1/19/c_135997710.htm
[2] NDRC: Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

China's ODI continues to surge, with a 44.1 per cent year-on-year growth to USD 170.11 billion in 2016. The Belt and Road Initiative is bolstering cooperation between Chinese and foreign firms. Outbound investment to countries involved in the initiative totalled USD 14.53 billion in 2016. [3]

After decades of overseas investments dominated by natural resource acquisitions of coal, oil and metals, the next step for China's ODI is to develop intelligent manufacturing, build higher-value brands and improve its services.

"We have seen Chinese companies expanding into high value-added sectors such as advanced manufacturing, real estate, finance, agri-business and healthcare sectors in order to improve their competitiveness in the global market as well as meet growing domestic demand," added Mukhtar.

"Driven by this shift, the investment destinations for China are becoming increasingly diversified. On the one hand, Chinese demand for technology, services and consumer brands means that they will continue to gravitate to developed markets such as the UK, Germany and the US. On the other hand, Chinese investors may find new and more investment opportunities along the Belt and Road as a result of improving infrastructure and China's economic and capacity cooperation with developing countries[4]."

In line with ODI growth, the number and size of Chinese privately owned enterprises (POE) are increasing. Accumulated state-owned enterprises (SOE) ODI has more than quadrupled in the past few years, particularly in the areas of mining and infrastructure following the announcement of Belt and Road Initiative. Chinese POE overseas investment has expanded even faster, 10.4 times over 2009 to 2015.[5]

Currently, the Belt and Road Initiative is bringing in a new round of opportunities for China's outbound investment, particularly in infrastructure construction – building roads, railways, bridges and ports across the Asia region.

In particular, large infrastructure investments require substantial capital support, but financing is often a challenge for most Asian countries.

Fortunately for China's Belt and Road Initiative goals, seed funding for infrastructure projects along the Belt and Road will mainly come from China-led policy banks including the Asian Infrastructure Investment Bank (AIIB) and New Development Bank, as well as Chinese funds like the Silk Road Fund which have dedicated billions to support Belt and Road Projects. Financial institutions including Chinese and foreign commercial banks also have key roles to play in facilitating this financing.

"The Belt and Road Initiative will deliver massive benefits to Malaysia in terms of infrastructure, connectivity, social facilities, better living standards and abundant business opportunities. Among the major projects under the initiative is the Malaysia-China Kuantan Industrial Park in Pahang, Melaka Gateway, East Coast Rail Link and Xiamen University Malaysia and more to come," Mukhtar shared.

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[3] http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201701/20170102503092.shtml
[4] EY research on china-outbound-investment-outlook 2016
[5] HSBC Global Research, On the New Silk Road V (17NOV16)

“We are also seeing a series of cross-border infrastructure projects underway. A new China-Laos railway, a highway in Pakistan and a port in Vietnam; a high-speed rail line running from southern China through Laos to Thailand’s industrial eastern coast; and the 7,000 kilometre Singapore-Kunming Rail Link. China has given a new pledge to Laos for the construction of a USD 6 billion railway project linking Laos’ capital Vientiane to China’s southern Yunnan province by 2020[6].”

The growth in China’s ODI will also enhance the pace of renminbi internationalisation. Already a global trade, investment and reserve currency, The Belt and Road Initiative will drive an increased share of renminbi use in cross-border payments and financing be it in loans or through capital markets.

For example, AIIB can issue renminbi bonds to finance its infrastructure projects. And when construction is completed on individual projects, those project loans can be securitized into renminbi-denominated bonds. This will create an important new renminbi-denominated asset class which when internationally traded will add depth to the offshore markets.

“China’s prospects of strong ODI growth remains sound. The country is continuing its steady integration with the global economy through a new phase of increased investment overseas, in particular as the Belt and Road Initiative picks up momentum. In the long term, China will be relied upon to be a leader in the next phase of globalisation to drive the world’s economic growth,” concluded Mukhtar.

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[6] http://thediplomat.com/2015/11/china-laos-to-build-6-billion-railway-by-2020/