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Insights

Embracing the BRI ecosystem in 2018

Navigating pitfalls and seizing opportunities

China-proposed Belt and Road Initiative (BRI), which has been a large part of the investment landscape across a swathe of the world for four years, will become increasingly important. This paper summarises Deloitte's key BRI insights for 2018, and also explains how industry players can best position themselves to seize the ever-widening range of BRI investment opportunities.

COVER IMAGE BY: STEPHANIE DALTON COWEN

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Executive summary

IT is difficult to think of any recent venture that has generated such a mixture of optimism and discussion as China's transcontinental development project, the $900 billion Belt and Road Initiative (BRI).

Some in the West perceive it as simply a vast infrastructure project. Others fear its benefits are overestimated and the political, economic and environmental risks poorly understood. Or they worry BRI might, as the *Financial Times* put it in an editorial, "export the worst aspects of the Chinese economy, while increasing the strains on its already stressed financial system." [1]

The view from China is quite different. For President Xi Jinping, BRI is "the project of the century." BRI's proponents point to its successes to date and the promise of more to come in revitalising infrastructure—and by extension trade and economic growth—across Asia and beyond.

A common complaint is that BRI has mainly benefited China's state-owned enterprises (SOEs). That is largely true and, given the long investment horizon associated with infrastructure projects, will remain a feature of BRI.[2] However, changes are afoot. BRI's initial focus was on energy and infrastructure; it is now widening to trade, manufacturing, the Internet and tourism (figure 1). Multinational corporations (MNCs) with competitive advantages are winning BRI-related deals, and we predict more will do so in the near future. In addition, geopolitical and financial risk considerations mean China will need to ensure more widespread participation in projects.[3]

If we were to draw an analogy, it would be this: BRI is a journey, one with opportunities and risks, and one that—four years in—is still closer to its start than its end. That means investors need to take a longer view of projects than they are accustomed to doing. And while we do not downplay the risks, we believe they are less severe than many assume.

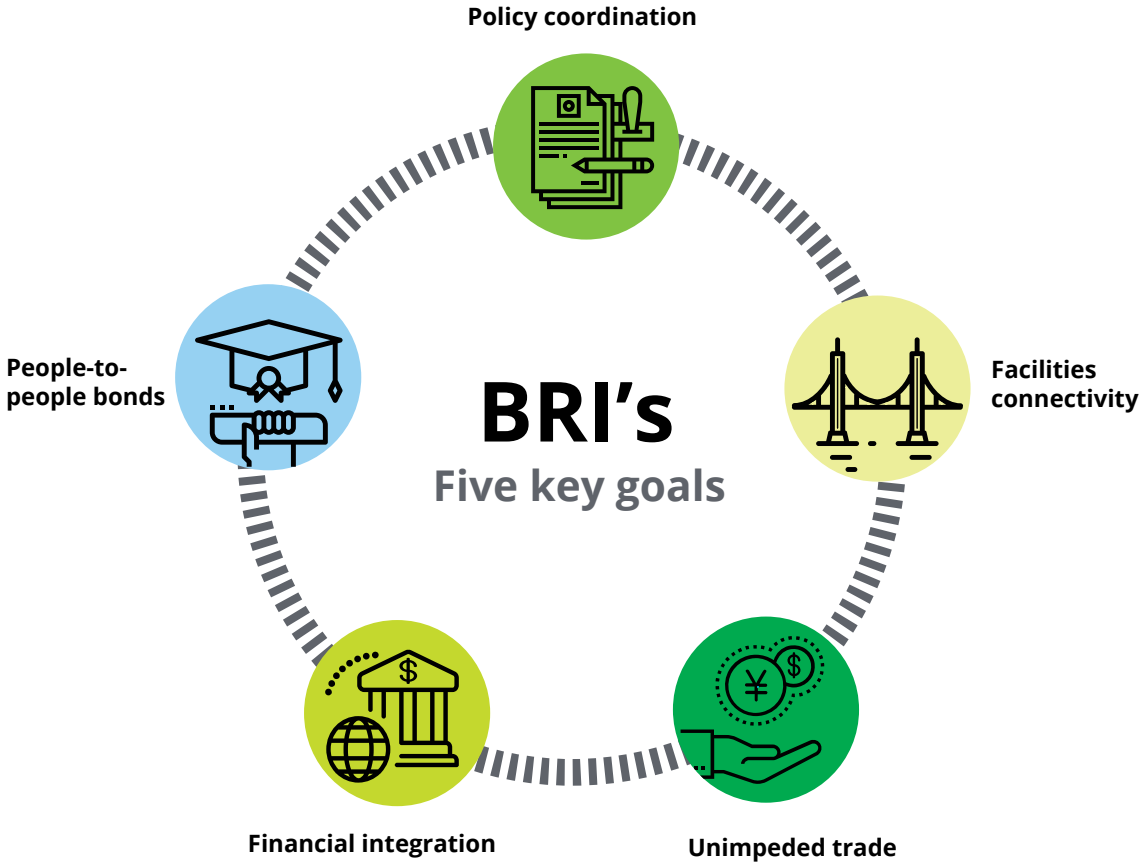
Although it remains to be seen how successful BRI will be, it is indisputably here to stay. In May 2017, a senior official at the top economic planning body, the National Development and Reform Commission, said China would spend a further $600–800 billion over the next five years on outbound investment, and that "a fairly large proportion . . . will go into markets related to the Belt and Road Initiative."[4]

And, in October 2017, BRI was written into the Communist Party's constitution, a sign of the project's policy significance, and an indication, too, that Beijing wants to boost the participation of private firms.

In short, BRI, which has been a large part of the investment landscape across a swathe of the world for four years, will become increasingly important.

This paper summarises Deloitte's key BRI insights for 2018, and also explains how firms can best position themselves to seize the ever-widening range of BRI investment opportunities.

Figure 1. BRI's five key goals



Source: Public information.

