THE COMPLETE SERIES

THE NEW SILK ROAD

Growth, connection, opportunity

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The New Silk Road is more compelling than it was 15 years ago. The commercial opportunity used to be a simple exchange of goods — mainly oil for consumer goods. Today, it's a far more impactful story. The region has scale, it has momentum, and there are vibrant flows, not just of goods, but also of capital, talent, and technology.

PREFACE

Dear Reader,

Asia and the Middle East have enjoyed a rapid ascent over the past decade. Economic ties between the two regions have simultaneously grown closer, with trade flows expanding ten times over the past 20 years. The results are clear to see with Asian companies and investors a common sight in the Middle East, just as their peers from the Middle East are active across Asia.

One of the authors of this report documented those early changes in the book *The New Silk Road*, published in 2009. However, much has changed since then, particularly in the past two years. This report updates the book's findings, and explores the latest stage in what is a fast-growing and evolving relationship built on centuries-old foundations.

In this second, more exciting phase, the relationship between Asia and the Middle East is broadening beyond trade. Flows of capital, talent, and technology are more prominent than ever. Business activity has expanded beyond trade and construction to a range of sectors, including automotive, clean technology, and artificial intelligence.

What does the future hold?

We see a region where energy ties will grow tighter and clean technology will play a greater role. Manufacturing supply chains will spread out across a wider set of countries as companies build resilience. Flows of private wealth will expand and cross-border payment solutions will improve. Investments into aviation and transport infrastructure will support the rising flows of people and goods. Finally, a young population of early adopters will drive digital disruption.

Building a New Silk Road

In writing this series, our ambition is to identify practical ways to help both governments and corporations not only take advantage of this massive opportunity, but also navigate the challenges they may encounter. We have drawn on the experience and insights of our colleagues at Oliver Wyman, as well as those of senior executives and subject experts across Asia and the Middle East. We are grateful to everyone who contributed to this report.

We hope you enjoy the research.

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EXECUTIVE SUMMARY

Centuries ago, the Silk Road was a critical network connecting East and West, with linkages across trade, culture, and politics. That network has now been revived, and 20 years into its rebirth, the New Silk Road presents particularly dynamic opportunities.

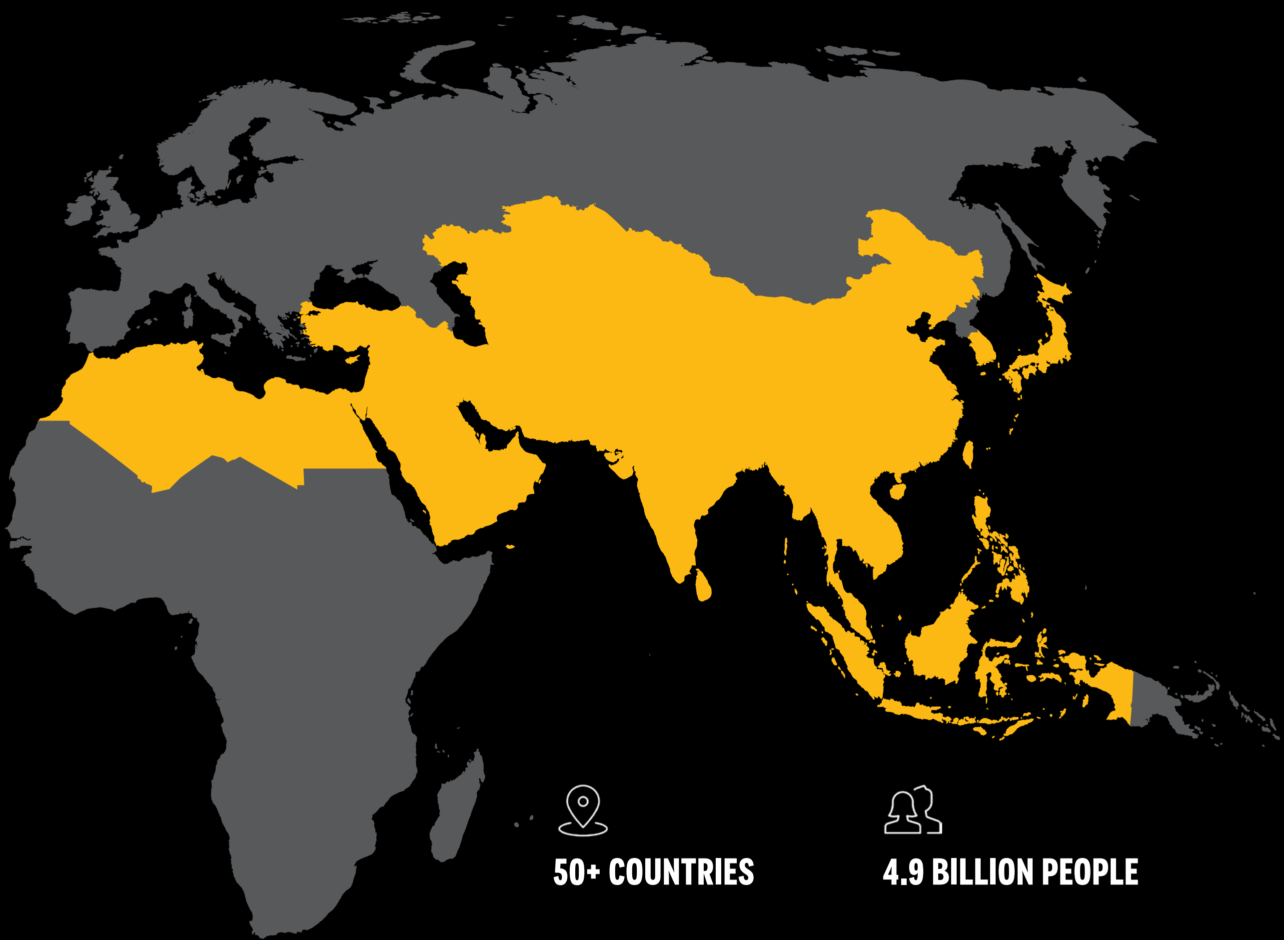
The countries that are part of the New Silk Road region are powering ahead once more, driven by three major triggers: the energy transition, global supply chain disruption, and geopolitical tensions and regionalization. Each of these core shifts are reshaping and generating opportunities in a region that accounts for over 40% of the global economy.

