While it may be set to shape the future, the Belt and Road Initiative (Belt and Road) is already changing the world today. Mega projects are underway in Asia, Europe and Africa, generating an influx of fixed investment and creating early efficiency gains.

The new financial landscape has generated investment opportunities across asset classes and sectors. Fixed income has emerged as a key channel to date given the unique access and upside opportunities present in Belt and Road-related USD bonds.

**China's vision for the Belt and Road Initiative**

Belt and Road is a historic undertaking that will enhance cooperation between the Asian, European and African continents. Underpinning the approach are numerous infrastructure projects that stretch across six designated economic corridors to create a network of new and improved connections by land, sea and air (Figure 1).

**Figure 1: Geographical overview of the Belt and Road**

![Geographical overview of the Belt and Road](image)


The vision for Belt and Road was first officially outlined in September 2013 during a speech delivered by President Xi Jinping at Kazakhstan’s newly founded Nazarbayev University. He spoke about increasing the linkages between China and Central Asia, harkening back to the mutual economic development generated by the ancient Silk Road.
Plans have since expanded to include 100 signed cooperation agreements with 86 countries and international organizations. More recently, Belt and Road was written into the Constitution during the 19th Communist Party of China National Congress meeting in October 2017. This ensures it will remain a long-term priority for government authorities and private enterprises. Belt and Road has already fetched more than US$600 billion from major Chinese institutions and may require US$150-200 billion annually for the foreseeable future.

**Early impact of projects underway**

Media and industry analysts regularly report on how Belt and Road may shape the future, but this historic initiative is already creating a new financial landscape now.

Several projects have broken ground. An industrial park in Belarus has attracted 25 companies following its initial launch, for example, and is slated to cover 91.5 square kilometers upon completion. In 2016, a 3,000-km overland passage from Kashgar in Western China to Pakistan’s deep-water port of Gwadar became operational for the first time. More recently, freight trains commenced service between London and Yiwu in Eastern China, delivering goods in half the time it would take to ship them by sea.

"Media and industry analysts regularly report on how Belt and Road may shape the future, but this historic initiative is already creating a new financial landscape now."

These are just a few of the mega-infrastructure improvements underway or set to come online over the next several years. China announced in May 2017 that 50 state-owned enterprises had become involved in almost 1,700 Belt and Road projects during the past three years. Altogether, Chinese companies have already generated a reported 180,000 jobs and almost US$1.1 billion in tax proceeds through the Belt and Road.

**Improving conditions in Belt and Road countries**

Early returns from infrastructure projects together with the expectation of further fixed investment has strengthened the financial conditions of countries along the Belt and Road region. Improved sovereign credit spreads may reduce the funding cost for these countries, for example, enabling them to raise capital more effectively to support their domestic economies and social programs (Figure 2).

![Figure 2: Composite sovereign credit spread (Pakistan, Kazakhstan and Nigeria)](image)

Source: Bloomberg, Invesco, data as of 18 Jan 2017.

1. “China signs cooperation agreements with 86 entities under Belt and Road.” Xinhua 23 December 2017.
5. “SOEs lead infrastructure push in 1,700 ‘Belt and Road’ projects.” Caixin 10 May 2017.
As for improvements in infrastructure, while mega projects like trans-continental railways or deep-water ports may be grabbing the headlines, increasing penetration of wireless communications infrastructure is another important area for development. There is still much work to be done in this area as countries along the Belt and Road region like Ghana and Indonesia lag the world average in internet connectivity (Figure 3). Improvements in information technology should spark innovation and stimulate consumer spending in these countries, which could lead to higher economic growth.

China's recent development illustrates how rapid economic growth and technological development often go together. In 2005, China ranked as the world's sixth largest economy and less than one in ten people within the country had internet access. A decade later, online connectivity had spread to half the population, creating a platform to stimulate consumer spending and spark operational efficiencies. The economy had grown nearly fivefold by that time to become the world’s second largest behind the United States (Figure 4). The internet should continue to boost the Chinese economy and could add 0.3 to 1 percentage points to the growth rate through 20257.

Investment opportunities emerging in fixed income

While there is no shortage of ways investors can capitalize on a systematic investment program as large as Belt and Road, fixed income has emerged as a key channel to date given the deep pool of bonds issued to finance the initiative.

For investors in USD bonds, they can avoid currency risk and liquidity risk by dealing with issuances traded around the clock in international bond markets. Meanwhile, strengthening credit profiles may contribute to improvements in bond yields, which can support price appreciation potential of select sovereign issues from countries along the Belt and Road region.

Fixed income investors could also benefit from new issue premiums as a large supply of bonds continue to come online to meet growing financing needs for Belt and Road related projects. To ensure successful issuances, issuers may offer higher yields compared with bonds that have similar maturities and credit ratings. On average, there are currently an estimated 1-5 new issues of USD bonds issued per trading day related to the Belt and Road.

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Significant influence across sectors

The staggering scale of Belt and Road ensures that it will have a defining impact on several sectors for years to come as current projects come online and new ones start to take shape. In banking, for example, lenders in countries along the Belt and Road region will need to grow their balance sheets exponentially to accommodate financing for new projects. They must also add business services in areas like equipment leasing, trade finance and commercial banking.

The commodities and materials sectors also stand to grow significantly as new connections to resource-rich areas along the Belt and Road region increase production and export levels. Enhanced linkages between China and Mongolia, for example, led in part to a reported 50% increase in coal exports from Mongolia’s largest deposit Tavan Tolgoi.

In the agriculture sector, increased inter-regional connectivity together with the import of new farming technologies should lead to significant increases in production. Many countries along the Belt and Road region have vast tracts of arable land that have historically been underutilized because of their relative remoteness. Kazakhstan has about 30 million hectares of arable land, for example, but reportedly less than half in active use.

Since being introduced in 2013, the Belt and Road has grown into a full-fledged operation that is redefining the global map with railways, ports, highways, wireless beacons and industrial parks. This modern day Silk Road is already brimming to life and stands to enhance links between more than half of the world’s population.

The influx of fixed investment and early efficiency gains from new projects have already contributed positively to economic development in Belt and Road countries. Current investment opportunities should continue to grow as further development gets underway.

"The staggering scale of Belt and Road ensures that it will have a defining impact on several sectors for years to come as current projects come online and new ones start to take shape."

10. “In Kazakhstan more than half of agricultural land is not being used.” Agro2b 8 July 2016.
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