Keynote Paper:
Belt and Road Initiative Financial Perspectives

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ABSTRACT
China's Belt and Road Initiative (BRI) is to take reference from the historic Silk Roads to replicate two new modern road and maritime based Silk roads which apparently cover more than 60 countries and regions from Asia, Africa to Europe. Five aspects and beyond of BRI jointly written by ACCA-SSE (Shanghai Stock Exchange) entails for the developing areas. There is huge potential to develop Asia to Europe starting from infrastructure projects which are to invest billions of dollars. This article is focused to discuss BRI financial perspectives including Financial Integration, Internationalization of Chinese Yuan and so on for facilitating BRI illustrating by real case studies.

Keywords: BRI, Silk Road, Internationalization, Chinese Yuan, Financial Integration

1. Introduction

This easy will discuss the basic rationales of the China's ambitious huge or global Belt and Road Initiative (BRI) following by the issues of benefits and challenge of China economics such as internationalization of Yuan and Financial Integration are critical issues. Two case studies the Bank of China and Malaysia as examples for illustrate how BRI being implemented and benefits to countries like Malaysia. The write out of the cases based on interviewing with senior bankers and economists.

2. Five Aspects of BRI

Policy coordination, connecting infrastructure, promoting unimpeded trade, financial integration and fostering people-to-people bonds are the five aspects driving motivation for implementing the BRI.

Policy Coordination sits at the top of the list for increasing coordination between nations promoting intergovernmental cooperation and communication. This would be highly beneficial for all nations involved and certainly leads to promotion of overall trade, knowledge transfer, increased political trust and stability and the reduction of political barriers for future regional projects. This requires close intergovernmental cooperation and multilevel intergovernmental mechanisms for macro policy exchange, in order to strengthen interest in the project, enhance mutual political trust and reach a consensus for cooperation. Belt and Road Forum for international cooperation emphasizes on mutual discussion, mutual construction, and mutual sharing. Malaysia and China do remarkably well as Malaysia has not only become one of the biggest receivers of BRI related investments, but also on of its biggest beneficiaries for its infrastructure development.

Connecting Infrastructure is the most tangible and obvious motivation of the BRI. This is the push for infrastructure development and connectivity to form an infrastructure network that will bring together all sub-regions in Asia, Europe, and Africa. This will increase connectivity between BVI regions and countries and help to bring down barriers in trade such as logistic issues. This goal a reality respecting every BRI country and region's sovereignty and security concerns while connecting of infrastructure needs. ACCA-SSE (2017) recommends that countries along the BRI routes should actively plan ways of connecting their infrastructure and bring technical standards into line working together to build international passageways. This means making improvements to or entirely new construction of transportation infrastructure, energy infrastructure, and cross-border cable and other communications networks. So far, the push for connecting infrastructure has be a tedious task as government officials of involved countries have all been fighting for their country's best interest in the initiative.

Unimpeded trade, BRI apparently creates a sound environment for cross border business by removing barriers to attract investors which include bilateral investment protection agreements to protect legitimate rights and interests. This purpose is to expand areas of trade and improve trade structures while exploring new areas of growth and promote balanced trade. Investment and trade are as complementary: one drives the development of the other. New trade channels such as cross border e-commerce will consolidate and expand conventional business.

Financial Integration, it is a related concept with financial markets defines the integration of financial markets either regionally or globally. Higher level of financial market integration should be followed by lowering the cost of capital, increasing investment opportunities, and increasing economic growth via international risk sharing (Bekaert & Harvey, 2003). However, the high level of financial integration means also higher sensitivity to global financial crises. BRI does improve financial integration between countries by implementing more stable financial systems, currencies and so on.

People-to-people bonds, the motivator of the BRI is to allow to extensive cultural and academic exchanges between the populations of all countries and regions involved, particularly increasing movement of people among countries/regions of Belt and Road paths. Such endeavors will play a leading role in helping strengthen public support and deepen bilateral and multilateral cooperation between countries. The Xiamen University, the first Chinese university is perfect example of how China is marrying their trade ambitions with cultural and academic exchanges. The BRI initiative has the potential to strengthen cross-border dialogue and to foster multinational cooperation, which will in turn create stability and encourage mutual investment beyond the home country.