Flows have also expanded to include not just trade, but also capital, technology, and talent, creating a broader and deeper set of relationships. Today, we see opportunities across energy, mobility and transport, financial services, emerging payments, manufacturing and supply chains, and entertainment and gaming, to name just a few.

Companies, investors, and governments have an opportunity to capitalize on these flows, but they will need to adopt new strategies, operating models, value propositions, and mindsets. In this report, we lay out a series of action steps that private companies and governments can take in order to capture the opportunities in front of them.

The New Silk Road region is also large, complex, and evolving quickly. There is no straight-line trajectory of how the next five years will look. To this end, the report evaluates diverse scenarios and potential pathways. High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress.

THE NEW SILK ROAD'S REACH



Our definition of the New Silk Road extends across Asia, the Middle East, and North Africa. In our research and client workshops, we are especially focused on the 20 largest economies that account for 95% of the region's GDP.

WHAT'S NEXT?

EIGHT ACTION STEPS FOR THE PRIVATE SECTOR

	Action steps	Description	Levers
1	**Tackle internal silos**	Firms operating successfully across the New Silk Road have overcome organizational silos based on geographical divisions, such as between Asia and the Middle East	• Establish country-desks to build bridges between geographical locations • Design incentive structures to motivate sharing of opportunities or intelligence • Establish senior stakeholder teams able to 'pick up the phone' with other geographical locations and break silos
2	**Pick your opportunities**	Opportunity sets will look different to before, as they will require comparing a larger number of state and private sector actors across regional value-chains	• Establish a multi-region strategy unit empowered to explore cross-market opportunities • Cultivate front-line employees and commercial partners as a source of market intelligence on fast-growing markets • Focus on specific growth or trade corridors as an initial test and learn, rather than boiling the ocean and losing momentum
3	**Align with national priorities**	National priorities and long-term state development strategies are a bigger driver of the region's opportunities compared with Europe and the United States	• Ensure strategy and management teams are fully aware of the governments' economic and business priorities in target countries • Engage regularly with national planners and officials to understand the rationale behind policies and plans
4	**Manage your talent**	Talent able to work effortlessly across multiple markets, such as by having the right connections or language capabilities, is in short supply and must be nurtured	• Offer greater mobility opportunities between key business hubs to develop multi-country/regional expertise • Strengthen talent and development programs owing to talent shortages in key business hubs, such as Dubai and Singapore
5	**Find the right partners**	Local partners are key to navigating the region's diverse markets and customs, as well as demonstrating a firm's commitment to nurturing domestic growth	• Navigate localized markets, including understanding regulations and consumer preferences, by working with local partners with shared interests • Seek local partners that are aligned with government priorities and so can accelerate market entry and success

	Action steps	Description	Levers
6	**Take advantage of technology**	Technology is helping to remove barriers to trade and investment between the region's many countries, with the New Silk Road itself also a major source of technological innovation	• Explore where generative artificial intelligence may help to customize global solutions for local markets and help ease talent shortages • Strategically adopt technologies to reduce the friction of intra-regional flows, from digital payments to information sharing
7	**Follow the investment flow**	The New Silk Road's opportunities are not always apparent in data or in public information, as they are often private flows, making it important to develop region-wide networks	• Develop firm-wide intelligence capabilities using interpersonal contacts, inside and outside the firm, to identify changes in business flows • Stay open to partnership or platform opportunities, as they expand information networks and help identify or assess opportunities
8	**Optimize supply chain**	The New Silk Road is the world's largest manufacturer and the relocation of supply chains across the region is creating new opportunities to build resilience and tap into new growth markets	• Develop China+1 strategies and rebalance sourcing footprints to ensure resiliency in the event of worsening geopolitics • Collaborate with Chinese manufacturers seeking to develop global footprints and more durable business models

SIX ACTION STEPS FOR GOVERNMENTS

	Action steps	Description	Levers
1	**Revisit trade and investment agreements**	The New Silk Road is home to two of the world's three world-class regional trade agreements and governments are committed to expanding the scope and quality of bilateral free trade agreements (FTAs)	• Negotiate to join multilateral FTAs, such as the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and only selectively negotiate new bilateral FTAs or update existing agreements • Ensure bilateral or multilateral FTAs cover the full scope of a modern economy's activity, including capital, data, talent, and technology flows
2	**Leverage sovereign wealth funds (SWFs)**	The region's SWFs are among the world's largest and most active, often making investments that support national growth priorities and nurture local champions	• Deploy SWFs to support national agendas by acquiring capabilities and technologies or by plugging into the region's value chains • Employ SWFs to solidify partnerships between countries by directing investments towards partner countries' strategic priorities
3	**Facilitate trade, investment, and technology flows**	Governments can help shape the regional agenda on issues of common importance, to both build grounds for greater collaboration between countries and support national priorities	• Expand cross-regional research efforts into areas such as vaccines, energy, and space, to expand efforts and build grounds for collaboration • Enhance participation in multinational agencies to set agendas and guide flows of capital, talent, and technology in support of national priorities
4	**Deploy development funds**	The New Silk Road has an opportunity to expand the role of development funds as a complement to existing multilateral funds and to solidify relationships between countries	• Deploy development funds to build trust between countries by supporting partner countries' development needs and the wellbeing of their citizens • Target funding for areas of mutual benefit by, for example, using funding to support joint research on climate change or health initiatives
5	**Support the private sector**	Governments play an important role in assisting the private sector to open up new markets or remove obstacles to further growth, with trade agencies playing a leading role	• Ensure regular high-level official contact to open doors for the private sector in regional markets, particularly those that are less transparent • Establish trade and investment agencies to help the private sector identify opportunities in regional markets and make the right connections
6	**Activation and monitoring**	Governments need to activate and monitor the performance of economic agreements to ensure counterparties are fulfilling terms and private companies are maximizing opportunities	• Establish joint taskforces to develop and execute action items, identify synergies, remove roadblocks, and improve outcomes • Ensure robust monitoring of progress to provide joint taskforces with greater visibility and enforce departmental and individual accountability

INTRODUCING OUR FLAGSHIP NEW SILK ROAD INITIATIVE

Overview

6 THEMES WITH THEIR OWN SCENARIO PATHWAYS

We see opportunities across a range of sectors, but see six priority sectors as areas to focus.

