# BY LAND AND SEA

CHINA'S BELT AND ROAD INITIATIVE BRINGS WIDE-RANGING OPPORTUNITIES FOR NEIGHBOURING COUNTRIES, PARTICULARLY THEIR BUSINESS AND FINANCE SECTORS, AS DAVID ALDRED, YUSUF ALI KHAN AND JAGADESHWARAN KOTHANDAPANI EXPLAIN

The Middle East, North Africa, Pakistan and Turkey (MENAPT) are crucial geographic and economic elements in China's ambitious Belt and Road Initiative (BRI). Investment in power, roads, rail, ports and other infrastructure, coupled with the economic uplift these investments will bring, present financial institutions, corporates and sovereigns with a multitude of opportunities from a cash and trade perspective.

China's BRI is a vast connectivity and cooperation plan that will open new economic corridors across a large swathe of the world, transforming economic flows and the lives of millions of people. The project seeks to reshape the international trade landscape by promoting enhanced connectivity, trade flows and investment opportunities between China and numerous emerging and developed markets.

BRI encompasses 65 countries (representing 60% of the world's population and 30% of global GDP). Of these, 15 are in the MENAPT region. Neighbouring Pakistan is the focus of the China-Pakistan Economic Corridor. Currently, 26% of China's total trade volumes are with BRI countries. By 2025, this is forecast to increase to 40%. The benefits for the MENAPT region are expected to be significant.

BRI has six principal land (Belt) and sea (Road) corridors: many of these will impact MENAPT. For example, Belt corridors, a network of overland roads, bridges, tunnels, rail routes, oil and natural gas pipelines, and other infrastructure projects, will connect China with Pakistan, and China with the Persian Gulf and Mediterranean Sea via Central and Western Asia. The sea-based Road corridors extend from China's coastal ports to the Indian Ocean, Africa and Europe via the Suez Canal and will consist of ports and other coastal infrastructure projects.

## The impact of BRI

BRI is already delivering benefits to some countries in MENAPT: Pakistan, one of the project's initial focuses, is believed to have gained flows of between \$45bn and \$60bn as a direct result of the initiative; there has also been investment in Bahrain, Egypt, Iraq, Qatar (where the renminbi can now be cleared), Turkey and the United Arab Emirates (UAE) (including a bilateral currency swap deal). In many countries, BRI is building on strong foundations: China-UAE bilateral trade has increased threefold since 2004 – China is now the UAE's leading source of imports, while the number of Chinese tourists visiting the UAE increased by more than 1,000% between 2005 and 2016, for example.

One attraction of MENAPT to China is that the Middle East is home to more than half of the world's oil reserves: China became the world's largest net oil importer in 2013 and has since increased its oil import dependency from 30% in 2000 to 57% in 2014.[1] For national security reasons, China has sought to diversify its energy portfolio across geographical regions.

However, China is not merely seeking improved access to MENAPT's energy resources; it wants to expand trade between countries in the BRI plan across a wide range of sectors, including telecoms, autos, electricity generation, building materials, chemicals, engineering machinery, metals and textiles.

## Preparing for BRI

CFOs and treasurers seeking to take advantage of the opportunities presented by BRI will need to adapt to changing economic flows in order to achieve their growth objectives, so they must be able to count on treasury arrangements that are fit for purpose. While initial projects associated with BRI are likely to concentrate on infrastructure – benefiting primarily companies in the construction sector, for example – many other sectors will benefit from the broader economic benefits of BRI in the coming years.

Companies expanding within MENAPT will need cash management services to manage payables and receivables, as well as operating, collection and debt-servicing accounts that meet complex regulatory requirements across the region. Companies working with Chinese counterparties

will need special assistance with settling transactions. Escrow facilities may be necessary in order to facilitate secure investment given the characteristics of the region. BRI has already prompted a wave of M&A activity; companies will require appropriate advice.

Much of the finance for Chinese companies taking part in BRI is likely to come from the Chinese government's Silk Road Fund, China's policy banks (Agricultural Development Bank of China, China Development Bank and the Export-Import Bank of China), China's big four state-owned banks, and the Asian Infrastructure and Investment Bank. In this regard, two Chinese banks have already been granted licences to operate in Pakistan; the most recent is Bank of China, which has 19 of its branches located in countries that are part of BRI. However, both Chinese companies and those in MENAPT will also need to access funding from international banks in the form of project finance, syndicated loans, bonds and export credit agency, and multilateral agency support, including that of the Chinese export credit agencies.

Chinese and local corporates will also typically require access to traditional trade finance solutions, long-term funding for projects, cash-collection solutions and risk-mitigation structures. Instruments such as standby letters of credit, performance bonds and techniques such as bill and invoice discounting will be essential tools for treasury. Where possible, treasury must be optimised by linking trade and cash management. For example, innovative reconciliation tools can be integrated into receivables flows to improve efficiency and enhance working capital management.

## Choosing the right partner

The countries that BRI spans are extremely diverse, with a variety of regulatory environments and business practices. For companies active in MENAPT seeking to prosper from the opportunities presented by BRI, it is essential to work with a banking partner that understands the specific challenges of the region and has experience of how to help clients achieve their strategic objectives.

In this regard, banks with a strong international footprint coupled with an on-the-ground presence in those countries impacted by BRI and an in-depth knowledge of local conditions, regulatory and legal frameworks would be best placed to offer specialist support to Chinese companies requiring access to financing or seamless movement of funds.

1 energy.gov/sites/prod/files/2016/04/f30/China_International_Analysis_US.pdf

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