Belt and Road delivers crucial capital

Initiative's infrastructure boost parallels 1930s New Deal

by Yaseen Anwar in Singapore

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A grim outlook for corporate earnings in 2019, increased country debt, the US-China trade war, Britain's exit from the European Union, and challenges to the independence of the Federal Reserve and other central banks are but a few of the dire issues weighing on policy-makers, and provide a compelling backdrop to a possible global economic recession. But several measures could be adopted to protect countries from these vulnerabilities and accumulate the necessary resources to stimulate sustainable growth.

US financier Michael Milken created the 'junk bond' market in the 1980s to enable smaller, non-rated companies to access capital. Besides triggering novel capital market opportunities for investors, this stimulated overall economic growth through new jobs and increased consumer purchasing power. The rise of the risk-reward ratio added another dimension to asset allocation strategies, as improved availability of data gave added comfort to investors when increasing their risk appetite in the search for higher returns.

Analogous to Milken's strategy, China's Belt and Road infrastructure initiative gives access to capital for those connected emerging markets that have not had the necessary investment grade ratings to tap international bond markets. These economies have never had the opportunity to attract offshore investors who require ratings dictated by their corporate policies. Nor do those investors have a high enough risk appetite to venture into uncharted emerging markets.

Infrastructure, the core of Belt and Road funding, is and has been the engine of growth for most economies. The 19th century industrial revolution transformed agrarian-based economies into technological and manufacturing-based ones. In the case of the US, this shift, accelerated again in the 1930s by President Franklin Roosevelt's New Deal and the expansion of the domestic transportation network, made the country the leading global economy in the 20th century.

The lack of quality infrastructure has hampered the economic development that many Belt and Road-related countries sorely need. For example, the shortage of power in Pakistan has impaired GDP growth rates of up to 3%. The absence of a developed transportation network for refrigerated trucks for distribution of agricultural products results in a 50% loss of perishable products. The Belt and Road initiative can play at least a key role in filling these economies' substantial financing gap. The collective resources of multilateral institutions can also be leveraged to fill financing gaps and alleviate the concerns of risk-averse private sector participants.

Certain countries have already felt the benefits of new employment opportunities and improved productivity thanks to Belt and Road projects. In 2017, the Greek port of Piraeus handled more than 4m containers for onward distribution to Europe, Germany's Duisburg Inner Harbour has become the world's largest inland port, and more than 10,000 companies are now operating across Africa through an expanding transportation network of rail and roads. More than $60bn of new business has been generated across a range of operations, including: increased investment and tourism into Africa; new housing in Indonesia; power projects in Bangladesh; roads in Pakistan and Kazakhstan; and rising global and intraregional trade in the Association of Southeast Asian Nations.

The Belt and Road makes available ample resources and opportunities to stimulate production and inclusive growth, as well as to preserve regional economic stability. Payments settlement risk can also be reduced by using the renminbi as an alternative currency. Exogenous shocks remain a risk, and regional economies must install policies and systems to mitigate such threats.

The Belt and Road offers the necessary ingredients to restore confidence and some stability in the international monetary system, while simultaneously generating new jobs and reducing poverty in many emerging markets.

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