BRI—Much more than infrastructure

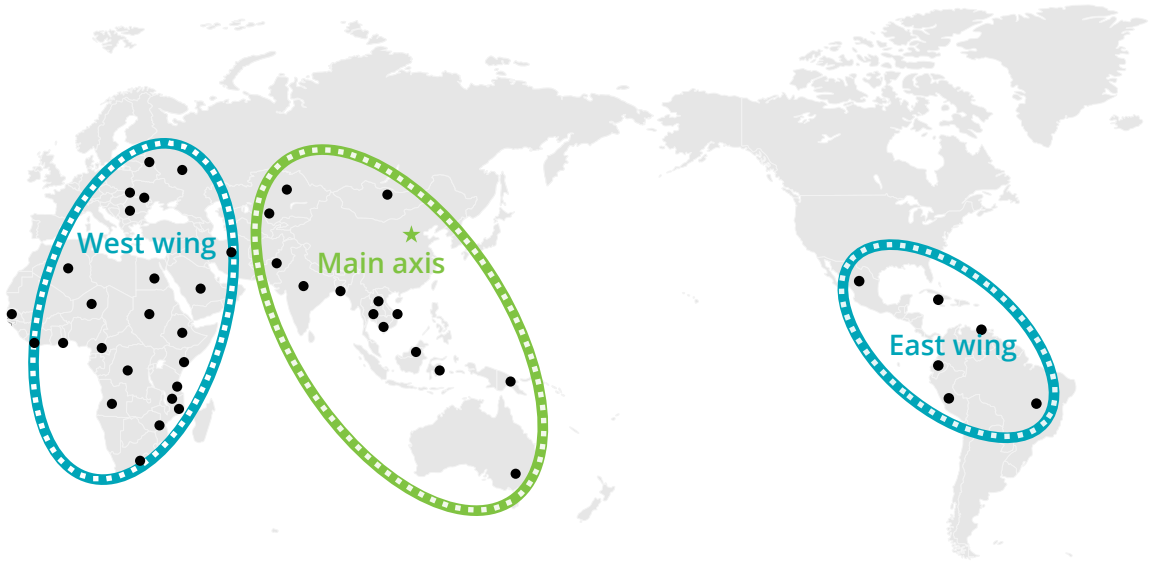
FOUR years after BRI was launched, two aspects are clear: Firstly, BRI is a journey, not a series of one-off infrastructure projects; and secondly, it is much more than an outbound investment program. Indeed, BRI's ambition is to improve connectivity between Asia, Europe and Africa, and in that way to increase trade, development and prosperity—a new Silk Road for the 21st century and beyond.

It is a bold vision that comprises two segments. The first is the Silk Road Economic Belt. This refers to a half-dozen land corridors connecting China with Southeast Asia, South Asia, West Asia and the Middle East and, from there, Europe. The second is the 21st Century Maritime Silk Road, a sea route linking Asia, Africa and Europe (figure 2).

Figure 2. Regions covered by BRI

Source: Lowy Institute.

Figure 3. One axis, two wings



Source: Deloitte and interviews with NDRC ICC.

Beijing says any country or organisation that wishes to support BRI is considered part of it, a stance that makes BRI hard to define, less threatening and more inclusive.[5] That might not have changed India's and Russia's skeptical views of China's BRI intentions, but dozens of countries have thus far signed up.

Forty-six nations comprise phase 1, and fall into what China calls "one axis and two wings": the axis comprises 15 countries neighboring China; the wings are made up of 24 countries in Europe, Africa and elsewhere in Asia, and seven in Latin America and the South Pacific (figure 3). They are hoping to benefit from BRI's planned investment in trade-boosting infrastructure, one of history's biggest development projects.

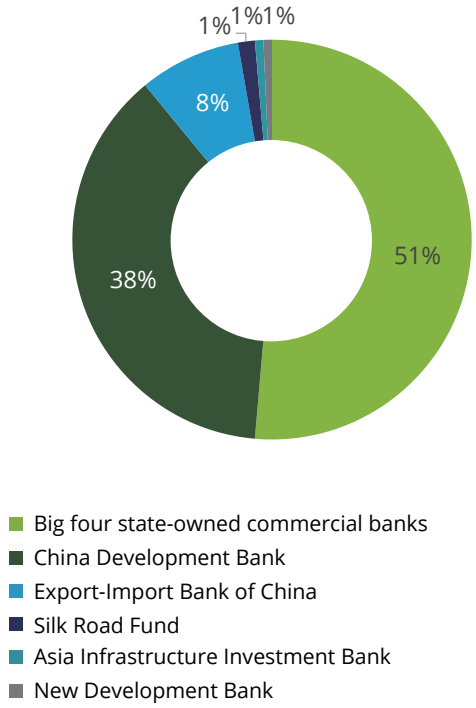
Asia's infrastructure is clearly in need of it: A recent ADB report said 45 Asian countries should invest $26 trillion between 2016 and 2030 to fix their infrastructure shortfall. Fully two-thirds of that sum is for transport and power.[6]

Therefore, even though some estimates put the capital cost of BRI projects as high as $4–8 trillion,[7] this initiative will not bridge the infrastructure gap. But BRI is a much-needed step that is kick-starting a new cycle of infrastructure spending, particularly in Asia. It should leverage further infrastructure funding, and will also need to diversify its project-funding sources, most of which has come from China's state banks (figure 4).

Geographically, most BRI investment has gone to Southeast Asia and South Asia, two good examples of an ecosystem under construction.