Energy Transition

The region is the world's largest consumer of fossil fuels, deeply interconnected, but also innovating clean technologies.

Mobility & Transport

Moving 5 billion people and $10 trillion of exports is a fundamental challenge, but the region is a mobility innovator.

Financial Services

Financial services are a driver of change, from the region's SWFs, a third of the world's HNWI, to the future of the USD.

Digital Disruptors

A convergence of digitally savvy 1.9 billion under 30s via online shopping, digital gaming and entertainment, and generative AI.

Supply Chain

China remains a giant manufacturer, but supply chains are relocating across Southeast Asia and India, even as the GCC localizes.

Emerging Payments

Making payments between 60+ currencies drives payments innovation, from CBDCs to fast payments networks.

Overview

18 DRIVERS ARE SHAPING THESE THEMES

Each theme is driven by three mega-trends that are long-term influences on future opportunities.

Energy Transition

- A still high regional demand for fossil fuels
- Clean tech and renewables innovation
- The Middle East's oil and post-oil futures

Mobility & Transport

- Growing intra-regional freight flows
- Large populations and high-density cities
- A track-record of mobility innovation

Financial Services

- Rising wealth and asset management
- Emergence of regional Silk Road financial players
- The return of geopolitics and the future of USD

Digital Disruptors

- A young population of digital adopters
- Private innovation and state ambition
- A willingness to experiment digitally

Supply Chain

- China+1 sourcing strategies and rebalancing
- The rise of Indian manufacturing
- The green manufacturing imperative

Emerging Payments

- Intra-regional multi-currency trade settlement
- Mobility and small-value payments
- Geopolitics and demand for non-USD payment

Overview

24 PRIORITY OPPORTUNITIES FOUND

We identify four priority opportunities per theme for investments and companies.

	Opportunity 1	Opportunity 2	Opportunity 3	Opportunity 4
Energy Transition	China's clean tech sector exports	GCC's localization of clean tech capabilities	Energy transition finance & technology platforms	GCC strengthens ties to Asian energy buyers
Mobility & Transport	Region-wide aviation ambitions	A global EV and battery trendsetter	Mobility services and innovation	Freight infrastructure in growth markets
Financial Services	Wealth management taps private markets	The rapid rise of institutional investors	Fintech, digital banking, and financial inclusion	Cross-regional fnancing platforms
Digital Disruptors	A digital gaming and e-sports boom	The entertainment wild card	Gen AI as creative disruptor	Turbocharged digital sales
Supply Chain	China invests in regional manufacturing	Supply chain-linked private capital opportunities	Asian manufacturing ecosystems in GCC	The green manufacturing imperative
Emerging Payments	Cross-border fast payment connectivity	Enhanced solutions by banks and PSPs	China's bilateral flows and the Chinese Yuan	CBDCs and cross-border trade payments

WHY DOES THE NEW SILK ROAD MATTER?

The modern Silk Road matters in part because of its scale. Today, it is home to eight out of the world's top 20 economies. Its share of global gross domestic product (GDP) has risen to 40%, and we estimate this will reach 48% by 2040. In turn, the number of Fortune 500 companies based in the region has grown to 221, almost half of the total.

Exhibit 1: The Silk Road's importance to the global economy

Global GDP	Global trade	Global population
40%	**44%**	**62%**

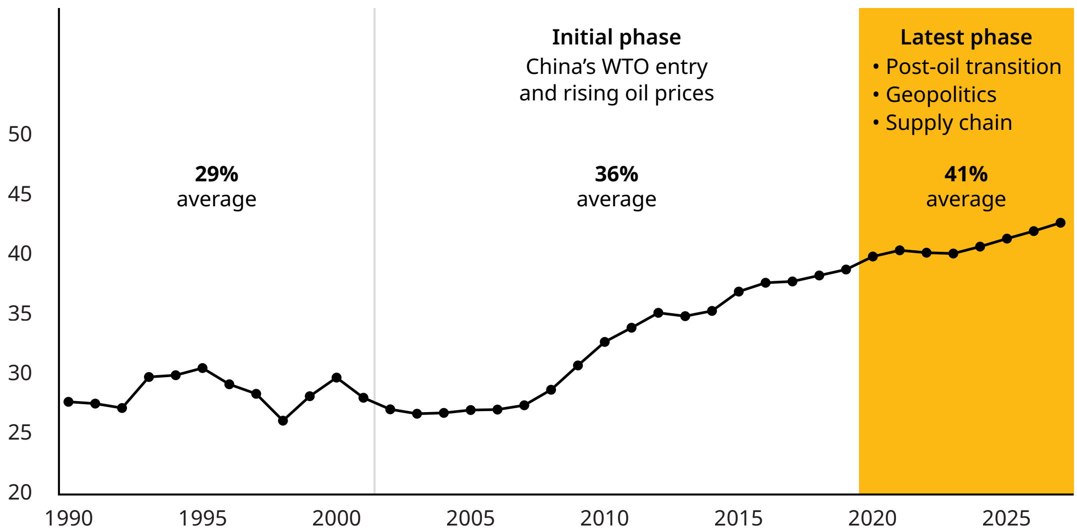
Source: Oliver Wyman, International Monetary Fund, World Trade Organization. 2022 data

The New Silk Road is also fundamental to global supply chains, and the future of these will depend greatly on how economic and political events unfold in the region. Today, its global export share is 86% for semiconductors, 65% for clothing, and 40% for oil, to name just a few products. The region includes some of the world's largest export manufacturers, including China and Japan, as well as emerging contenders, such as India and Indonesia.