Further, with implementing BRI, the world will gain the major areas: 1. New Economic order, in the past, high value added and knowledge-intensive sectors such as design, R&D and engineering are all mainly dominated by developed countries while developing countries such as majority of Asean are engaged in low-value added and labour intensive industries such as manufacturing. The BRI's impact will challenge the status quo of the current economic order as majority of its two routes run the through developing countries. This will promote developing regions to have their own economic and trade exchanges allowing them to grow, thrive and benefit together. 2. Rebalancing the global economy, China rebalanced itself to be one of the largest and top growing in our world, the BRI is expected to also boost the economies of the countries and regions involved in similar manner thru industrialization and development. 3. Promoting globalization, the global economy rebalanced and the growth of BRI countries and regions become highly apparent to the rest of the world. The current wave of anti-globalization sentiments will die down (ACCA-SSE, 2017). The BRI will create new opportunities for cooperation between countries to further global economic growth including many developing countries.

3. Issues of BRI and its Financial impact

3.1 Financial Integration

Financial integration between countries involves building stable currencies, credit system and an investment and financing system. In this regard, the Asian infrastructure Investment Bank (AIIB) was formed to fulfil his role and to provide funding and support to the implementation of the BRI. And further work for increased financial integration will again take place with the establishment of the Shanghai Cooperation Organisation (SCO) development bank to lend more support to the Silk Road Fund. "The China-Asean Interbank Association and SCO Interbank Association will carry out multilateral cooperation in the for of syndicated loans and bank credit. Governments of the countries along the B&R, and their companies and financial institutions with a good credit rating, will be permitted to issues RMB -denominated bonds in China. Qualified Chinese financial institutions and companies are encouraged to issue bonds in both RMB and foreign currencies in these countries, and to use locally raised funds locally in countries along the B&R," (ACCA-SSE, 2017). That is countries involved in AIIB and SCO will cooperate in financial regulation to make good use of the Silk Road Fund and Sovereign Wealth Funds, while also encouraging commercial equity investment funds and privates to take part in the construction of the key BRI projects.

3.2 Internationalization of Chinese Yuan,

The process by which a currency becomes truly international is both lengthy and complex. It involves macroeconomic aspects such as economic development, trade growth and monetary policy. It is also inextricably linked with trade settlements and capital account liberalization, as well as capital market development, and regulation. We can draw on and learn from the experience of countries which have undergone the process, though many of the measures they have adopted may not be directly applicable.
China the world's second largest economy in 2010, China becomes world largest exporter now and second importer current year. Despite China's continued economic strength, the CNY has still not attained international status for financial liberalization and currency freely convertible comparable to China's economic standing. As part of its foreign exchange management reform, China has undertaken obligation of International Monetary Fund (IMF) Accord, with a view to establishing free convertibility of the CNY under the current account.

Four current developments relevant to BRI related to accelerate the internationalization of RMB Currency: 1. The impact of multilateral trade, the amount of RMB settled cross-border trade and direct investment has been continually rising (IMI 2016). The BRI covers a population of about 4.4 bn in more than 60 countries. If te majority of the bilateral and multilateral trade between BRI countries is denominated and settled in RMB , RMB will certainly ciculate widely and rise in both status and influence. In fact, to avoid exchange rate risk and reduce transaction costs, RMB would become the prime choice as a settlement currency. 2. The impact of infrastructure construction. China is expected to help improve the transport, power and communication infrastructure in the BRI countries in coming decades and ultimately achieve greater integration of Asian and European economies. This infrastructure construction program will generate a juge flow of funds; China Development Bank estimates that there will be more than 900 projects under construction in the BRI plan with the amount of investment exceeding USD800bn.

The outflow of infrastructure construction funds will spread the RMB to the BRI countries, where the use of RMB will become routine. This regionalization of the RMB will contribute to the RMB's further internationalization. 3. An improved financial platform. On 29 June 2015, China, India and other 48 countries signed the Asian Infrastructure Investment Bank Agreement, making the official inauguration of the AIIB and the beginning of the further expansion of RMB internationalization. 4. The RMB as an official reserve asset. The RMB has already been adopted as an official reserve asset in come countries including Cambodia, Malaysia, Nigeria, Philippines, South Korea and Russia, although generally accounting for only about 5% of their total foreign exchange reserve. The IMI's RMB Internationalization Report 2016 show slow upward trend (Q1 2014 to 2016) in RMB by RMB internationalization Index.

3.3 Trade Settlement

Percentage of RMB use in global trade from 20 ranking Jan 2012 to Jan 2017 6 ranking. Trade settlement by RMB, PBOC and State Administration of Foreign Exchange (SAFE) established in 1979, SAFE supervises foreign exchange activities of China's financial institutions. It has been encouraged to settle trade payment by RMB which also save banks charges. Authorized overseas Chinese banks become supplier of RMB in difference countries such as Bank of China at Macau and Hong Kong, ICBC at Singapore and Malaysia. Those are offshore RMB financial centres and several RMB settlement banks built in recent years provide a guarantee mechanism for the internationalization of the RMB, and so will also help to enhance the regional and international influence of the RMB currency.

