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CASHING IN ON THE RENMINBI

THE INTERNATIONALISATION OF THE RENMINBI WILL BE KEY TO FURTHERING TRADE WITH CHINA, WRITES SHAHZAD DADA.

APPROXIMATELY 2,000 years ago, China initiated opening of a pancontinental trade route connecting Asia, Europe and Africa which is today known by the name of Silk Road. The route provided people from different cultures, backgrounds, religions and races an opportunity to come together and inter-relate for a common purpose of pursuing prosperity.

Fast forward to the 21st century, after experiencing an unprecedented GDP growth rate of over nine per cent over the last 40 years, Chinese President Xi Jinping in 2013 proposed the Belt and Road Initiative (BRI). This was the emergence of combination of land and maritime routes connecting China to Asia, Africa, Europe and Oceania. The focus of the initial phase was infrastructure, transportation and energy.

Since the announcement, over 100 countries, including Pakistan, India, Russia, Poland, Turkey and New Zealand, have been involved with the initiative. These economies represent over third of the world GDP. The last four years have seen enhanced infrastructure and trade connectivity. Trade between China and other BRI countries in 2014-16 has exceeded US$3 trillion, and China's investment in these countries has surpassed US$50 billion. According to some estimates, the investments have led to setting up of 56 economic cooperation zones in more than 20 countries creating over 180,000 jobs and generating tax revenue in access of $1.1 billion.

The financial cooperation and assistance by China for the countries and organisations involved has been of various kinds. For instance, just the loans provided by the Asian Infrastructure Investment Bank and investments made by the Silk Road Fund in various projects are massive. One of the famous Chinese quotes is, "The beginning is the most difficult part." Well, today we can easily say that the beginning of making the BRI dream a reality has been nothing short of spectacular, remarkable and filled with encouragement for all those involved.

Pakistan, which adjoins China at its northeast border, is a central element of its neighbour's plan to bring this 21st Century Silk Road of infrastructure, free trade, and financial integration to realisation, with CPEC being one of the BRI's six main elements.

The first phase of the $62 billion CPEC investment saw infrastructure improvement in the country focussing on power and energy coupled with roads, railways and port development. The positive impacts on the economy can already be witnessed as Pakistan achieved a 5.3pc GDP growth rate in 2016-17 and is expected to achieve 5.8pc growth in 2017-18.

Also, 21 energy projects planned under CPEC will double Pakistan's current capacity of electricity production by producing 16,400MW electricity after their completion. CPEC has provided 60,000 jobs to Pakistanis since 2015 and it would create over 800,000 new jobs in different sectors up to 2030. However, this is just the beginning and actual windfalls for Pakistan are about to emerge as trade takes shape under the BRI.

Standard Chartered Bank CEO Shazad Dada (centre) receiving a souvenir from Pakistan China Institute Chairman Mushahid Hussain Syed (right) on behalf of the Summit organisers. Former SBP Governor Dr Ishrat Husain (left) is seen looking on.

Pakistan's economy has tremendous strategic development potential, as it is located at the crossroads of South Asia, Central Asia, China and the Middle East and thus can serve at the fulcrum of a regional market with a vast population, large and diverse resources, and untapped potential for trade. The trade between Pakistan and China crossed $13 billion in calendar year 2017 and is on a constant growth trajectory since the inception of BRI, with China becoming the largest trading partner of Pakistan.

Trade is a vital catalyst for growth. Total trade between China and BRI countries exceeded $3 trillion between 2014 and 2016 and the new Silk Road is estimated to generate incremental trade of $2.5 trillion over the next 10 years. Some of that trade volume will pass through the proposed CPEC routes.

The ability to meet the challenges of international trade head-on and that too with great success will largely depend on Pakistan's banking and financial sector's readiness in adjusting to the new trade environment.

With existing and potential trade volumes between China and Pakistan on the rise, the internationalisation of RMB is one of the keys to cost-efficient economic growth for both the countries. RMB is the world's fifth most used payment currency. The US Dollar and RMB is the sixth most traded currency pair where the volumes increased by $82 billion in three years. Central banks have already started building RMB reserves and currently RMB accounts for 1.23pc of global reserves and increasing.

RMB was included into SDR basket in 2016 with approximately 11pc weight. As traders become more aware of the benefits of transacting in this currency and global offshore RMB centres emerge, demand for and growth in RMB transactions and investments are steadily increasing. The growth in RMB settlement is driven by corporates who are becoming increasingly aware of the benefits, such as expanding buyer and supplier networks, shorter cash conversion cycles due to improved efficiency, hedging cost reduction and lower FX spreads and a wider range of hedging products.

International banks with a strong footprint across the Middle East and Africa will play a key role in embedding and amplifying this rapid transition. Investing in RMB road shows, facilitating cross-border trade settlement, developing RMB-denominated transaction and investment products and having strong regulatory relationships in both China and the target markets mean that international banks can help both the buyer and the supplier. Additionally, with People's Bank of China (PBOC) relaxing rules around RMB liquidity management to facilitate cross-border usage and the State Bank of Pakistan's (SBP) allowance in January 2018 to trade different goods and services through RMB, the usage will only increase at a sharp pace.

In the words of President Xi Jinping, "Finance is the lifeblood of modern economy. Only when the blood circulates smoothly can one grow". The projected success of BRI and CPEC initiatives will be dependent on the creation of a robust and sustainable financial system that embodies strong risk management, innovative models of investment and financing and acts as a bridge between government and private capital. No country can become a thriving economy on the back of trade without the active backing of an equally robust and thriving banking sector facilitating that trade.

Both China and Pakistan are well regulated economies, therefore businesses in China need guidance to understand local regulations, process and procedures to follow in Pakistan and vice versa. Clients at both ends need to know what is available to them and how their financial partners can support them in their journeys. The financial institutions will have a key role to play by assisting and adding value for their clients in carrying out simple banking activities ranging from helping clients choose the right investment model, providing cash management, working capital and employee banking solutions to fulfilling more complex banking needs such as strategic financing (FX hedging solutions, project and export finance etc.) as well as assisting with mergers and acquisitions.

Pakistan's banking and financial sector needs to adjust to the new trade environment. Innovation empowers growth and the financial sector is poised to take on this new road of innovative and advanced financial journey.

With a long history of doing business in Pakistan and China spanning over 150 years, Standard Chartered looks forward to facilitating the country to realise the true potential of the CPEC opportunity. Being an international bank, 70pc of our footprint overlaps with BRI countries.

In 2017 alone, the bank was involved with more than 50 deals worth more than $10 billion related to BRI. The early successes and wins for SCB Pakistan have also been extremely encouraging. Our in-depth knowledge of these countries and regions' political, economic and cultural environment, coupled with our comprehensive products and services, make us a partner of choice for our clients.

President Xi Jinping, during his keynote speech at Belt and Road Forum for International Cooperation in Beijing, quoted an ancient Chinese saying, "A long journey can be covered only by taking one step at a time". It is vital that we are taking those steps to calibrate the changing winds into our business models to be able to capitalise fully the CPEC opportunity available to us. ■

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