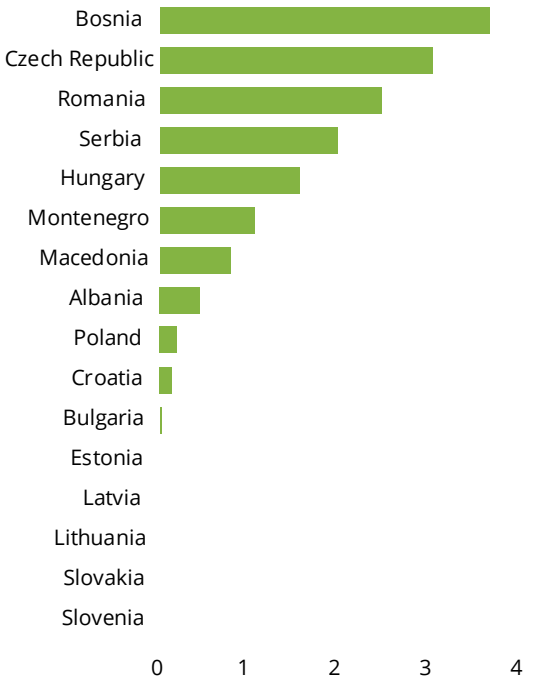
Africa and South America are also benefiting, as is Europe. In November, work commenced on one of Europe's first BRI infrastructure projects: a $3.8 billion railway line connecting the Hungarian capital Budapest with the Serbian capital Belgrade. This will be China's main route for goods to transit Europe after they are unloaded at Greece's Piraeus port, which is also being refurbished under BRI, and which is majority-owned by COSCO, a Chinese SOE (figure 5). With the European Union sensitive about big powers trying to play divide-and-rule within its sphere,[8] China's dealings have, it should be said, caused concern in Brussels.[9]

Figure 4. Funding for BRI by source: Outstanding loans or equity investment at end-2016 ($ billion)



Source: Company statements; Oxford Economics; FT.

Figure 5. China's infrastructure investments in its "16+1" framework of 16 central and eastern European countries (2012–2016) ($ billion)



Source: CSIS; FT.

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The China-Pakistan Economic Corridor (CPEC) illustrates BRI's scope and structure (for more details, see sidebar, "China-Pakistan Economic Corridor"). Typically, the initial focus is on building infrastructure for transport, energy resources and telecommunications, which is followed by investment in manufacturing and trade, with parallel or subsequent areas including mining, international finance, culture, media and tourism.

BRI's format follows that used in China's development. It also explains why when it comes to BRI projects, SOEs such as State Grid, China Railway Group and China Energy Engineering are among the biggest participants (figure 6).

Figure 6. Top five BRI infrastructure and energy projects to date

Investments

Year	Investor	Quantity ($ million)	Transaction party	Sector	Subsector	Country
2015	China General Nuclear	5960	Edra	Energy	Electricity	Malaysia
2016	State Grid	4490	CPFL	Energy	Electricity	Brazil
2016	Three Gorges	3660	/	Energy	Hydro	Brazil
2013	Zhejiang Hengyi	3440	/	Energy	Oil	Brunei
2014	CNPC	3000	Refineria del Pacifico	Energy	Oil	Ecuador

Construction contracts

Year	Contractor	Quantity ($ million)	Transaction party	Sector	Subsector	Country
2014	China Railway Construction	6810	/	Transport	Rail	Nigeria
2013	China National Nuclear	6500	/	Energy	Nuclear	Pakistan
2015	China National Nuclear	4700	Nucleoeletrica	Energy	Nuclear	Argentina
2015	China Energy Engineering	3660	EISA	Energy	Hydro	Argentina
2015	China Railway Construction	3510	/	Transport	Rail	Nigeria

Source: The American Enterprise Institute.

All told, some 50 SOEs have played roles in more than 1,700 BRI projects. And yet, although the perception is that Chinese companies are the sole beneficiaries of BRI, the reality is subtler: Some MNCs have reaped rewards, including Siemens, Honeywell, GE and ABB. Many more should benefit in the coming years.

CHINA-PAKISTAN ECONOMIC CORRIDOR

Pakistan has been among the key BRI beneficiaries: Up to $55 billion will be invested in the CPEC[10], which was launched in 2014 and which China recently described as the "fastest and most effective" of all its BRI projects.

It is certainly among the most ambitious. CPEC involves expanding Gwadar port, and constructing energy pipelines, power plants (which alone will cost $35 billion), hundreds of miles of highways and high-speed railways, fiber-optic cables and special economic zones.

CPEC gives an idea of BRI's scope: At the ground level, it combines infrastructural and industrial development with physical and telecommunications connectivity; strategically, it will connect China's westernmost city Kashgar with Gwadar, 2,000 kilometers away on the Arabian Sea; politically, it further cements links between the two Asian allies.

As a BRI corridor, CPEC will link Pakistan with the overland corridors to the rest of Asia and to Europe, and by sea to Europe, Africa and other Asian regions. By the same token, China will be able to reduce its dependence on shipping via Singapore and the Melaka Straits.

BRI'S FIVE GOALS

When President Xi spoke at the Belt and Road Forum in May 2017, he addressed BRI's five goals. Each has attained significant milestones.

- **Policy coordination:** To date, China has signed cooperation agreements with more than 40 countries and organisations.
- **Facilities connectivity:** The New Eurasian Continental Bridge, the China-Mongolia-Russia Economic Corridor and CPEC are three examples.
- **Unimpeded trade:** Beijing says this exceeded $3 trillion between 2014 and 2016, with China's investment in those countries surpassing $50 billion. Its companies have established more than 50 economic cooperation zones in more than 20 countries, generating 180,000 jobs and over $1 billion in tax revenues.
- **Financial connectivity:** New or enhanced mechanisms include the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund, the New Development Bank—also known as the BRICS bank—and the 16+1 financial holding company between China and countries in Central and Eastern Europe. These institutions have billions to invest in BRI projects, and will play a more prominent role in the coming years.
- **People-to-people bonds:** This has seen increased cooperation in the spheres of science, education and health, with Beijing providing 10,000 scholarships annually. China knows BRI's success depends in large part on support in its host countries.

Domestically China has delivered its message that BRI is a positive enterprise of connectivity driven by a benign nation. That position is underpinned by numerous references in speeches and documents to the historical Silk Road.