However, scale alone is not enough. Connectivity is key, and this is increasing too. Nearly 60% of total trade activity in the region is with other modern Silk Road economies. Energy ties are especially strong and will strengthen further. The region is also home to two of the world's largest regional trade agreements. The mobility of the New Silk Road's 4.9 billion-strong population will also shape cross-border transport networks, particularly with regard to aviation.

The abovementioned New Silk Road's population accounts for 62% of the world's population, and it will be a major driver of potential global consumption growth over the coming decade as well. This population is also around a decade younger on average than the respective populations of Europe and the United States. The region's digitally connected youth are already major drivers of technological innovation and will shape the New Silk Road's impact on the global economy in unexpected ways.

Exhibit 2: Asia and the Middle East's share of the world's GDP continues to rise



Source: International Monetary Fund. Forecasts: Oliver Wyman analysis

WHAT IS DRIVING THE NEW SILK ROAD'S GROWTH?

Three events have turbocharged the New Silk Road in the past few years. Each of these creates a new set of opportunities and challenges for companies operating across the region; some have had an immediate impact, while others are long-term drivers. They are not the only triggers for the region, but they are the most important to its current trajectory.

Event 1

THE POST-OIL ENERGY TRANSITION

The Gulf countries are utilizing high oil prices to invest in non-oil sectors and secure their post-oil future. Saudi Arabia's 'Vision 2030' and the 'We The UAE 2031' plans of the United Arab Emirates (UAE) are leading the charge.

- To secure their transition, Gulf countries are seeking to diversify their economies, shifting into financial services, logistics, tourism, technology, and manufacturing. Asian investment will be particularly important to achieving these aims, given Asia's role in the global value chain.
- Asia is also investing in the Middle East's energy transition. China is a global leader in clean tech, especially batteries and EVs. Japan and Korea are major oil importers from the Middle East and now seeking to increase their imports of renewables. Energy ties between the two regions will only tighten further.

Event 2

GEOPOLITICS AND REGIONALIZATION

The global political landscape has fractured over the past five years. The modern Silk Road has its own tensions, but it is still working towards more, not less, connectivity.

- US-China tensions, the most important of these fractures, are driving new regionalization plans. After years of investment in Europe and North America, Chinese companies are redirecting their attention towards more nations in Asia and the Middle East, driving stronger commercial ties with the rest of the region
- The Ukraine conflict has further accelerated regionalization. Most countries in the region have adopted a relatively non-interventionist stance to the conflict. The use of economic sanctions or US dollar asset seizures by Europe and the United States has also changed risk calculations for some countries in the region.

Event 3

GLOBAL SUPPLY CHAIN DISRUPTION

The global supply chain started shifting more than a decade ago in response to rising costs. However, the US-China trade dispute, COVID-19 disruptions, and more recent policy interventions, such as the United States' CHIPS and Science Act, have all accelerated supply chain changes.

- Vietnam has attracted the overwhelming share of production leaving China. However, global buyers are stepping up efforts to develop options in India and Indonesia, as well as markets such as Morocco and Turkey, while also returning a share of production to South Korea and Japan. These endeavors mean the New Silk Road will remain the world's manufacturing hub.
- The New Silk Road countries continue to sign up to free-trade agreements. Of the world's three major regional free-trade agreements, two are in the area, namely, the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). At the same time, the number of bilateral agreements between Asia and the Middle East is increasing.

Each of these creates a new set of opportunities and challenges for companies operating across the region; some have immediate impact, while others are long-term drivers.

HOW DO WE DEFINE THE NEW SILK ROAD?

Exhibit 3: The Silk Road's commercial story used to be about a simple exchange of goods. Today the flows are two-way, and more varied:

Source: Oliver Wyman

The modern Silk Road covers more than 50 countries spread across Asia and the Middle East and North Africa. Our research focuses on the region's major economies, which together account for 95% of the New Silk Road's GDP and are highly integrated into the regional and global economies.

We look at flows of goods, capital, talent, and technology. This is a change from our work in the late 2000s, when flows of oil and consumer goods were the region's main exchange. However, capital, talent, and technology flows have more recently flourished as the business ecosystem matures and the types of cross-regional activities broaden.

We also explore flows between all countries, rather than simply flows between Asia and the Middle East. Whether looking at supply chains, funding structures, or partnerships, intra-regional transactions are increasingly a complex network involving a growing array of countries. We expect the complexity of these flows to become even more intricate.

CONCLUSION

The pathways to opportunity along the dynamic New Silk Road are abundant, but ever-changing. However, we believe the action steps outlined in this white paper will help both the private and public sector to cement their positions and maximize their impact across the region. Additionally, the New Silk Road really is all about collaboration, so please do not hesitate to contact us if you would like to discuss any of these ideas further.

The region that is connected to the Silk Road is powering ahead once more, driven by three major triggers: the energy transition, global supply chain disruption, and finally, geopolitical tensions and regionalization.

The New Silk Road Series

ENERGY TRANSITION AMBITION

The New Silk Road's ability to innovate at scale should not be overlooked.

EXECUTIVE SUMMARY

Energy is fundamental to the New Silk Road's future, as the region is the world's largest energy producer and consumer. Energy ties between Asia and the Middle East are already extraordinarily tight, and they are likely to tighten further given that the region's supply and demand are growing faster than the global average.

The region's energy demand, in particular, is growing much faster than in Europe or North America, especially in energy-hungry Asian economies. Striking a balance between economic development and energy transition will take time, and while the region's investment in renewables is strong, it cannot fully keep pace with the growth of demand.

