News Release

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The “Belt and Road” initiative is good news for the region’s capital markets including Malaysia.

China’s “Belt and Road” infrastructure investment drive will help boost the flow of physical goods across large swathes of Eurasia, southern Asia and even parts of Africa and the Middle East. Less obvious is the impact that the vast amount of spending linked to the initiative will have in the financial arena – in the currency and bond markets in Asia and beyond.

First announced in 2013, the “Belt and Road” initiative is an essential part of China’s domestic economic rebalancing, and of its outbound ambitions. The initiative entails ploughing billions of dollars into the ***hardware*** – railways, highways and ports – that links mainland China and the dozens of countries to its west and south. The Malaysian government responded to the Chinese initiative by committing to upgrading sea ports and establishing free trade zones and industrial parks in response to the Chinese initiative.

But while the ***physical*** impact of the Belt and Road efforts will be most visible, the impact on the ***software*** of financing will also be significant: the vast amounts of money needed to meet Asia’s infrastructure needs will inject fresh momentum into the region’s capital markets. This includes Malaysia, which is already seeing more Chinese investors tapping the Malaysian market, capitalizing on the country’s position as the gateway to the ASEAN Economic Community.

Chinese investment in planned and ongoing “Belt and Road” projects could total RMB1.5 trillion (roughly US$240 billion) in the coming years.[1] Part of this will come via a US$40 billion Silk Road Fund, and the newly-launched US$100 billion Asian Infrastructure Investment Bank (AIIB).

Yet this is only a small part of the trillions that will need to flow into transport and urban infrastructure over the coming decades as developing nations aim to raise productivity and deal with rising urbanization. In China alone, more than 200 million people are expected to leave their fields and villages for jobs in the city in the next 15 years. Across Asia, the total is about 640 million.[2]

All this means that local-currency markets along the “Belt and Road” routes could get a crucial boost from future infrastructure spending.

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[1] HSBC Global Research: “On the New Silk Road III”, April 2015

[2] United Nations, Department of Economic and Social Affairs: *World Urbanization Prospects: The 2014 Revision* http://esa.un.org/unpd/wup/CD-ROM/ File 3

Emerging Asian local-currency bond markets have developed rapidly in recent years, but they remain small relative to the size of the economies they serve. Outstanding volumes of such bonds stood at US$9.1 trillion late last year - including about US$261 billion in Malaysia -- according to the Asian Development Bank [3]. Additionally, according to the RAM Ratings March 2016 Report, Malaysia's bond issuance for the first two months in 2016 were mainly from the financial service sector followed by the transportation sector and infrastructure and utilities sector with a total amount of RM13.4 billion.[4] This is just a fraction of the size of the US$39.58 trillion U.S. bond market.[5]

"Belt and Road"-related spending will help provide much-needed breadth, depth and liquidity to many of Asia's smaller markets. The effect of the AIIB and other issuers tapping these local markets for "Belt and Road"-related financing will be to widen the local credit universe, attract investor attention globally, and expand corporate access to long-term capital around the region.

A "pull-factor" is also at work here, in the form of Asian cash looking for yield and investment options.

Many of Asia's economies, including Malaysia, are still growing well above the global average. [6] The ASEAN region's middle class is set to double by 2025.[7] Household, corporate and government debt levels mostly remain low compared to those in the developed world. And for an ageing population in countries like Malaysia, the stable income provided by bonds can be an attractive investment option as retirement approaches.

This convergence of supply and demand could help transform Asian financing markets in the coming years, expanding the role of bond markets in recycling Asian savings into long-term investment in infrastructure for growth – especially if policy makers manage to bring about more cohesion in areas like taxation, foreign exchange regulation and credit ratings.

On the currency front, meanwhile, more and more of the increased trade that "Belt and Road" facilitates will be settled in renminbi. In other words, the initiative will help boost the internationalisation of the Chinese currency.

The "Belt and Road" initiative will help make it easier for trucks, ships and trains to transport goods around large parts of the globe. But it could well have another valuable impact in oiling the wheels of finance.

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[3] ABD Bond Monitor, March 2016 https://asianbondsonline.adb.org/documents/abm_mar_2016.pdf

[4] http://www.ram.com.my/downloadTrack.aspx?type=pubs&sid=fc919281f31efcd77e17a88a5c5d5e85&id=753863b8-4b6a-4ae9-803f-1badcc3df89b

[5] www.sifma.org/research/statistics.aspx

[6] HSBC Research: Global Economics Quarterly, March 2016

[7] McKinsey: http://www.mckinsey.com/insights/public_sector/understanding_asean_seven_things_you_need_to_know

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