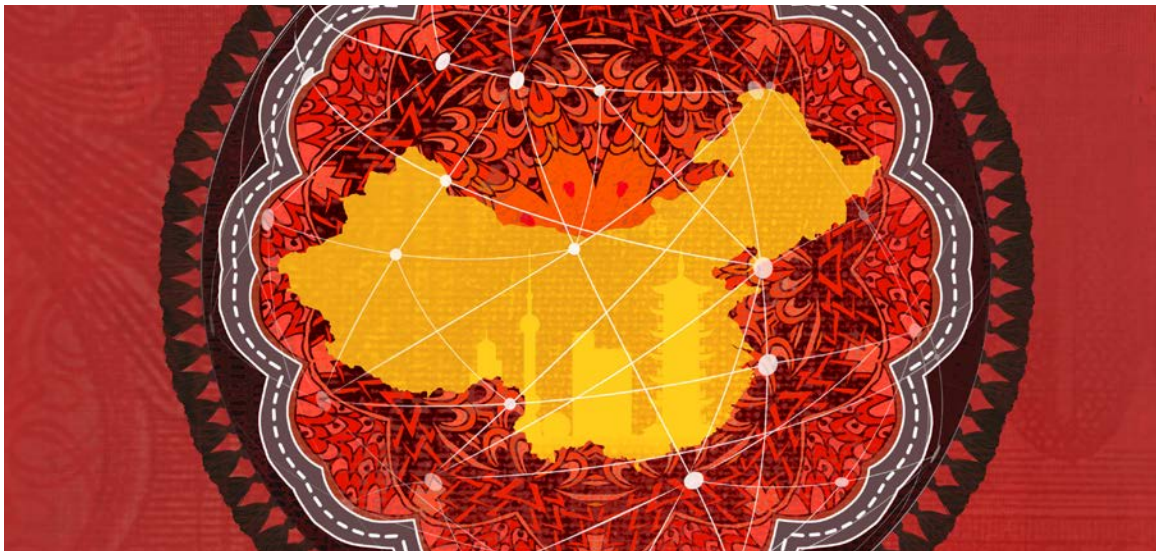
Abroad it is a different matter: Suspicions abound that China's economic situation is driving BRI. One observer described the initiative as "a domestic policy with geostrategic consequences rather than a foreign policy."[11]

Others see BRI as focused on accruing a range of benefits for China, including:

- Creating opportunities to generate higher returns on China's vast foreign exchange reserves (more than $3.1 trillion as at December 31)[12]
- Helping China's SOEs in construction and engineering to deploy abroad in search of more work and higher returns
- Ensuring China's excess industrial capacity is exported to regional markets–either directly, through them soaking up production by virtue of growing their economies, or indirectly by importing China's spare factories
- Expanding China's export markets, and sending abroad more goods with higher value-added components, such as machinery and telecoms equipment
- Boosting the internationalisation of the renminbi (SWIFT believes BRI is one of five enablers that will drive that process.) [13]

At the same time, others worry big-ticket projects in unstable and corrupt countries could see China's debt climb higher. (As of May 2017, it was estimated at just over 300 percent of GDP.)[14] As ratings agency Fitch put it in January 2017: "The lack of commercial imperatives behind [BRI] projects means that it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors."[15]

But wherever one stands in this debate, there is little doubt BRI's infrastructure policy will help many developing countries. In some places, it already has. At the same time, warnings over risks cannot be ignored.



Adding value, ameliorating risks

Connecting continents

In January 2017, a train laden with goods left China's eastern province of Zhejiang headed for the United Kingdom. It covered nearly 7,500 miles in the 18 days it took to reach London, traversing the New Eurasian Land Bridge, one of six BRI trade corridors, five of which are either active or partially active. (The sixth, the riskiest, aims to connect central Asia with Eastern Europe via Iran, Iraq and Turkey.)

It remains an apt illustration of BRI as a journey; as a metaphor for BRI's vision, it speaks to the compression of distance between China and Europe.

Cheaper than airfreight and quicker than by sea, it remains to be seen whether the rail link to Europe will upend logistics between China and Europe. So it is too with BRI: Closer to the beginning of its journey than its end, it is hard to quantify its impact on global trade. This first stage is, after all, about building a solid foundation.

Yet notable benefits have flowed. Take the CPEC: Numerous stories tell of advantages that improved infrastructure connections have brought to once-remote cities. For example, farmers are able to ship their products to market far more easily.

This is one part of the BRI-trade nexus. Another can be found in the industrial parks BRI is funding—to date more than 50. They attract Chinese and foreign investment to the countries where they are located, boosting jobs, tax revenues and the local economic base. Most are manufacturing plants, and are contributing to a rise in bilateral and regional trade.

BRI's associated benefits go further too. Better roads and railways mean moving goods from Chongqing to Europe over land is far easier: Customs-clearance times are quicker and simpler thanks to bilateral agreements signed under BRI.

There are many such examples that make differences to people and places along these routes. Absent any "black swan" events, we expect this will continue and BRI will provide a significant boost to bilateral and multilateral trade in the coming years, though it would be an exaggeration to say it will redefine global trade.[16]

Risky business?

We said earlier that the risks associated with BRI are less severe than many assume. That's partly because BRI projects are underpinned by strong bilateral relationships, and partly because developed countries are becoming more involved.

But the dangers still exist, and extend far beyond the vast amounts of money involved. After all, some BRI countries are much riskier than others.

Until now, the operational risk in those countries has fallen on SOEs, which have done most of the work, while China's policy banks have shouldered the financial risk. But as other companies and funders get involved, they will need to assess the opportunities carefully.

To be sure, state-backed insurance firm Sinosure is addressing this issue with its Overseas Investment Insurance Program, which is designed to support and encourage Chinese enterprises and financial organisations to make investments overseas. The program obligates the insurer to underwrite an investor's economic losses in overseas investments caused by political risks in the host country, especially developing countries. However, Sinosure requires comprehensive contractual arrangements, and also requires support from the host country as key conditions.[17]

Even so, our clients still tell us that when it comes to BRI, political risk tops all others. That has long been an issue for Beijing too, as seen in the fact that just 69 countries have signed cooperation agreements to date.

In part, managing political risk comes down to understanding a government's stability. It helps if the country concerned has a good bilateral relationship with China, as BRI beneficiary countries typically do. But the proper solution is to address it fully prior to investing, and to monitor it while projects are underway.

Managing risk

The BRI project in Sri Lanka (see sidebar, "Hambantota Port") shows some of the risks involved, should organisations fail to understand concerns related to specific developments.