Nevertheless, the New Silk Road's ability to innovate at scale should not be overlooked. China is already one of the major exporters of clean technology. Japan and South Korea are exploring new technologies, from batteries to nuclear power. The Gulf Cooperation Council (GCC) also has ambitious clean technology investment plans, and is happy to welcome Asian capital and technologies.

We see four areas of opportunity as the region strikes a balance between its current needs and its endeavors for energy transition.

China's clean technology sector
Chinese-made clean technology products are already visible across the region, but would still benefit from local partnerships.

The GCC's localization ambitions
Asia will be a major partner for the GCC, as the latter seeks to successfully localize its renewables infrastructure and take a clean energy lead.

Energy transition platforms
The New Silk Road is almost unique in its ability to bring together capital, technology, and talent to tackle energy transition.

Building ties to Asia
The GCC will invest in Asia, whether to guarantee the supply of key inputs, or to strengthen links into Asia's final energy demands.

INTRODUCTION: ENERGY BINDS THE REGION

Energy is fundamental to the New Silk Road's past and future. Beginning with vast oil reserves, for example, in Saudi Arabia's Ghawar and Iraq's Eridu oil fields, the region is an energy giant. It accounts for 43% of global oil production and six of the world's top 10 producers. The region is equally hungry for energy. Two of the region's largest economies, South Korea and Japan, import almost 100% of their oil and gas needs, and they buy a majority of their imports from the Middle East. Moreover, they are not alone, as half the region imports more than 50% of its oil and gas needs.

As a result, energy ties between Asia and the Middle East are extraordinarily tight, and these are often the first topic of discussion when governments meet. Asia imports 61% of its oil from the Middle East, making it hugely dependent on physical supplies from the region. Similarly, the Middle East sells 77% of its oil to Asia, with the proceeds financing much of the Middle East's economic development. These proportions will only rise over the next decade, given that the production and consumption of oil in the region are expected to grow faster than the global average.

Exhibit 1: New Silk Road's role in global energy markets

43%
The region's share of global oil production

58%
China's global supply share of five major clean energy products[1]

10
Number of gas producers in the world's top 20

Source: International Energy Agency, Oliver Wyman analysis

However, decarbonization and the race to achieve net-zero emissions is also forcing change on the region, with the New Silk Road aiming to successfully navigate its post-oil energy transition. Investments into alternative energy sources are already accelerating across the region, and the results are easy to spot: China's western provinces are covered with expanding solar panel arrays; the United Arab Emirates (UAE) has completed its first nuclear power plant; Indonesia's volcanic belts are attracting geothermal investments; and wind turbines dot the hills along Turkey's Aegean coast.

1 The five products include batteries, wind, solar photovoltaic (PV), heat pumps, and electrolysers.

The New Silk Road is also a clean technology innovator. China's electric vehicle (EV) sector is the most visible sign of success, as Chinese-brand EVs are common sights on streets, from Riyadh to Tokyo. At the same time, South Korean lithium battery manufacturers are vying with Chinese and Japanese competitors to develop new and more stable alternatives. The region's Sovereign Wealth Funds (SWFs), such as Saudi Arabia's Public Investment Fund (PIF), are also a source of patient capital for clean technology and renewable startups seeking to scale and tap into national growth strategies.

The New Silk Road's post-oil energy transition has implications not just for the region, but also global ambitions, as the world grapples with climate change. Therefore, balancing economic growth with energy transition will be key to the region's future.

THREE KEY INFLUENCES ON THE REGION'S ENERGY TRANSITION

Influence 1

HIGH DEMAND FOR FOSSIL FUELS TO PERSIST

The region's demand for fossil fuels will remain strong even as investment in renewables accelerates.

The New Silk Road countries will be the largest source of global fossil fuel demand over the coming decade. Governments arguing that the region is still in an energy-intensive phase of growth and that its power generation assets are newer than those in Europe and North America will hinder energy transition. The World Energy Outlook forecasts that the region's demand for oil, for example, will grow by around 15% between 2022 and 2030, accounting for 80% of the increase in global demand. The story is similar for natural gas.

The high demand for fossil fuels, however, will not prevent investment in renewables. China's renewable energy production, for example, is forecast to grow over 80% in the coming decade, led by the production of solar and wind power. India and the countries that are part of the Association of Southeast Asian Nations (ASEAN) will see similar growth. The Middle East, Morocco, Turkey, and the GCC countries, will also see similar increases in the production of renewables. However, the region's energy-hungry growth rates mean that the rebalancing in the overall mix will be slow, with governments prioritizing economic development over rapidly phasing out the utilization of fossil fuels.