3.4 Qualified Foreign Institutional Investors (QFII) program

One of the first efforts to internationalization the RMB, represents China's effort to allow, on a selective basis, global institutional investors to invest in its RMB denominated capital market. Once licensed, foreign investors are permitted to buy RMB-denominated "A shares" in China's mainland Shanghai and Shenzhen stock exchanges. Thus foreign investors benefit from an opportunity to invest onshore, which is otherwise often insulated from the rest of the world, and subject to capital controls governing the movement of assets in and out of the country. To qualify for QFII, the candidate must: have stable finance, good credibility, meet the minimum asset scale set by China securities Regulatory Commission

(CSRC), have healthy governing structure and complete internal control system, received no significant punishment in the last 3 years and so on.

3.5 Case Study: Bank of China

Offices, credit and clearing: One of the big four banks in China ranked No 4 largest banks in the world (The Bankers 2015-17) which is China's most internationalized bank, the BOC spares no effort in supporting infrastructure projects, actively providing credit support for domestic enterprises seeking mergers and acquisitions and investment in the countries along the route. In 2016, the Bank launched a new credit tranche of about USD60bn. It has followed up about 420 major projects under the BRI, with total project investment topping USD400bn, coupled with an intentional support budget of about USD94.7Bn. The BOC began cross-border RMB business at an early stage and this now accounts for the highest shar of its business, vigorously promoting the extensive use of the RMB currency in the countries along the BRI route. Among the 23 authorized RMB clearing banks, BOC has 11 seats, covering Malaysia and Hungary (both part of the BRI), creating a good foundation for systematic services along the route. By the end of 2016, BOC had overseas offices in 50 countries and regions worldwide including 19 BRI countries.

The first 'cross-border match maker: Global SME cross-border matching service is an important innovation. It acts as a platform for exchanges between SMEs worldwide with cross-border investment and trade cooperation needs. The Bank sets up cooperation mechanisms with foreign governments, banks and chambers of commerce to share business information, facilitating remote online communication, on-site one-to-one negotiation and follow-up on-site visits. Since 2014, BOC has successfully held match making involving 15,000 Chinese and foreign businesses have agreed over 5,000 cooperation intentions, of which 1,300 have been translated into substantial cooperation, with 90% of the customers match accurately. Industries included high-end manufacturing, environmental protection, information technology, education, health care,modern agriculture and many others.

Innovative approach to financial integration: BOC has combined domestic and foreign resources to strengthen overseas market development along BRI path. For example, the Bank selects key employees from the head office and domestic and overseas branches and sets up marketing groups to promote the smooth implementation of projects relating to the BRI. The countries along the BRI route are mostly developing, emerging and transition economies, which have a strong demand for financial integration. In June 2015, the BOC successfully issued USD 4bn BRI bond in overseas markets, deploying the raised funds in its branches and offices along the BRI route. This has an unique and innovative step, signaling the BOC's capabilities in cross-border capital coordination and efficient allocation of resources worldwide.

3.6 Case Study: Malaysia

During recent Belt and Road Forum held in Beijing in May 2017, yield a total nine memorandums of understanding and agreements signed between Malaysian and Chinese companies. 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. In Malaysia, BRI will impact industries, businessmen, farmers and even students in Malaysia especially when China has committed to step up investments for infrastructure projects and import more fresh pineapples and pam oil. These agreements are mostly trade based and boasted a total value of US$7.22 Billion. President ever described bilateral trade between Malaysian government for its support and commitment towards BRI.

Malaysia: ECRL Railway. The RM 55 billion 688km rail project linking peninsular Malaysia's east and west is a major part of BRI's infrastructure push. It will connect the south china sea at the Thai border in the east with strategic shipping routes in the west. The project award has been awarded to the China Communications Construction Company Ltd. That means countries come together to integrate resources to achieve economic growth on global scale. There are many opportunities for Malaysia such as expand Sultan Ismail Peta Airport. Property Development tourism and all these will also increase demand Malaysian ringgit instead of US dollar since BRI encourage using local currencies. However, there are risk and challenge of all these BRI projects such as importing foreign skilled/specialist workers, interest rate risk and repayments. Obviously, these projects will benefit Malaysian economy instead just looking at monetary term to justify the whole situation.

4. Conclusion

Two cases bring in RBI to real situation and demonstrate how RBI projects benefit countries along RBI route and hence impact on world economics. RBI will continue to expand and the world economic orders. As a starting point for future research work.

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Author's Background

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