That did not escape China's notice. In August, Beijing issued policy papers to its SOEs involved in BRI projects covering issues such as due diligence, project feasibility and ongoing operations. China certainly needs to draw lessons from the Hambantota Port mistakes, otherwise there is a risk that other projects will suffer similarly.[18] (Indeed, reports in early 2018 indicate that China plans to build a naval base near Pakistan's Gwadar Port, alarming India, among others.)[19]

There are other risks too—from reputational, legislative and environmental to those surrounding interest rates, foreign exchange rates, remittances and financial uncertainty. One could also add issues over tax regulations, how well local talent can run project areas, and other economic and even natural disaster risks.

Given that the most likely way for an MNC to access a BRI project is by partnering with an SOE (as we shall see later), the risk exposure of SOEs is central to this discussion.

That is another reason project risks are lower: The Chinese government insists SOEs make their investment decisions with consideration of commercial benefit, which means they need to ensure a proper return.

To achieve that, SOEs must address risks that could undermine that return before they can invest. That includes carrying out due diligence on joint venture partners.

While that does not eliminate the concerns MNCs might have regarding BRI projects, and while MNCs must carry out due diligence, it does mean their goals are more closely aligned with SOEs'.

HAMBANTOTA PORT

Envisioned as a deep-sea port and adjacent industrial zone, Hambantota Port ran into an array of problems—from protests over loss of land to political fears about the port's use as a Chinese military base.

Although both Sri Lanka and China eventually agreed that China Merchants Port Holdings, an SOE, would pay $1.1 billion to operate and develop the port, the project tarnished the public opinion of BRI in Sri Lanka and beyond.

Projects that fall short provide important lessons for investors and companies alike. The Hambantota project failed to account sufficiently for local feelings about the development, concerns about political corruption, and national and regional political and security worries.

Debt risk

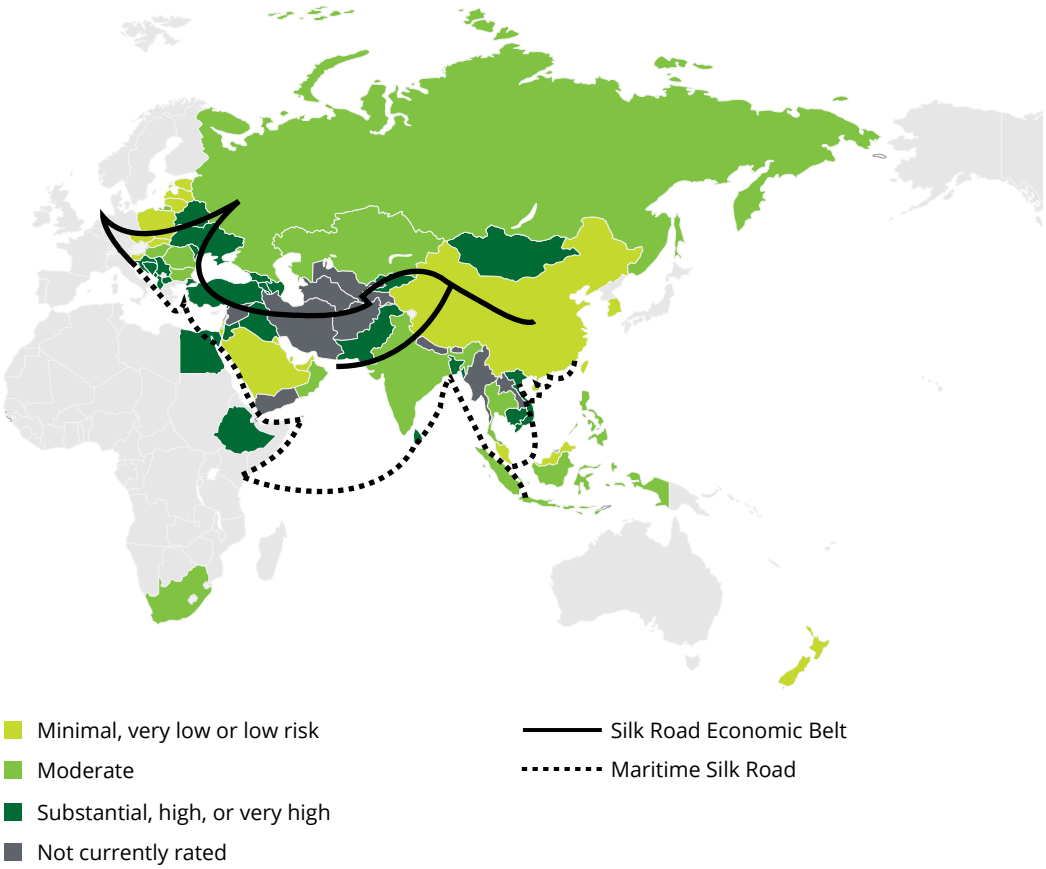
Debt risk is another concern that regularly comes up. Some observers fear Beijing's wholesale backing for BRI projects, while vital, could damage the institutions providing the funding.

In early 2017, Fitch Ratings warned that infrastructure projects that were driven more by political considerations than commercial needs brought added risk to the banks funding them.[20]

Part of the complication relates to the credit ratings of the countries currently listed under BRI: The sovereign debt of 27 nations is regarded as "junk" by the three main ratings agencies; another 14 (including Laos, where a $7 billion high-speed railway is to be built) have no rating at all (figure 7).[21] The concern is that this could see funders, particularly China's policy banks, taking on debt based on under-performing assets, adding to issues of non-performing domestic loans already on their balance sheets.

Figure 7. BRI participating countries' ratings

Risky route
More than half the nations listed under BRI are rated "junk" or not graded

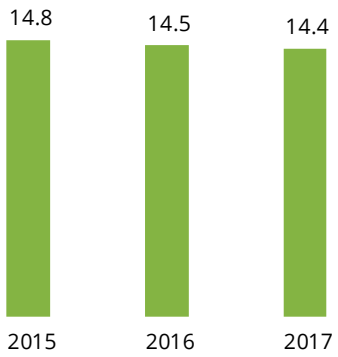


Source: Chinese government; Bloomberg.