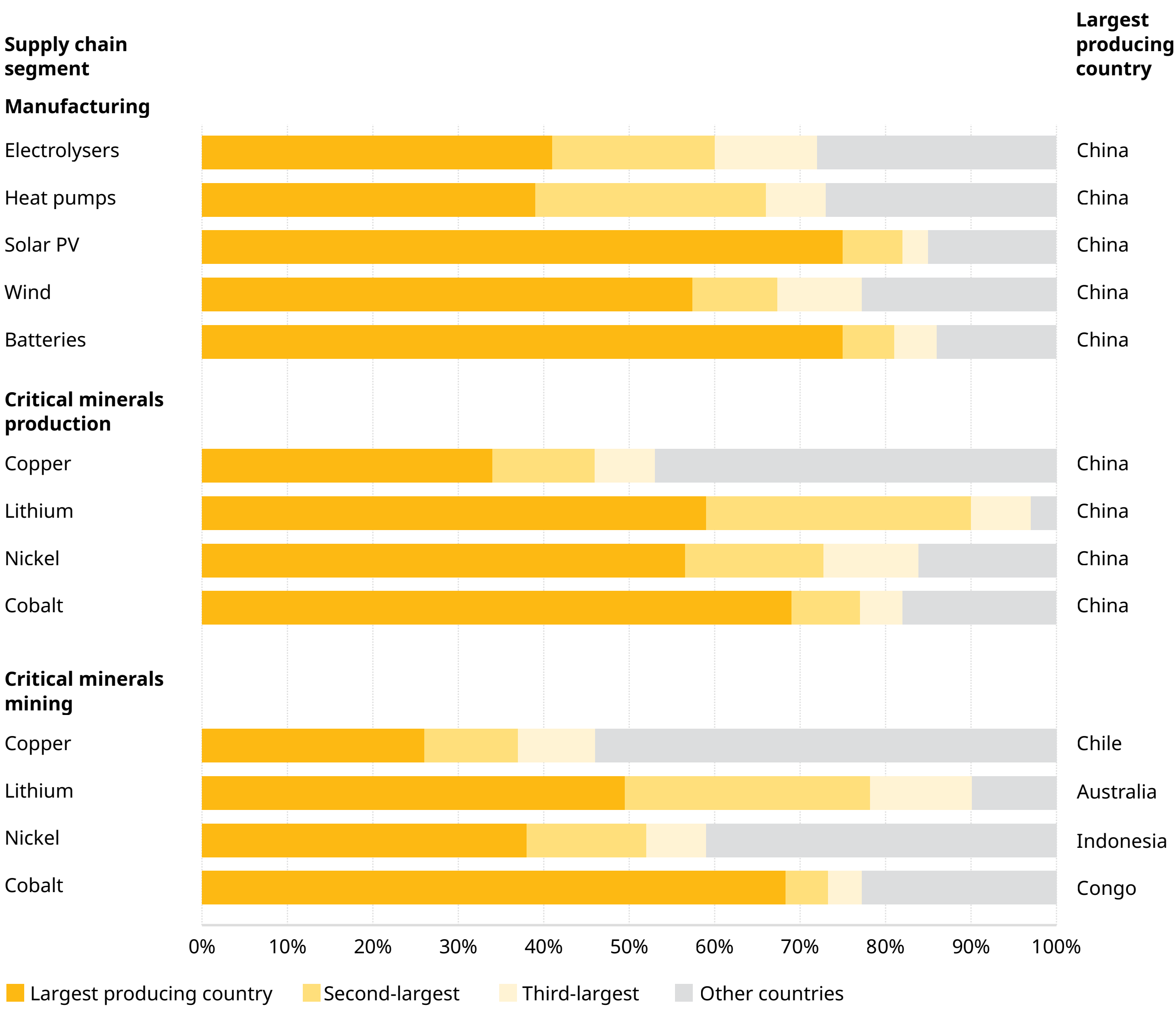
Influence 2

CLEAN TECHNOLOGY AND RENEWABLES INNOVATION

The region has a track record of innovating at scale, led by China and the rest of North Asia.

The New Silk Road is a clean technology innovator. China leads the way with its development of new energy products, from heat pumps to solar panels. For many of these items, the country accounts for a majority or at least a significant share of global exports (see Exhibit 2). The country's vast scale as both a producer and consumer of clean technology equipment also lowers the average cost for the rest of the New Silk Road region. Its exports of solar panels and wind turbines to the region, for example, have tripled over the past decade to reach US$15 billion.

Exhibit 2: Share of clean energy supply chain by segment



Source: International Energy Agency

China is not the New Silk Road's only innovator. Japan's automakers, for example, are investing heavily in all-solid-state battery technologies. South Korea's industrial majors, such as SK and Samsung, are developing world-class small modular reactor (SMR) nuclear technologies. The GCC countries are also an emerging hub for clean technology startups. For instance, Saudi Arabia's NEOM Investment Fund (NIF) will invest globally in technology startups, including clean technology ones, while the UAE's Hub 71+ ClimateTech will similarly seek to nurture emerging technologies.

Influence 3

THE MIDDLE EAST'S OIL AND POST-OIL FUTURE

The Middle East will remain a major fossil fuel exporter, but do not underestimate its clean energy ambitions.

The New Silk Road is not just a driver of global oil and gas consumption, but also production. The World Economic Outlook forecasts that the region's oil production, for example, will grow by approximately 12% between 2022 and 2030. The Middle East will account for the vast majority of that growth, particularly given that oil production in the rest of the region is starting to stabilize or even fall, especially in Asia. The story is again similar for gas. The dynamics in play tell us that Asia's reliance on the Middle East's oil and gas is only likely to strengthen over the coming decade.

The Middle East is, of course, investing heavily in its post-oil future, recognizing the need to transition into non-oil sectors. Saudi Arabia's Vision 2030 aims to develop the country's non-oil economy, which includes investing in renewable energy. The UAE's Abu Dhabi Economic Vision 2030 has similar ambitions. The pace of this transition will influence the region's oil and gas production. However, for now, the expectation is that the Middle East will still fully develop its existing oil and gas reserves, to both meet Asian demand, and help fund investments in non-oil sectors.

THE VARIOUS RESULTS OF THESE INFLUENCES

These influences have led to a range of investments and partnerships across the region, particularly in clean technology and renewables. **Batteries are a natural focus for all countries**. Chinese company CNGR Advanced Material is building a battery materials factory in Morocco, an investment of about US$2 billion, to supply the European and North American battery markets. South Korea's LG is planning similar investments. Japan and Saudi Arabia have meanwhile signed a 'Lighthouse Initiative', which includes increasing supply chain resilience for the rare-earth elements used in battery production. China's Sunrise New Energy and South Korea's LG Energy are also in talks with the Abu Dhabi Investment Fund to set up a lithium battery facility in the UAE.

