

The Belt and Road Initiative – the most ambitious infrastructure project in history

The most ambitious infrastructure project in history is still in its start-up phase. Chinese President Xi Jinping first mentioned the Belt and Road Initiative in fall 2013. It affects more than 100 countries that together account for 40% of global GDP and around 65% of the world's population. Trillions will need to be invested.



The Belt and Road Initiative

Media coverage of the Belt and Road Initiative (BRI) around the world has been increasing of late. It is one of the most controversial issues in global geopolitics. One thing everyone can agree on is that the BRI is the biggest infrastructure project in history. It involves planning the construction of two trade corridors stretching all across Asia to Europe: the 21st-Century Maritime Silk Road (a new trade route linking China to South Asia and then to Africa and ultimately Europe via the Indian Ocean) and the Silk Road Economic Belt (an overland corridor from China to Europe via Central Asia).

The BRI in figures

A look at the figures shows just how vast the scope of the BRI is. It affects more than 100 countries that together account for 40% of global GDP and 65% of the world's population. It is hardly surprising, therefore, that investments in BRI projects are measured in trillions rather than billions. Estimates of the extent of Chinese investment range from USD 1 trillion to as much as USD 8 trillion¹. Morgan Stanley estimates that China will invest USD 1.2.-1.3 trillion between now and 2027². Chinese state banks and funds, in particular the Asian Infrastructure Investment Bank, the Silk Road Fund, and the New Development Bank, have together committed USD 1.1 trillion to

BRI projects. This makes the BRI around ten times larger than the Marshall Plan for rebuilding Europe after the Second World War. The BRI currently comprises over 1,700 projects, and some 7,000 major infrastructure projects are planned up to 2050⁴.

The five core elements of the BRI

The BRI could prove to be an enormous driver of growth in the global economy. Five core elements are crucial in this respect. Constructing and updating infrastructure along the trade routes will increase connectivity and trading volumes for the participating countries. The free trade agreements China is pursuing will reduce trade barriers and shorten delivery times. Increased connectivity and more efficient cross-border trade will allow China to tap into economic areas with growing consumer bases. The Chinese government does not see the BRI as a show of global power but as one of its key future sources of economic growth, which fell to a 25-year low in January 2016. It is so important to the Chinese that they wrote it into their constitution in 2017, and it also plays a central role in China's 13th five-year plan, which covers the years 2016-2020.

The five core elements of the Belt and Road Initiative

The BRI as a driver of GDP growth and trade

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→ Improved transport infrastructure and political reforms could significantly reduce trading costs and improve connectivity, leading to more cross-border trade and investment and higher growth in the regions concerned.

Source: Invesco Belt and Road Debt Fund flyer, December 2018
Illustration: Vontobel

Trade effects of the BRI

A report published by the World Bank Group in January 2019 addressed the quantitative trade effects of the BRI in 71 countries along the trade routes. The research team found that the BRI could increase trade flows between participating countries by 4.1% on average, with this figure rising to more than 12% if trading infrastructure is improved at the same time. Another World Bank Group study found that the BRI will significantly reduce both goods delivery times and trading costs⁵. It will ultimately lead to greater economic integration and lower trade barriers and will thus act as a driver of global economic growth. The study also concluded that the increased economic integration brought about by the BRI could boost real incomes by around 3%, which in turn would have a positive impact on overall economic demand.

China Construction Bank

Founded in Beijing in 1954, China Construction Bank Corp. (CCB) was the first of China's Big Four banks to be listed on the Hong Kong stock exchange. It has total assets of USD 3.4 trillion, making it the second-largest bank in China and the world, as well as 15,000 branches serving 3.9 million institutional clients and 340 million private clients. China Construction Bank International Asset Management (CCBIAM) is CCB's investment arm. Its core business comprises direct investments and asset management.

The Vontobel Belt and Road Index, advised by CCBIAM

The Vontobel Belt and Road Index, advised by CCBIAM, belongs to the family of Vontobel Strategy Indices. It was

designed by Bank Vontobel AG, which also acts as the Index Calculation Agent. Vontobel's partnership with CCB/CCBIAM allows investors to benefit from the expertise and experience of China's second-largest bank. As Index Sponsor, CCBIAM is responsible for the index's investment strategy and stock selection. The index reflects the price performance of companies that stand to profit to a considerable degree from the Belt and Road Initiative. Its constituents are selected by CCBIAM using a partly systematic and partly discretionary process based on a three-dimensional top-down approach (country/sector/stock). Taking account of both qualitative and quantitative variables (see chart), CCBIAM picked eight BRI countries to constitute the equity universe. Five sectors were then chosen that have an especially high chance of profiting from the BRI:

SECTOR ALLOCATION

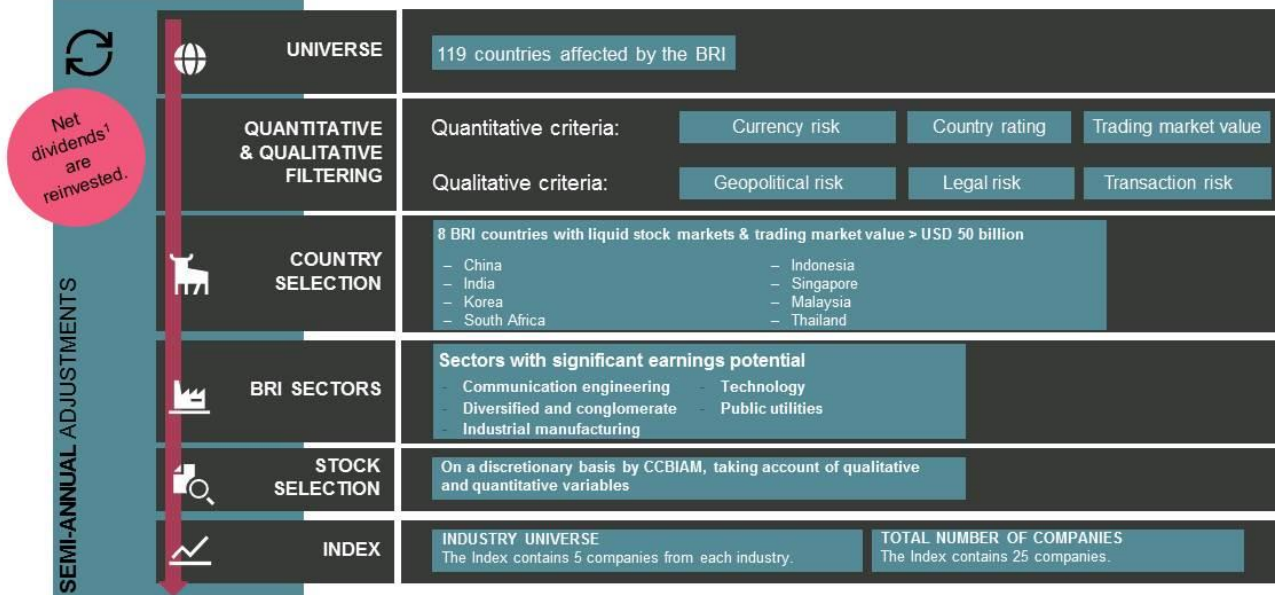
Diversified & conglomerate
Industrial manufacturing
Communication engineering
Public utilities
Technology

CCBIAM completes the process by deciding at its own discretion which five stocks in each sector it admits to the index, basing its choices on its own financial expertise, research capabilities, know-how, and market experience.

Index concept

Vontobel Belt and Road Index, advised by CCBIAM

Half-yearly review of index composition with subsequent rebalancing



¹ After deduction of country-specific withholding taxes
Source: CCB Index Guidelines, illustration: Vontobel

Index composition

Vontobel Belt and Road Index, advised by CCBIAM

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20. Mai 2019

COMPANY	INDUSTRY	CURRENCY	TARGET	WEIGHTING
China Mobile Ltd.	Communication engineering	HKD		4%
Naspers Ltd	Communication engineering	ZAR		4%
Naver Corp.	Communication engineering	KRW		4%
Singapore Telecommunications Ltd.	Communication engineering	SGD		4%
Tencent Holdings Ltd.	Communication engineering	HKD		4%
CK Hutchison Holdings Ltd.	Diversified and conglomerate	HKD		4%
Jardine Matheson Holdings Ltd.	Diversified and conglomerate	SGD		4%
Keppel Corp.	Diversified and conglomerate	SGD		4%
Siam Cement Group	Diversified and conglomerate	THB		4%
Swire Pacific Ltd.	Diversified and conglomerate	HKD		4%
Airports Of Thailand	Industrial manufacturing	THB		4%
Anhui Conch Cement Company	Industrial manufacturing	CNY		4%
China State Construction Engineering	Industrial manufacturing	CNY		4%
China Railway Rolling Corporation Ltd. (CRRC)	Industrial manufacturing	CNY		4%
Hangzhou Hikvision Digital Technology Co., Ltd.	Industrial manufacturing	CNY		4%
BOE Technology Group Co., Ltd.	Technology	CNY		4%
Infosys Technology Ltd.	Technology	USD		4%
Samsung Electronics Co., Ltd.	Technology	KRW		4%
SK Hynix Inc.	Technology	KRW		4%
Samsung SDS Co.	Technology	KRW		4%
China Resources Power Holdings Co. Ltd.	Public utilities	HKD		4%
China Yangtze Power Co Ltd	Public utilities	CNY		4%
CLP Holdings Ltd.	Public utilities	HKD		4%
GD Power Development Co. Ltd.	Public utilities	CNY		4%
Tenaga Nasional	Public utilities	MYR		4%

Source: Vontobel

Participation in A-share performance

The certificate gives investors direct access to the performance of A-shares, which are traded in renminbi on the Shanghai or Shenzhen stock exchange. As a globally active financial expert, Vontobel is launching tracker certificates on the Vontobel Belt and Road Index, advised by CCBIAM, for both private and institutional investors.

Executive summary

- The most ambitious infrastructure project in human history is still in its start-up phase. Trillions will need to be invested.
- "First mover" advantage: those who buy into this theme at an early stage can tap into interesting investment opportunities.
- Some 65% of the global population is affected by the Belt and Road Initiative (BRI), together with 40% of the world's GDP and 38% of all trade worldwide.
- Vontobel's partnership with China Construction Bank Corp. (CCB) and its subsidiary CCBIAM allows investors to benefit from the expertise of China's second-largest state bank with regard to stock selection.
- The Vontobel Belt and Road Index, advised by CCBIAM, provides investors with an opportunity to participate in the economic growth created by the BRI through the performance of stocks from five sectors set to profit significantly from the BRI.
- The inclusion of A-shares gives investors direct access to the performance of mainland Chinese stocks that are normally only available to qualified institutional investors.

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