IMPACT OF BELT & ROAD INITIATIVE:
A NEW JOURNEY BEGINS
Overview

• Why Belt & Road Initiative (BRI)?
• BRI Overview
• Opportunities and Risks
• Broad Business Opportunities
• Business Opportunities for Chemicals
• Outlook
WHY BELT AND ROAD (BRI)?

Source: KPMG Global China Practice

### Two routes

**Silk Road Economic Belt**
- China–Central Asia–Russia–Europe (Baltic Sea)
- China–Central Asia–Western Asia–Gulf–Mediterranean Sea
- China–Southeast Asia–South Asia–Indian Ocean

**21st Century Maritime Silk Road**
- China–South China Sea–Indian Ocean–Europe
- China–South China Sea–South Pacific Ocean

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### CHINA’S ECONOMIC RATIONALES BEHIND BRI

<table>
<thead>
<tr>
<th><strong>Boost the Chinese economy</strong></th>
<th><strong>Facilitate trade among nations</strong></th>
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<tbody>
<tr>
<td>• China aims to address the slowdown in GDP growth by creating new markets</td>
<td>• China aims to strengthen its trade with nations along the route through roads, railways and ports</td>
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<th><strong>Promote international cooperation</strong></th>
<th><strong>Internationalize the Chinese Renminbi</strong></th>
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<tr>
<td>• China intends to promote cross-continental cooperation between China and Eurasia nations</td>
<td>• China aims to strengthen the Renminbi as a global trade and investment currency</td>
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Source: Drivers of the Belt and Road initiative, [http://www.nbr.org/publications/books/Belt_Road_Initiative/Chinas_Eurasian_Century_ch3.pdf](http://www.nbr.org/publications/books/Belt_Road_Initiative/Chinas_Eurasian_Century_ch3.pdf)
## CHINA’S STRATEGIC RATIONALES BEHIND BRI

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<th>Enhance the Chinese firms’ ‘Going global’ strategy</th>
<th>Resolve industrial overcapacity</th>
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<tbody>
<tr>
<td>• Chinese firms’ overseas investment is essential to moderate China’s economic slowdown</td>
<td>• China’s overcapacity in steel, cement and aluminum could be utilized in infra-deficient economies</td>
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<th>Develop global infrastructure capability</th>
<th>Reduce cost of doing business in the region</th>
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<tr>
<td>• The Chinese firms intend to grow international operations capabilities by working on high-value and large scale projects</td>
<td>• China aims to reduce cost of doing business by investing in infrastructure in the region</td>
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Source: Drivers of the Belt and Road initiative, [http://www.nbr.org/publications/books/Belt_Road_Initiative/Chinas_Eurasian_Century_ch3.pdf](http://www.nbr.org/publications/books/Belt_Road_Initiative/Chinas_Eurasian_Century_ch3.pdf)
**BROAD DRIVERS AIDING BRI**

**Infrastructure needs in countries along BRI**

• The infrastructure needs in Asia and Africa are being driven by growing urbanization and underdeveloped infrastructure
  - Many developing nations lack basic infrastructure such as roads, railways, water, hospitals and utilities

**Financing deficit among developing countries**

• Several countries along the Belt and Road lack domestic access to capital, making basic infrastructure investments difficult
  - The lack of capital for infrastructure projects can be aided by financing institutions, such as AIIB and SRF

Source: https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates
BELT & ROAD INITIATIVE OVERVIEW

### Belt & Road Initiative

**Silk Road Economic Belt**
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**21st Century Maritime Silk Road**
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Source: KPMG Global China Practice
HISTORY

- Introduction
  - Silk Road Economic Belt
  - Maritime Silk Road
- Silk Road Fund
  - China contributed US$40.0 billion
- Belt and Road Forum (BRF)
  - Attended by 30 world leaders

- AIIB founded
  - 21 countries join AIIB as founding members
- Roadmap released
- Economic corridors announced
KEY FUNDING ORGANIZATIONS

- **SRF**
  - Set up: Dec. 2014
  - Initial size of fund: US$40.0 billion

- **China Policy Banks**
  - Funds for lending to BRI: US$55 billion

- **AIIB**
  - Set up: Oct. 2014
  - Registered capital: US$100 billion

- **BRICS NDB**
  - Set up: July 2014
  - Authorized capital: US$100 billion

Sources:
- http://english.cri.cn/12394/2015/05/29/3684s880770.htm

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Source: “One Belt, One Road” Initiative: The Implications for Hong Kong, [http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/One-Belt-One-Road-Initiative-The-Implications-for-Hong-Kong/rp/en/1X000000/1X0A23WV.htm]
OPPORTUNITIES AND RISKS

Two routes

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Source: KPMG Global China Practice
OPPORTUNITIES TO BRI COUNTRIES (1/2)