Korea's SMR nuclear alliance, led by companies such as LG and Samsung, is driving the country's global nuclear ambitions. The UAE's newly constructed Barakah nuclear plant was the first overseas plant built by South Korean contractors, led by the Korea Electric Power Corporation (KEPCO). The two countries have also since signed agreements to jointly pursue further nuclear projects in the UAE and to explore opportunities in other countries. SMRs play an important role in this strategy, with Korea Hydro & Nuclear Power (KHNP) and the Emirates Nuclear Energy Corporation (ENEC) agreeing to conduct joint research and development of micro-reactor technology.

Japan, meanwhile, will play an important role in funding the GCC's hydrogen ambitions. The country's decarbonization strategy assumes hydrogen will play a key role, of which the majority will be imported. To date, major Japanese power producer JERA has signed agreements with Saudi Arabia's Public Investment Fund (PIF) to co-develop hydrogen projects, and the Japanese and Omani governments have also signed agreements to co-develop similar projects. Japan is not alone in this strategy. Major South Korean steelmaker POSCO won a contract in 2023 to build a green hydrogen project in Oman, with a share of the plant's production reserved for export to South Korea for use in POSCO's green steel production.

WHERE WE SEE EXCITING OPPORTUNITIES

Opportunity 1

CHINA'S CLEAN TECHNOLOGY SECTOR

Chinese-made clean technology products are already visible across the region, but would still benefit from local partnerships.

It is hard to overlook China's clean technology sector, given its innovative technologies and manufacturing scale. If the New Silk Road is going to navigate energy transition properly, access to affordable clean energy products designed for emerging markets will be key. Low prices are often a result of overcapacity, but the effects are nevertheless felt globally, from cheap solar panels to EVs. Other clean energy products of interest include heat pumps, solar lighting, wind generators, and renewable energy storage devices.

However, Chinese clean technology companies need strong local partners to expand into New Silk Road markets. It is not enough for products to be cheap. Other factors critical for success include: strong government relations to help win public bids; quality after-sales services to ensure long-term customer adoption; and sound marketing strategies to convince households to make upgrades. Partnership opportunities will range from joint ventures to strategic investments.

Opportunity 2

THE GCC'S LOCALIZATION AMBITIONS

Asia will be a major partner for the GCC, as the latter seeks to successfully localize its renewables infrastructure and take a clean energy lead.

Asian companies will play a key role in helping the GCC countries build their renewables capacity. Chinese and Japanese companies have already built solar panel fields in the UAE and Saudi Arabia, for example. However, the GCC is increasingly seeking to localize production, meaning Asian companies will need to invest in local manufacturing capabilities or supply raw inputs, especially critical minerals and metals, rather than just seek to win engineering, procurement, and construction (EPC) projects.

This is a different opportunity, but it can still be profitable with the right partners. China's battery manufacturers are already exploring opportunities to build factories in the GCC countries. Manufacturing in Saudi Arabia for export to Europe, for example, would also strengthen the resilience of Chinese manufacturers in the face of worsening global trade tensions. Other Asian companies may see opportunities to use the GCC countries as a platform for selling into sub-Saharan Africa.

Opportunity 3

ENERGY TRANSITION PLATFORMS

The New Silk Road is almost unique in its ability to bring together capital, technology, and talent to tackle energy transition.

Funding the New Silk Road's energy transition will not be cheap. Public-private sector structures will play a key role, especially for large-scale projects requiring new infrastructure, such as hydrogen. Platforms that bring together a range of actors, from SWFs to leading industrial companies, will ensure the right mix of technologies, funding, and government support is brought together to tackle specific decarbonization challenges.

In our report on the region's financial services, we have explored regional financing platforms. Energy transition platforms are an important part of this opportunity. The UAE's US$30 billion contribution to a new climate fund, alongside financial sector giants, such as BlackRock and TPG, is just one recent example. A large share of the fund's investments are likely to not only be made in the New Silk Road, but also include products from the region.

Opportunity 4

BUILDING TIES TO ASIA

The GCC will invest in Asia, whether to guarantee the supply of key inputs, or to strengthen links into Asia's final energy demands.

The GCC has plenty of motivation to invest in Asia, in part to secure the supply of minerals and metals critical for the GCC's energy transition and localization. Indonesia is a prime target, given the country's domestic reserves of nickel. Its neighbor Malaysia has smaller reserves of rare-earth elements. China is the region's critical minerals giant and, while it may be less open to direct investment in the sector, it might welcome partnerships with the GCC countries.

The GCC will also invest in Asia to secure demand from its major oil and gas consumers. Saudi Aramco has only recently invested US$3.6 billion on a stake in a refinery and chemical facility in northeastern China, in addition to its existing stake in a Fujian refinery that was completed over 15 years ago. The company has similarly taken a US$2.2 billion stake in Chinese refiner Rongsheng Petrochemical. South Korea has also attracted similar GCC investments.

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S ENERGY TRANSITION

The New Silk Road region is large, complex, and evolving quickly. There is no straight-line trajectory of how the next five years will look. However, scenario analysis based on the drivers identified in this report can help us think about the different potential pathways.

Our scenarios are based on a matrix of **integration and transformation**. High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress. The scenarios are not mutually exclusive, and the final pathway may contain elements of each.

Scenario 1

A CLEANER, GREENER FUTURE

In this potential scenario that involves high integration and high transformation, the region's energy ties grow even tighter, for both fossil fuels and clean energy, while rapid innovation helps to decarbonize economies.

Fossil fuels remain important to trade flows. However, green hydrogen exports from the GCC countries to North Asia accelerate, as both the public and private sectors boost investments into this clean alternative. Cross-regional clean energy investment platforms, including financing and technology, help raise the share of renewables with regard to energy consumption.

Clean technology innovation and adoption similarly accelerates to support a faster pace of decarbonization. High energy costs spur governments to push forward new technologies. The region's clean-technology ecosystem, primarily in hubs, such as China, Singapore, Saudi Arabia, and the UAE, pick up significant momentum and support adoption.

Scenario 2

GROWTH IS THE PRIORITY

In this potential scenario that involves high integration and medium transformation, the region remains heavily reliant on fossil fuels even as investments into clean energy rise.

