Banking on the BRI

Financial institutions and those familiar with the financial services sector review the Belt and Road Initiative's impact and the opportunities in store for the sector

BY **SREEREMA BANOO**

Financing of the infrastructure projects under the Belt and Road Initiative (BRI) has offered some opportunities for the financial services sectors of member countries. A report, The Belt and Road Initiative: A Key Pillar of the Global Community of Shared Future, from the Chinese Embassy in Malaysia in October 2023 said participating countries and relevant institutions have carried out multiple forms of financial cooperation and improved the mechanisms for investment and financing. The report noted that as at the end of June 2023, a total of 13 Chinese-funded banks had established 145 first-tier offices and branches in 50 BRI partner countries.

In Malaysia, the most visible outcome of the BRI is the construction of the East Coast Rail Link (ECRL) and although the project is financed by the Export-Import Bank of China — like many of the BRI's mega infrastructure projects in other BRI participating countries that are backed by China's large stated-owned enterprises (SOEs) and state-owned banks — there have been opportunities for local financial institutions in trade finance and investment services, as well as project management consultancy services.

Kevin Foo, partner and head of financial services in KPMG in Malaysia, points to Malayan Banking Bhd's issuance of RMB1 billion worth of bonds on China's interbank bond market in 2017, using the proceeds to assist BRI-related projects. There have also been positive developments in Islamic banking, for instance, the ECRL project's primary issuance of RM2 billion in nominal value of Sukuk Murabahah. With Malaysia continuing to lead the world sukuk market, he says the participation of Chinese-owned companies in the sukuk market will spur market activities in Malaysia's capital market and offer more options for Malaysian investors. "Banks will therefore benefit along the funding chain," he adds.

Maybank group CEO for global banking Datuk John Chong says the group has been seeing increasing interest from private-owned enterprises (POEs) as they pursue a China+1 strategy to diversify and de-risk amid geopolitical tensions. "Asean is an obvious location choice due to its proximity, historical and cultural ties and younger demographic. Given our 10-market regional footprint, Maybank has been receiving inquiries from POEs about investing in Asean countries such as Malaysia, Indonesia and Vietnam," he adds.

Novan Amirudin, CIMB Group co-CEO of group wholesale banking, says the financial services group has played a pivotal role in facilitating BRI financing in the decade since its announcement in 2013. "Some notable examples include assisting clients in issuing multiple bonds and sukuk for China-related investments, such as the 21st Century Maritime Silk Road bonds of about RM670 million in 2015 through China Construction Bank (Asia), BEWG (M) Sdn Bhd's RM400 million Sukuk in 2017

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CIMB

and Edra Energy Sdn Bhd's IMTN Sukuk worth RM5.085 billion in 2018."

He adds that through its overseas branches in Greater China, particularly CIMB Bank Bhd in Shanghai and Hong Kong, the group has established strong relationships with local Chinese companies. "Leveraging our local expertise and extensive knowledge, we assist clients in navigating new markets and regulatory landscapes."

Novan points to knowledge gained from previous strategic investments in local firms such as Bank of Yingkou and partnerships with Chinese firms such as CGS International Holdings Ltd (formerly China Galaxy International Financial Holdings Ltd). "As a regional bank with geographical footprints across Southeast Asia and Greater China, CIMB is well-positioned to facilitate collaboration between domestic clients seeking partnerships with Chinese companies, and Chinese companies interested to invest in Southeast Asia."

OCBC Bank (M) Bhd managing director and head of wholesale banking Jeffrey Teoh Nee Teik says since the launch of BRI, OCBC Bank has provided various financial services including short- and long-term loans, cash management and bonds to Chinese enterprises expanding into Asean.

Having established its China Business Office in 2018 at its headquarters in Singapore, gradually expanding the coverage to Asean countries along BRI routes, in 2024 OCBC Malaysia leveraged its advantage and talent in the local market and formed a China Business unit. This unit integrates multiple departments within the bank, covering corporate, commercial and personal banking, thus providing one-stop services for Chinese enterprises and investors venturing into Malaysia.

Opportunities for greater financial integration and in fintech

A key pillar of the BRI is financial integration among the participating countries. According to the Chinese Embassy's report, about 17.7 million businesses in 131 partner countries had opened UnionPay services, and 74 partner countries had opened UnionPay mobile payment services. China has also signed bilateral currency swap agreements with 20 partner countries and established renminbi clearing arrangements in 17 partner countries.

Foo says there has been good traction in financial integration between Malaysia and China, albeit taking place at a slow pace. "Bank Negara Malaysia and the People's Bank of China (PBoC) have (in 2021) renewed the bilateral currency swap arrangement for a term of five years, with the size maintained at RM110 billion, which will boost trade and investments between our countries at a time when the global economy is undermined by higher inflationary pressures and growing recessionary risks."

