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What is China's Belt and Road Initiative?





Fredrik Skoglund
BIL Group Chief Investment Officer



Hanzhi Ding
CEO BIL Hong Kong

The Belt and Road Initiative (BRI) has been appearing more frequently in the press lately, with G7 nations expressing a desire to pursue their own international infrastructure projects, akin to China's. While these are at the early stages of discussion, Beijing's BRI ambitions are already well underway. Proponents believe that the BRI has the potential to help solve a global infrastructure gap, catalyze growth in developing nations and increase trade, whilst generating investor returns.

China's BRI



Source: Bloomberg

The project, which was first unveiled by President Xi Jinping in the fall of 2013, is a loosely-defined set of interconnected bi-lateral trade agreements and infrastructure mega-projects that seek to link China with Central Asia, the Middle East, Europe and Africa. It is often described as the 21st Century Silk Road, made up of a "belt" of overland corridors and a maritime "road" of shipping lanes. In 2017, the BRI was enshrined in China's constitution and thereafter, activity flourished, with an additional 61 countries joining BRI in 2018 alone. In all, 139 countries have joined the trillion-dollar initiative [1].

"... 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

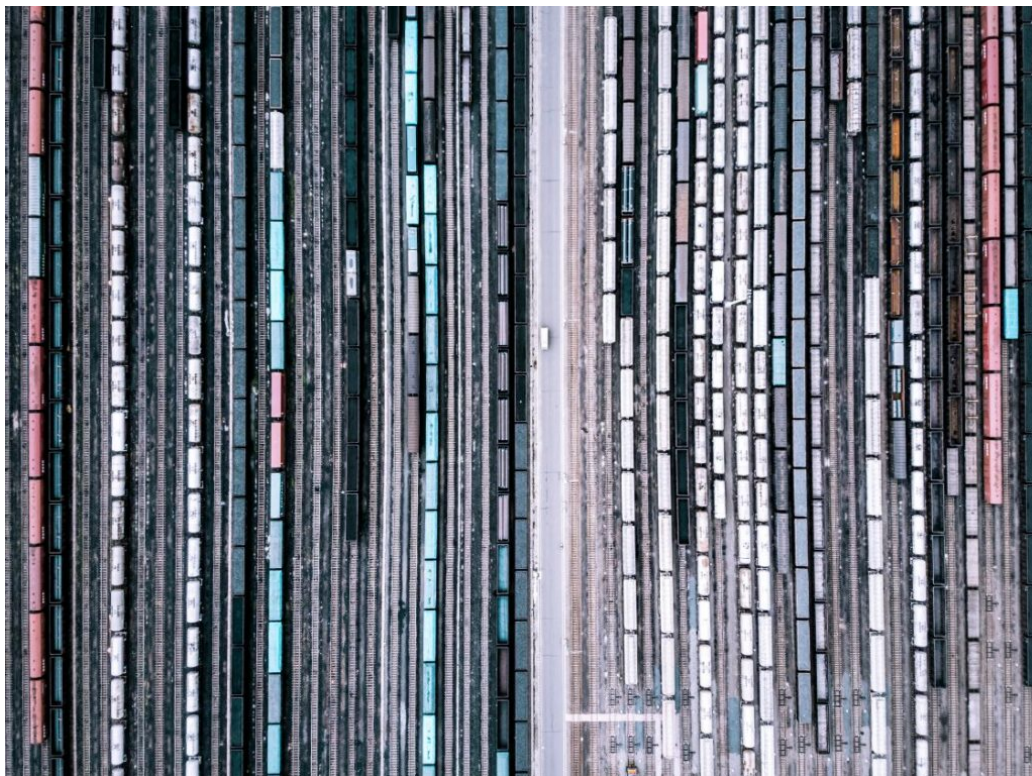
The BRI, which is infused with government financing and political clout, coincides with the [economic rise of China](#) which is forecasted to become the world's largest economy by 2028. The project will serve as an important platform for supporting "dual circulation", China's new development model consisting of the domestic economy as the main thrust of growth, complemented by the global economy [2].

THE DIGITAL SILK ROAD

Complimentary to the BRI, Beijing has launched the Digital Silk Road (DSR). Announced in 2015, with a loose mandate, the DSR has become a significant part of Beijing's overall BRI strategy, with the aim of improving digital connectivity in participating countries. The DSR provides support to Chinese exporters, to many well-known Chinese technology companies, as well as to recipient countries to improve telecommunications networks, AI capabilities, cloud computing, e-commerce, mobile payment systems, smart cities, and other high-tech initiatives.

THE SILK ROAD IN THE POST-CORONA CONTEXT

More recently, the BRI has adapted to a pandemic-era world. We saw the emergence of a "Health Silk Road", with China extending its outreach by offering Covid vaccines to other countries and by sending protective equipment along the New Silk Road by rail.



Freight trains in Harbin, China

China's rapid containment of Covid-19 meant that it dominated global trade over the second half of 2020, with lockdowns increasing foreign demand for its manufactured goods from electronics to home appliances. As shipping containers went into short supply, Chinese manufacturers were able to instead move their goods via BRI rail routes. Over 2,000 freight trains travelled from China to Europe in the first two months of 2021, double the rate from a year earlier, and over the whole of 2020, the total number of train journeys increased sevenfold relative to 2016 levels.[3] In part thanks to the increased connectivity offered by the BRI, last year China overtook the US to become the EU's largest trading partner in terms of goods, with total imports from China rising 6% to €384bn, according to Eurostat data.

On the whole, the BRI has allowed China and participating nations to greatly expand cooperation in trade, investment and industrial capacity.



Freight train crossing the Badain Jaran Desert, China

SUSTAINABILITY

As we mentioned in a previous [article](#), China is weaving its green ambitions into its policymaking and priorities. This is also true for the BRI and last year, for the first time, renewable power made up the bulk of BRI energy investments. The share of wind, solar and hydropower accounted for 57% (c. \$11bn), of China's total investment in energy infrastructure, up from 38% in 2019.[4] At the same time, it seems projects linked to pollution are falling out of favour; China has already informed Bangladesh that it will no longer consider projects with high pollution and high energy consumption, such as coal mining and coal-fired power stations [5].

INVESTMENT OPPORTUNITIES

The BRI cements our view of China as a locomotive of global growth. The constellation of ventures and projects brings advantages for Chinese firms (those directly involved as well as domestic producers through greater and more efficient connectivity to various target markets) as well as international firms, regardless of their home base. We have seen various household names from the western world participate in BRI-affiliated projects, whether it be through service and equipment provision or through joint ventures and ample room remains for private sector input, innovation and solutions.

This scope of the BRI as an investment theme is long-term, structural, multi-sector and multi-geography. Because it is spearheaded by governments and big international development banks, some believe that it could potentially offer an improved risk-return ratio. As such, BRI-themed ETFs have emerged which aim to track the equity market performance of listed companies with high revenue exposure to Chinese infrastructure development in a specified set of industries relevant to the BRI.

However, in our view, investors and companies must be selective as to which specific programs they get involved in. Considerations may include geopolitics in concerned countries (this could create roadblocks, especially given that over the long life-span of the project, governments will likely change, bringing with them new foreign policy) or credit worthiness (many of the participating nations have low or no credit ratings). A more nuanced selection process, as opposed to a broad-brushed approach, could allow investors to take advantage of the lucrative opportunities attached to the BRI, while keeping downside risk in check.

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