We believe that concern is overrated. China has long insisted that BRI is a commercial venture, not an aid program, and the past year has shown it takes the issue of currency and bank exposure more seriously. There is tougher government scrutiny of prospective deals, and restrictions about the areas in which SOEs and privately owned enterprises enterprises (POEs) can invest.

Further lowering the risk factor was a 2016 ruling by China's State Council that holds SOE managers to a higher standard than before: Should they make investments that go bad, they could face disciplinary action or court—even after they retire.[22]

Figure 8. Decline in nonfinancial outward direct investment (ODI) flows into BRI countries ($ billion)



Source: Ministry of Commerce.

This combination at least partly explains the slow decline in investments in BRI countries (figure 8).

Beijing insists BRI investment will bounce back.[23] Not only do the commercial and political imperatives surrounding BRI make this likely, but also the more cautious approach should translate into lower risks going forward. It is also true that BRI's overall funding needs are so vast that the initiative will require multiple sources of funding in the future. Not only will this lower the risk currently sitting with China's financial institutions, but the involvement of multilateral banks in funding BRI projects ought to alleviate some of the suspicions held by other countries.[24]

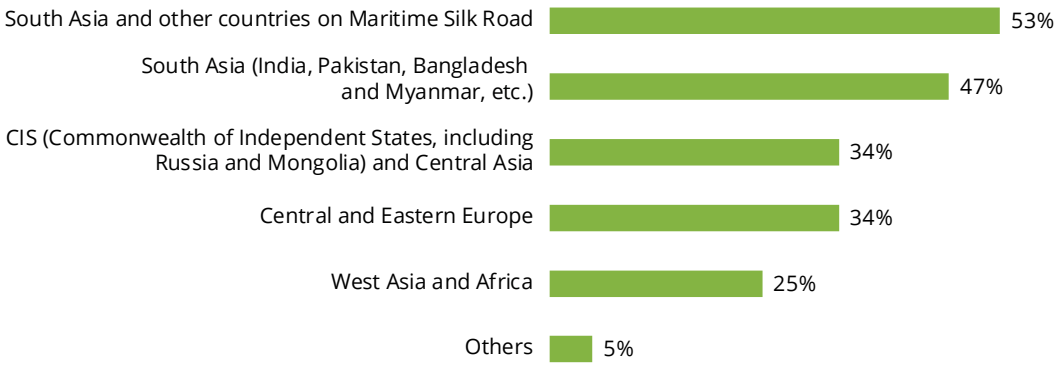
Winners and global resonance

BRI 2.0

In May 2017 at the BRI Forum in Beijing, President Xi told attendees that the vision underpinning BRI "is becoming a reality and bearing rich fruit," adding that "a solid first step has been taken."[25]

Naturally some regions and industries have done better than others. Southeast Asia and South Asia remain key beneficiaries and, our research shows, remain the most favored by SOEs (figure 9). For the former, that is partly due to proximity to China and a higher state of development, and partly due to the demand for better infrastructure. For the latter, the size of their populations and vast market potential are important draw cards.

Figure 9. BRI investment destinations for SOEs



Source: Deloitte.

Europe is also popular, as are Russia and Central Asia. We expect that will remain the case over the coming years, although given that BRI's sustainability is aligned with China's economic and political interests, it is likely that the initiative's priority will continue to be areas that are geographically close to China.[26]

We saw earlier why infrastructure attracted more funding than other sectors, with China's SOEs the key winners. As BRI's global ecosystem builds, it will encompass investments in manufacturing and trade, as well as softer investments in tourism and culture. That will create opportunities for MNCs with the technology, skills and connections that Chinese firms, whether SOEs or POEs, often lack.

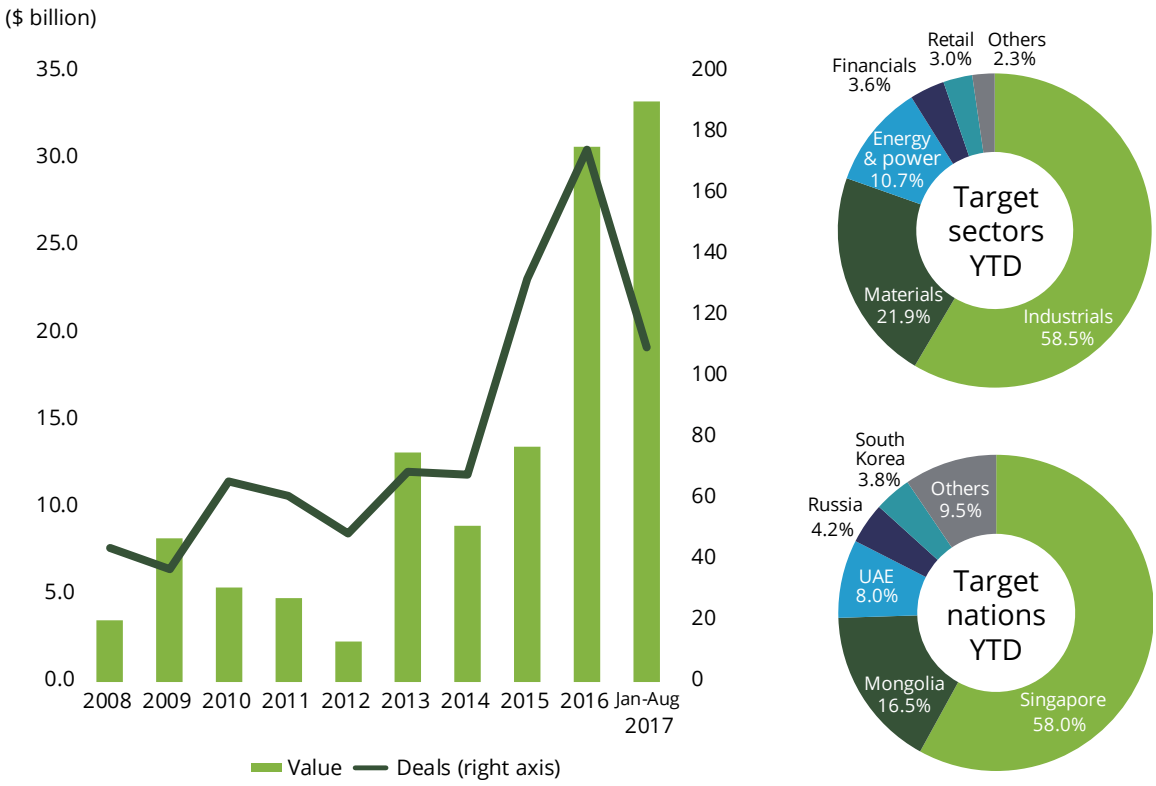
In addition we expect increasing numbers of Chinese POEs, many of which view BRI as a venue for SOEs, will become more active in areas such as M&A, which is what Beijing wants. Although some POEs are cautious, others have committed.