The BRI has also indirectly paved the way for cross-collaborations, such as Maybank's tie-up with China UnionPay Merchant Services and Touch 'n Go's (TNG) joint venture with China's Ant Group, the parent company of Alipay, China's largest digital payment platform. With the latter, for instance, TNG e-wallet users now have access to Alipay+ Rewards and can perform contactless and cashless transactions in Mainland China and in the region.

"More recently, Payments Network Malaysia Sdn Bhd (PayNet)'s agreement with UnionPay International activated a cross-border QR payment interoperability model that allows Chinese consumers visiting Malaysia (and vice versa) to use UnionPay QR payment products conveniently," Foo adds.

"Malaysia could certainly take a page from China's success stories in digital banks, which are leading the way in financial innovation in the region."

Foo, KPMG partner and head of financial services

KPMG

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Chong, Maybank group CEO for global banking

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He believes that opportunities for further financial integration can be found in Malaysia's growing digital banking sector. "China has been in the digital banking scene since 2014, much earlier than Malaysia, with some of the world's largest digital-only banks such as Tencent's WeBank, Ant Group's MYbank and Suning Bank. The digital banking space in Malaysia has already started a collaboration with China in the form of Asia Digital Bank Ltd, a wholly-owned subsidiary of Chinese state-owned Asia Pacific Investment Bank, which obtained the first digital banking licence for investment banks from the Labuan Financial Services Authority (LFSA) in November 2020."

There are also opportunities and learnings to be gained from China's success in financial innovation, especially as it is home to some of the world's most innovative and successful fintech companies. Regional financial integration enabled by the BRI coupled with a tech-savvy population, technological infrastructure, flourishing e-commerce industry and social media platforms, means that China is setting the pace for financial innovation, Foo says.

Effendy Shahul Hamid, CEO, group consumer and digital banking, CIMB Group and chairman of TNG Digital, says through the joint venture with Ant Group, CIMB Group and TNG have had a front row seat when it comes to financial innovation, particularly in the case of the TNG e-wallet. "Know-how in technology platforms to handle high-volume payments securely was certainly a huge eye-opener. Over the years, TNG Digital has learned, adapted and incorporated knowledge in architecture, algorithms and data structure designs from our collaboration with the Chinese, successfully demonstrating our ability to enhance the stability of our tech platform. This capability has been proven in han-

CONTINUES ON PAGE 14

Investments now being made in new areas

FROM PAGE 12

dling mega-events from both the government and e-commerce sectors, showcasing the robustness of our technology infrastructure," he adds.

OCBC's Teoh says fintech solutions have played a significant role in enhancing trade finance and risk management along the BRI routes. "Digitised and streamlined trade finance processes enhance accessibility to trade finance for businesses. Fintech solutions supported by the BRI (also) help promote and facilitate funding for eco-friendly projects and initiatives aligned with environmental sustainability goals."

10 years on, what's next?

More than a decade since the introduction of the BRI in 2013, the initiative is now less focused on large infrastructure projects. In Malaysia, China is looking for policy support for Chinese investments into Malaysia, including into new areas such as renewable energy, semiconductors and digital technology. Maybank's Chong says in Penang, Kedah and Johor, the group is already seeing POEs in the process of setting up manufacturing facilities.

"Aside from setting up plants, clients from China have expressed interest in taking over existing local businesses such as logistics service providers to support their production. For them, it is about speed to market. With the increasing interest in decarbonisation, Maybank is also well-placed to provide transition finance advisory as the first bank in Malaysia to launch a Transition Finance Framework.

"Given these new opportunities of the BRI, Maybank continues to deepen our knowledge about the top POEs and seek co-financing opportunities with onshore Chinese banks. In strengthening our regional presence as part of our M25+ strategic vision, we are bolstering our China desks to facilitate broader conversations within Asean," Chong adds.

Given that one of the intended outcomes of BRI projects is narrowing the urban and rural divide through enhanced connectivity, Foo believes that there are opportunities for financial institutions to leverage on BRI projects to expand into shariah-compliant investment funds, mobile banking services, online trading platforms, financial education and literacy platforms, and social finance solutions.

"Malaysia could certainly take a page from China's success stories in digital banks, which are leading the way in financial innovation in the region. For example, MYbank addressed the issue of unequal access to capital encountered by female entrepreneurs in China, a large portion of the underserved banking customers, by adopting a data-driven approach that uses more than 3,000 variables to assess an applicant's ability to repay.

"The bank's use of algorithms allows quick and cost-effective assessments of the small businesses monthly sales and repayment patterns, enabling the 3-1-0 lending model where borrowers can complete their online loan applications in three minutes, obtain approval in a second, with 0 human interactions. MYBank reported a default rate of just 1%," says Foo.

He adds that the Malaysian fintech sector "can be amplified" with more collaborations between China and Malaysia. "Despite various efforts such as MDEC's (Malaysian Digital Economy Corporation) partnering with equity crowdfunding and P2P platforms to help start-ups, the focus in financial services and banking solutions remains limited. There has to be continued and concerted efforts to enable the transfer of knowledge, expertise and tools — and these are on top of government policies, regulations and business incentives that support the growth of fintech in Malaysia." E