

An aerial photograph of a busy port area. Large container ships are docked at the pier, with numerous yellow cranes visible. Smaller tugboats and supply vessels are in the water. The background shows a cityscape and a body of water under a clear sky.

One Belt, One Road – Many Motives

Stephanie Gan

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China's Belt and Road Initiative draws on inspiration from the ancient Silk Road, but with broader territorial reach and potentially massive economic, political and social implications. The financial scale of this undertaking dwarfs the U.S. Marshall Plan in current dollar terms, but prompts key questions: how will it be funded, and who will pay for it?

One Belt, One Road – Many Motives

The Belt and Road (B&R, or One Belt, One Road) is an ambitious vision for global trade, infrastructure development, and diplomacy. First articulated by Chinese President Xi Jinping in 2013, the initiative frames China as the geographic and financial center, with ties radiating toward Europe, Asia, and Africa, as shown below in Figure 1.

Figure 1. Silk Road Routes



Source: © The Economist Group Limited, London (2 July 2016).¹

While the Belt and Road draws inspiration from the ancient Silk Road and has clear trade implications, the initiative addresses a much longer list of potential objectives, as illustrated in Figure 2.

Figure 2. B&R – China’s Many Motives

Trade	<ul style="list-style-type: none"> • Remove physical bottlenecks to trade in Eurasia • Foster new export markets for Chinese goods • Promote the renminbi’s (RMB) internationalization and reserve currency status
Economic	<ul style="list-style-type: none"> • Accelerate economic growth and state-owned enterprise (SOE) profits through new infrastructure contracts • Prepare domestic Chinese companies for global competition through exposure to international projects and management practices² • Pair ongoing SOE restructuring with a favorable business environment for completing contracts • Find new avenues for credit expansion and economic growth outside of China
Political	<ul style="list-style-type: none"> • Project a softer image to neighbors by demonstrating leadership, generosity, and a commitment to clean energy investment • Showcase China-led multilateral institutions, build credibility and standing among international agencies • Create a foreign policy legacy for Xi Jinping’s presidency
Military	<ul style="list-style-type: none"> • Secure strategic access to ports and air facilities through commercial investments • Organically expand China’s naval and military reach while securing project security and supply lines
Security	<ul style="list-style-type: none"> • Bring stability to China’s poorer Central and Western provinces through accelerated economic development and improved infrastructure • Open alternative routes for oil and gas imports

Economic Origins

China is facing pressure to sustain its economic growth against a backdrop of stagnating global trade and excess capacity at its state-owned enterprises (SOEs). One remediation involves sending excess labor and materials to less-developed neighbor countries. At least \$900 billion in B&R infrastructure projects have been committed to date.³ To put this number in context, the Marshall Plan was worth \$140 billion in current dollar terms, or just one-sixth the size.⁴ China ultimately expects B&R spending to surpass \$4 trillion.

Key Players

Much of the initial seed funding came from China’s foreign reserve injections, but project-level participation is spread across multiple layers of funding institutions that include policy banks, state-owned banks, multilateral development institutions, and private commercial banks. Some of the loans do not appear attractive from a strictly commercial standpoint, but they are also driven by policy mandates.

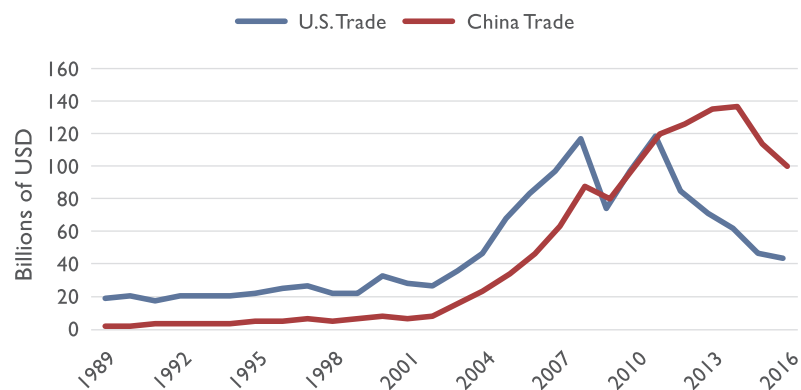
The SOEs providing materials and engineering capabilities have responded robustly to the opportunities afforded by President Xi’s political will and banks’ funding. According to China’s State-owned Assets Supervision and Administration Commission (SASAC), at least 1,700 B&R projects have been added to the order books of an estimated 47 central SOEs.⁵ The main risk may be that B&R projects are extremely de-centralized and, at times, difficult to define. Charles Parton, a former European Union (EU) diplomat in China, noted, “If you want to get projects or programmes approved, you say it’s OBOR [One Belt, One Road], so everything becomes OBOR.”⁵

Benefits and Risks

The B&R initiative is still too early in its implementation to judge success. Infrastructure projects are long-term by definition, and overseas investments are further complicated by disparate regulatory and tax regimes.