DRIVING PARTNERSHIPS VIA M&A

Though not a specific BRI focus, the government wants Chinese companies that lack technological expertise to acquire firms in places such as Germany, Japan and the United States.

According to Thomson Reuters, Chinese acquisitions in BRI nations are on the rise: They reached $33 billion by August 2017, surpassing the previous year's total of $31 billion (despite an overall 42 percent drop in foreign M&A). Ninety percent of the 109 deals to date in 2017 were in industrials, materials and energy, with significant activity seen in Southeast Asia and South Asia (figure 10).[27] Such acquisitions will help them to speed up their expansion at home and abroad.

Figure 10. Chinese acquisitions in BRI countries



Source: Thomson Reuters.

Bigger pool of opportunity

This goes to the heart of BRI's phase 2, which is widening the pool of opportunity. And although many MNCs have yet to reap benefits, some have. Take ABB, for example. The Swiss-based firm has been involved in dozens of EPC deals undertaken by Chinese companies, for which it aims to become "the partner of choice." In 2016 alone, it helped 400 Chinese firms to resolve inter-country differences in design and industrial standards.[28]

Caterpillar says it regards BRI as a long-term opportunity. For its part, GE recorded orders worth

$2.3 billion in 2016, most under BRI projects, up from just $400 million in 2014; over the next year or so, GE will bid for business worth another $7 billion of business.[29] Honeywell and Siemens have also benefited from their technological offerings, while Citibank and Zurich are among others getting more deeply involved.

We believe phase 2 will bring greater global resonance, and that MNCs that position themselves strategically now stand a good chance of benefiting.

Phase 2 is being driven by the ready funding provided by China—and increasingly by others. In May 2017, President Xi announced a further $124 billion for BRI, including $14.5 billion for the Silk Road Fund, and special lending schemes for the China Development Bank and the Export-Import Bank of China, worth around $36 billion and $19 billion, respectively. He also called on financial bodies to establish a BRI fund worth $43 billion.

The involvement of the Asian Infrastructure Investment Bank (AIIB)—which is expanding its influence and in June welcomed its 80th member [30]—in BRI projects will prove increasingly important. As it builds credibility and experience, and enjoys the backing of China and dozens of other governments, it should have little trouble raising funds on global capital markets. This internationalisation of the AIIB should also increase the sensitivity of sponsoring governments, not least China, to perceptions of political influence in BRI.[31]

In short, BRI is benefiting from initiatives that have increased the amount of financing, its sourcing (including from developed nations such as the United Kingdom and Germany) as well as the co-funding of projects between, say, the AIIB and other multilateral organisations.

MNC opportunities

Not only has MNCs' opportunity to get involved in BRI never been better, it is likely to keep improving. Why? Not least because Beijing wants to boost BRI's inclusiveness. China's leaders describe BRI as an initiative, not a strategy. While that might seem a low-value distinction, it informs an important difference: It means Beijing views BRI as a global program that was initiated by China, and not as a Chinese project.

China stands by its assertion that BRI is for all, and needs to show it means that by keeping BRI open. That will not hold up if MNCs can participate in only a showcase fashion.

Phase 2's very nature will also afford MNCs greater opportunity, because many enjoy competitive advantages over Chinese firms in areas such as manufacturing, trading and tourism.

There are other pointers too. Firstly, more funding will come from outside China, including from monetary financial institutions (MFIs) such as the World Bank and the ADB; this will bring with it increased transparency as well as rules with which MNCs are more familiar.

Secondly, the AIIB recently brought its decision-making more in line with that of the World Bank and the ADB, and said it would take account of issues such as the environment; this should have a similar effect given that MNCs have more experience in meeting such requirements.

And thirdly, richer countries are benefiting from BRI, and are better able to ensure that projects are of the highest standard, and that the companies carrying out such work are the best available. Again, that ought to benefit non-Chinese MNCs.

Client focus

BRI has the potential to reshape the countries it touches as well as the companies involved. Before that happens, though, clients need to understand how to access BRI-linked developments. Many consultancies are well-placed to help both MNCs and SOEs navigate the various challenges and find the most suitable BRI opportunities.

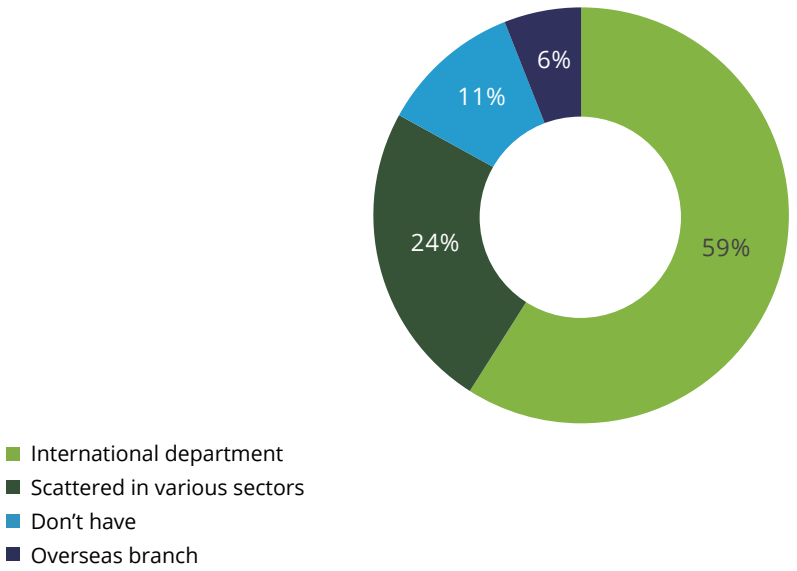
Points of entry

BRI projects provide a range of stakeholders with which clients could consider partnering: from national, provincial and local government agencies (National Development and Reform Commission, Ministry of Commerce, State Owned Assets Supervision and Administration Commission, Ministry of Finance) to SOEs, Chinese and foreign POEs, other MNCs and professional firms.