Trade stimulation and employment

• Improvements in transport, energy and infrastructure would pave the way to stimulate trade
• Manpower needed to execute the programs and projects would lead to employment opportunities

Financing needs addressed

• The least developed countries (LDCs) would get access to capital for infrastructure projects, by way of BRI initiatives

Source: Trade Stimulation and Employment: “Singapore in a position to benefit from Belt and Road push”, Straitstimes, August 2017; China’s Belt & Road Initiative, CIMB, September, 2017 via Thomson One
OPPORTUNITIES TO BRI COUNTRIES (2/2)

Infrastructure development

- BRI projects would serve as facilitators for development of infrastructure in areas of road, rail and ports
- Sectors - such as engineering services, logistics and power would also likely benefit

Knowledge sharing

- Greater interdependencies and interaction will bring people together to share ideas, know-how and best practices
- Fostering cultural and academic exchanges

Sources:
- “China, Pakistan Sign Major Agreements Ahead Of One Belt”, One Road, NDTV, May 17
- “China’s One Belt & One Road Initiative”, CIMB, September, 2017 via Thomson One
- “China, Pakistan ink major agreements ahead of BRI”, Financial Express, May 2017
- “Knowledge sharing along the Silk Road”, Aszhir Portal, April 2017
- “Belt and Road Initiative to bring win-win results: Malaysian official”, Xinhua, May 2017
# RISKS WITHIN BRI

## Operational risk
- Projects involve suppliers and contractors from multiple geographies
- Conforming to norms of varied countries has caused, and is expected to cause, delays in the near future as well

## Financial risk
- Very large investment size, most being debt that requires regular servicing
- Demand on completion of projects is difficult to predict

## Political risk
- Change of governments in power may lead to newer policies, frameworks and compliances

Source: One Belt, One Road Moving Faster Than Expected, DBS Asian Insights, September 2017
OPPORTUNITIES FOR FOREIGN COMPANIES (1/2)

**Investment and business opportunities**

- **Securing construction contracts**
  - The construction of new infrastructure along the route could provide opportunities to well-positioned foreign MNCs to secure mega-construction projects

- **Scaling operations and provision of services**
  - Foreign MNCs could scale their operations along the route and benefit from increased trade activities

- **Strategic partnerships and JVs**
  - Companies could enter into strategic partnerships/alliances to collaborate on various projects
OPPORTUNITIES FOR FOREIGN COMPANIES (2/2)

Management of operations of newly built assets
- The management of operations of new infrastructure assets built along the route would generate opportunities for operators

Divestment of non-core assets
- The initiative would provide opportunities to foreign MNCs to divest their non-core assets

Growth in tourism
- BRI projects would improve connectivity between countries, thereby creating opportunities for the tourism industry
### BROAD BUSINESS OPPORTUNITIES

#### 21st Century Maritime Silk Road
- China–South China Sea–Indian Ocean–Europe
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#### Silk Road Economic Belt
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Source: KPMG Global China Practice
BROAD BUSINESS OPPORTUNITIES BY SECTOR

BUSINESS OPPORTUNITIES FOR CHEMICALS

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Source: KPMG Global China Practice
BRI: CHINA-MIDDLE EAST RELATIONS

Background

• The Middle East is a critical partner in BRI initiative
• In June 2014, China’s President led emphasis on significance of the Middle East’s cooperation at the China-Arab States Cooperation Forum

Objectives

• Accelerate trade and cooperation
• Establish free trade agreements
• Grow participation in AIIB
• Develop the Middle East as hub for the two silk routes
• People to people exchange
BRI INVESTMENTS IN THE MIDDLE EAST (1/2)

- **Planned joint investment fund**: US$10.0 billion seeking investments in renewables, energy, technology
- **Planned joint investment fund**: US$20.0 billion for cooperation in oil, energy, technology
- **China’s investment (2016)**: US$10.0 billion in ports, energy, power
BRI INVESTMENTS IN THE MIDDLE EAST (2/2)

- **Planned credit line**: US$10.0 billion to finance energy, transportation, water and infrastructure

- **Planned investment in building Silk City**: US$130.0 billion aimed at connecting Europe and Asia

- **China’s planned investment**: US$10.7 billion for development of ports, infrastructure and industry

- **China’s investment (2014)**: US$8.0 billion in infrastructure projects
CHINESE INVESTMENTS IN THE MIDDLE EAST

China’s Outward FDI Stock in the Middle East 2005-2015

CAGR '05-'15 = 44%
CAGR '05-'15= 25%

China’s Chemicals industry’s rationale behind BRI

- **Migrate low-value chemical manufacturing operations**
  - China intends to shift low-value chemical manufacturing away from population centers and closer to the BRI route