China’s investment in Africa provides an example of the potential for B&R. Billions of dollars in African infrastructure projects have been financed and completed by Chinese firms since the early 2000s. Newly constructed dams, roads, universities, and railways are tangible reminders of China’s investment, and a 2016 survey spanning 36 African countries found that 63% believed China’s influence was “somewhat” or “very” positive.⁶ Over the same period, China multiplied its trading volume with African countries and far surpassed the U.S. as an economic partner with Africa (Figure 3).

Figure 3. Trade Value with African Countries



Source: International Monetary Fund. Data as of 25 September 2017.

In contrast, Sri Lanka’s experience is viewed in the region as a cautionary tale. After struggling to meet payments on \$8 billion owed in Chinese infrastructure loans and interest, the island nation negotiated 99-year leases to Chinese SOEs for large parts of Colombo Port City and Hambantota Deep Sea Port in exchange for partial debt forgiveness.^{7,8} Sri Lanka’s case is especially concerning today, as B&R’s roster includes projects in some of the most impoverished countries in Central and Southeast Asia.

Finally, it is important to note that risks arising from insolvent loans are two-sided, though not always symmetrical. Non-performing loans are a headache for lenders as well, as they impair balance sheet health and liquidity. China is counting on outside investors to share in B&R financing opportunities, so maintaining confidence in the initiative's commercial viability is critically important. The Asian Infrastructure Investment Bank (AIIB) was set up by China in part to facilitate global investment, and foreign countries' participation in its capital has already grown to 70%.⁹

The Long Game

Outsiders will likely question how one country is able to plan on such an immense scale and time horizon. While there is no close precedent for B&R, Chinese leaders have a track record of long-term planning. Former President Deng Xiaoping's economic reforms continued for decades under his and his successors' watch.

President Xi's foreign minister, Wang Yi, has said that the Belt and Road initiative is Mr. Xi's most important foreign policy.¹⁰ Considering the efforts President Xi undertook to solidify his power base and the recent abolishment of presidential term limits, it is unlikely that continuation of his prestige project will be in doubt.¹¹

In the end, China's leadership should be applauded for its risk-taking in the name of long-term growth and its willingness to work with nations that have been sidelined by global financial institutions. The hope is that China's banks and smaller business partners are given adequate protections in the process.

¹ "Our bulldozers, our rules," *The Economist*, 2 July 2016.

<https://www.economist.com/news/china/21701505-chinas-foreign-policy-could-reshape-good-part-world-economy-our-bulldozers-our-rules>

² Sara Hsu, "China's Energy Insecurity Glaring in South China Sea Dispute," *Forbes*, 2 September 2016.

<https://www.forbes.com/sites/sarahsu/2016/09/02/china-energy-insecurity-south-china-sea-dispute/#6fb6f2642eec>

³ "China encircles the world with One Belt, One Road strategy," *The Financial Times*, 3 May 2017.

<https://www.ft.com/content/0714074a-0334-11e7-aa5b-6bb07f5c8e12>

⁴ "CPI Inflation Calculator," Bureau of Labor Statistics.

<https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=13&year1=194801&year2=201709>

⁵ "Chinese SOEs can manage B&R investment risks: official," *Xinhua*, 8 May 2017.

http://news.xinhuanet.com/english/2017-05/08/c_136266324.htm

⁶ Kim Yi Dionne, "Here's what Africans think about China's influence in their countries," *Afrobarometer*, 28 October 2016.

<http://afrobarometer.org/blogs/heres-what-africans-think-about-chinas-influence-their-countries>

⁷ Ankit Panda, "Sri Lanka Formally Hands Over Hambantota Port to Chinese Firms on 99-Year Lease," *The Diplomat*, 11 December 2017.

<https://thediplomat.com/2017/12/sri-lanka-formally-hands-over-hambantota-port-to-chinese-firms-on-99-year-lease/>

⁸ Yogita Limaye, "Sri Lanka: A country trapped in debt," *BBC News*, 26 May 2017.

<http://www.bbc.com/news/business-40044113>

⁹ "The AIIB: The Infrastructure of Power," *The Economist*, 30 June 2016.

<https://www.economist.com/news/finance-and-economics/21701494-reasons-be-enthusiastic-about-chinas-answer-world-bank-infrastructure>

¹⁰ J.P., "What is China's belt and road initiative?" *The Economist*, 15 May 2017.

<https://www.economist.com/blogs/economist-explains/2017/05/economist-explains-11>

¹¹ "China Abolishes Term Limits for President," *VOA*, 11 March 2018.

<https://www.voanews.com/a/china-xi-rule-indefinitely/4291573.html>

Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank, headquartered in Beijing, that invests in sustainable infrastructure and other productive sectors. The bank commenced operations in January 2016.

Policy Banks are three banks in China (Agricultural Development Bank of China, China Development Bank, and Export-Import Bank of China) that were established in 1994 to finance state-invested projects, as well as economic and trade development priorities.

Renminbi (RMB) is the official currency of the People's Republic of China. The name literally means "people's currency." The yuan (sign: ¥) is the basic unit of the renminbi, but is also used to refer to the Chinese currency generally, especially in international contexts.

State-owned Enterprise (SOE) is a legal entity that is created by the government in order to participate in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government.

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