Some are easier to connect with than others. Our experience shows foreign clients will likely find the quickest method is through an alliance with an SOE or via a professional services firm.

When it comes to making contact with SOEs, our research shows reaching out is easier than many realise.[32] Nearly 90 percent of SOEs we surveyed have set up an arm that deals with overseas business (figure 11).

Figure 11. SOEs and their international units



Source: Deloitte.

In addition, most SOEs know they fall short in areas such as operations, technology, human resources and finance. MNCs that can show solutions ought to be in a strong position (figure 12).

Professional services firms can help navigate local regulations such as tax and labor requirements, as well as contracts and insurance, and can manage the various types of risk through due diligence. They can also assist in ensuring that projects meet corporate social responsibility (CSR) requirements.

But before starting on a project, prospective BRI partners' first step must see them investigate and prepare properly. The second step includes buying risk and accident insurance.

The third is actively working to minimise risk during the project's life and, in the event something goes wrong, dealing with it promptly. Also vital is a written plan that incorporates different solutions according to experience.

Figure 12. Areas of improvement for SOEs

Source: Deloitte.

Opportunity knocks

BRI's procedures are more opaque than many would like, which has made it hard for companies to know how to get involved. At the same time, MNCs enjoy a competitive advantage in five areas.

Funding: Some observers reckon half of all BRI funding by 2030 will be met by a combination of private capital, multilateral banks and foreign governments. We expect Chinese banks will continue to be more cautious about funding requests, leading companies to seek out other financing options (see sidebar, "Trends in funding").

That will offer opportunities to MNCs with expertise in raising funds for large projects. In that they will be helped by the AIIB, which has a BRI focus and is open to funding non-Chinese companies.

Deloitte's research also shows more than half of the SOEs know they must boost their ability to attract finance.[33] That could see MNCs involved in various ways, from debt or equity financing to M&A, build operate transfer (BOT) contracts, public private partnerships (PPP) and even engineering, procurement and construction partnerships.

TRENDS IN FUNDING

The availability of China-sourced funding has meant Chinese companies have focused on debt financing and, in some cases, PE financing.

Increasingly, we see Chinese firms involved in BRI looking to reduce their interest risk, exchange risk and the financing interest associated with long-term loans. This is particularly true for companies operating in countries regarded as high risk, as this brings higher costs and greater uncertainty over aspects such as exchange controls and remittances.

This encompasses both the first trend we see—the increased involvement of Western banks and financing companies—and the second, which is a more balanced portfolio of funding to include equity financing as well as from sources such as the Silk Road Fund, the China Development Bank, active funds and PE funds.

The third trend will be local banks in BRI countries providing debt financing. This is attractive for a number of reasons, not least in minimising exchange risk and helping to localise the financing of BRI projects.

Technology transfer/licensing: Projects in the high-technology sector will bring opportunities, as will those that need to meet high local compliance standards—for instance, in the realms of environment, energy-saving technology, and health and safety.

In following China's "Go Global" strategy, its SOEs and POEs are catching up with their Western counterparts in terms of technology, but most are still behind. MNCs can leverage this, either by partnering to provide technology or by being acquired.

Quality products: International MNCs have a comparative advantage over Chinese firms in certain areas, putting them in a good position to offer key middleware or elements of end products to meet the needs in another participant's global supply chain.

Advanced management experience: Some MNCs have greater expertise in managing infrastructure, real estate and joint ventures, as well as experience in running operations in a range of countries. GE, for example, is on the ground in nearly every BRI country, giving it valuable local knowledge.

Deloitte's research shows that talent is one of four key areas SOEs identified as necessary to boost their chances of success in expanding overseas. Others include improving long-term strategy and better controlling risk.[34]

Integrated solutions: MNCs can cooperate with Chinese companies in areas that encompass two or more segments. An MNC might provide quality products as well as the related technology and management skills needed to run them.

Conclusion

Three key insights and predictions

OUR experience with BRI projects over the years has allowed us to develop three key insights and predictions, all of which have appeared in this report in some form.

Firstly, BRI is much more than a Chinese-funded infrastructure project. And although SOEs have undertaken the bulk of BRI projects to date, we expect many more POEs and MNCs will become involved in the near future. Linked to this, many projects are underpinned by strong bilateral relationships between China and the countries concerned, which makes these investments more secure than outsiders might imagine. And while most participants are developing countries, it is also true that developed nations are increasingly involved.

Secondly, BRI's opportunities will become increasingly plentiful, but a longer timeframe is needed when measuring returns—10–15 years rather than 3–5. And although many projects involve higher risks than conventional investments, it is important to keep those risks in perspective and deal with them dynamically.

Thirdly, BRI is a collaborative ecosystem that to date has focused on energy and infrastructure, but that over the next five years and beyond will evolve to concentrate on trade, manufacturing, the Internet, tourism and other aspects.

It is worth saying, too, that Beijing's view of BRI is not well understood abroad: It sees this initiative as comprising a different interpretation of globalisation, one that is about optimising returns, not about maximising them in solely financial or commercial terms. This is encapsulated in the principle underpinning BRI: 共商共建共享, which translates as, "Trade together, build together, enjoy together."

And so, while BRI is in part an initiative designed to push China's economy to the next stage, to Beijing it is more too: a way to create a more equitable global economic system. MNCs that manage to position themselves well should find BRI a striking, multiyear opportunity.

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