- **Achieve energy security through closer geopolitical and trading ties with Middle Eastern countries**
  - China intends to procure lower-priced crude oil and natural gas from Middle Eastern countries and support their economic development through investment initiatives

- **Reduce chemicals imports and become net-exporter of petrochemicals**
  - China aims to increase its domestic chemical processing capacity to reduce its dependence on imports
Impact of BRI on the Petrochemical sector

**BRI region’s share of global Linear-Low Density Polyethylene (LLDPE) consumption**
(2020F vs. 2026F)

- 2020F: 58%
- 2026F: 63%

**BRI region’s share of global LLDPE capacity**
(2020F vs. 2026F)

- 2020F: 58%
- 2026F: 60%

**BRI region’s share of global Purified Terephthalic Acid (PTA) consumption and capacity range**
(2020F vs. 2026F)

- 2020F: ~78%
- 2026F: ~80%

- Increased connectivity, better access to petrochemical plants and availability of cheap labor along the BRI route are driving growth in the consumption and capacity for LLDPE and PTA in the region.
- Producers in the BRI region may prove to be tough competitors for petrochemicals producers in the US and Europe.
- BRI projects are expected to drive petrochemical demand in China, Central Asia, the Middle East and Europe.

OPPORTUNITY IN CONSTRUCTION CHEMICALS

• **Market highlights**
  - 7% CAGR from 2016 to 2021
  - Saudi Arabia has the largest market share, followed by UAE and Qatar
  - Increased private sector participation in real estate
  - Major market players: BASF, Chryso Gulf, Dow Menat, FOSROC, Sika and SABIC

• **Demand drivers**
  - Rising investment in construction of commercial sector and residential complexes
  - Demographic change and rapid population growth
  - Increasing infrastructure expenditure driven by region’s mega-projects
  - Government initiatives for green building construction

• **Top construction chemicals in GCC**
  - Concrete admixtures
  - Waterproofing chemicals
  - Protective coatings
  - Adhesives and sealants
  - Flooring chemicals
  - Grout and mortars
  - Anti-corrosive agents

Source: TechSciResearch, Construction Week
CHEMICAL INITIATIVES (1/2)

CHINA (SUPPLY)

• Belt and Road leading to increased cross-border investments in chemicals by Chinese SOEs
  - Sinopec and other Chinese SOEs aim to increase their overseas investments in chemicals

MIDDLE EAST (DEMAND)

• Middle East nations look to diversify away from oil, and into chemicals
  - Saudi Arabia’s Vision 2030 and Iran’s 2022 plan aim to attract foreign investment in chemical projects

Source: Morgan Stanley – Global chemicals, Return to Spender, 21 June 2017, via ThomsonOne
CHEMICAL INITIATIVES (2/2)

MUTUAL CHEMICAL PROJECTS (CHINA & THE MIDDLE EAST)

CHINA

- In March 2017, Sinopec entered into a strategic agreement with Saudi Arabia’s SABIC to develop petrochemical projects, part of deals worth US$65.0 billion
  - In May 2017, Saudi Aramco signed a framework agreement with China’s NORINCO to build a refinery and chemicals complex in northeast China worth US$10.0 billion

MIDDLE EAST

- In Saudi Arabia, Sinopec has invested in Saudi Aramco’s Yanbu project (project’s contract size: US$20.0 billion)
- In Iran, Sinopec received an EPC order for a refinery upgrade project (project’s contract size: US$3.0 billion)

Sources: Morgan Stanley – Global chemicals, Return to Spender, 21 June 2017, via ThomsonOne
https://financialtribune.com/articles/energy/57743/sinopec-to-finalize-3-billion-iran-refinery-contract
BRI POTENTIAL IMPACT THROUGH EXPORTS

- BRI Middle East Projects
- GCC chemicals
- Corridors (rail & highway)
- Export flow
- Energy
- Utilities
- Transportation
- Oil pipeline

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OUTLOOK

China to invest US$750.0 billion globally and import US$8.0 trillion of commodities and services

The next Belt and Road Forum is scheduled for 2019

With BRI unfolding across continents, plenty of commercial opportunities for MNC's will arise

Middle East infrastructure will receive huge benefit from BRI – challenge for GCC chemical producers is to capture large share of market opportunity

Sources:  “China hopes Indian leaders will be present at next BRI meet in 2019”, Live mint, May 2017
“Full text: Joint communique of leaders roundtable of Belt and Road forum”, Xinhuanet, May 2017
“FLJS Research Fellow speaks to Global Times about upcoming ‘Silk Road’ Summit”, FLJS, August 2017
“CPEC open for all; must not be politicized, Pakistan tells India”, The News, May 2017
“2017 Media Cooperation Forum on Belt and Road to kick off in NW China”, En.people, September 2017
“US companies ‘ready’ to get on China's
THANK YOU!

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