The New Silk Road remains reliant on fossil fuels to drive rapid economic growth. The share of renewables to the overall energy mix continues to rise, but at rates like those seen over the past ten years. The Middle East economies, meanwhile, increase their share of Asia's oil and gas imports, as the energy ties between them tighten further.

Clean energy innovation continues. EV adoption rates also rise. However, higher interest rates and inflation slow the rate of energy transition in the hard-to-abate sectors. Advanced markets, such as South Korea and Japan, transition at a faster pace than the rest of the region, but are still concerned about maintaining overall industrial competitiveness.

Scenario 3

SECURITY AND GROWTH AT ALL COSTS

This low integration, low transformation scenario sees the region continue its current trajectory, highly reliant on the trade of fossil fuels with limited intra-regional investment in either conventional or new energies.

A rolling series of geopolitical crises and weak economic growth distracts cash-strapped governments from prioritizing energy transition. Policymakers focus on domestic growth at all costs and are reluctant to introduce the types of regulations or subsidies that might otherwise support investment in renewables.

The private sector struggles to innovate in the face of multiple challenges, including rising inflation, higher interest rates, and trade wars over critical minerals. The hurdles are simply too high for all but leading private companies to invest in clean energy, and faced with intensifying competition, companies prioritize fossil fuels.

Asian companies will play a key role in helping the GCC countries build their renewables capacity.

The New Silk Road Series

A MOBILITY INNOVATOR

The New Silk Road is poised for mobility and transport innovation.

EXECUTIVE SUMMARY

Mobility and transport are central to the growth trajectory of the New Silk Road in the coming years. Cumulatively, Asia and the Middle East have more than 700 cities with populations greater than half a million people. They are also home to half of the world's busiest airports, and 42 of the world's 60 largest container ports.

Moving people and goods, whether by rail, road, or air, is a pressing challenge for governments and an opportunity for investors. Fortunately, the region is a mobility innovator, from electric vehicles (EVs) to ride-hailing services. It also has a robust track record with regard to disrupting transportation, from aviation to high-speed rail networks.

However, densely populated cities, shortfalls in government funding, and weak policymaking could result in widening gaps between countries and cities that are quick to adapt, and those that react more slowly. For the latter group, the impact on economic growth could be significant.

We see four areas of opportunity for investing in the New Silk Road's mobility and transport sector:

High aviation ambitions
The New Silk Road is investing heavily in new airlines and airports. Opportunities abound, but consolidation is also a possibility.

A global EV trendsetter
The region's scale and ambitions will shape the global EV sector, from scooters to cars, and China and India are in the driving seat.

Mobility services and innovation
The New Silk Road will be a source of local innovation in mobility services, providing an attractive alternative to capital-expenditure-heavy public transit investments.

Freight infrastructure in growth markets
The relocation of supply chains outside of China will require heavy investment in air, rail, and sea transport infrastructure across the rest of Asia and the Middle East.

INTRODUCTION: A LONG HISTORY OF TRANSPORT

The Silk Road has a rich history of mobility and transport. Straddling half the globe, its very name describes a primary trade route used over hundreds of years. Today, about 2.8 million international flights travel between New Silk Road countries every year. The number of vehicles that travel by road or rail are even greater in the region's many densely populated cities, from Tokyo to Shanghai or Mumbai to Cairo. The challenges of moving people and cargo around such a fast-growing region are a source of opportunity for some countries. In others, however, it may constrain growth.

The region has a track record of success. Makers of Japan's high-speed rail network were original innovators in the 1970s. China has since built a network over 10 times the size. Both countries have exported their rail technology abroad, from the Philippines to Saudi Arabia. Singapore and Hong Kong SAR separately built and continue to expand their world-class subway systems. The United Arab Emirates (UAE), meanwhile, has upended the global aviation industry, establishing Dubai as an international aviation hub, with the number of passengers that it services annually rising from about 23 million in 2005 to about 80 million today. Saudi Arabia now seeks to do the same as well.

Exhibit 1: A snapshot of the mobility and transport in the New Silk Road

Automobile sales

38 MILLION

Number of automobiles sold in the New Silk Road annually

Flights

10 MILLION

Number of flights originating from the New Silk Road annually

Container ports

42

Number of container ports in world's Top 60

Source: PlaneStats by Oliver Wyman, CEIC, World Shipping Council

However, progress across the region is uneven. Oliver Wyman's Urban Mobility Readiness Index, co-authored with the University of Berkeley, shows a wide range of mobility conditions. Cities such as Hong Kong, Tokyo, and Singapore rank in the top 20 of the 60 cities covered. Yet, many others languish near the bottom. For example, while Cairo, Jakarta, and Mumbai have all increased their investment into creating or improving their mass transit networks over the past decade, the levels of public investment and infrastructure still struggle to keep pace with the rising mobility demands.

The risk then is a widening gap between the New Silk Road's leaders and laggards. Even as the region's more advanced cities develop dynamic mobility solutions and invest in new transport infrastructure, its emerging cities will struggle with legacy challenges, ranging from poor urban planning to a shortfall of public funds, particularly in the post-pandemic era. Narrowing the gap is all the more urgent when we consider that the pandemic and extreme weather have demonstrated the potential impact to growth in the event of disruption to our mobility and transport networks.

THREE KEY INFLUENCES ON THE REGION'S MOBILITY

Influence 1

RISING INTRA-REGIONAL TRADE FLOWS

The challenge of moving more and more cargo between the countries in the region will force new investments in land, sea, and air freight infrastructure.

The region exports US$10 trillion worth of goods annually, of which about 57% is shipped to other New Silk Road countries. China accounts for more than 60% of the region's container port capacity, given its status as the world's largest exporter of goods. However, multinational corporations (MNCs) are rebalancing their global supply chains towards alternative suppliers in other countries, such as Vietnam, in particular, as well as, among others, India and Indonesia, which we explore in our later chapter.

The shift has triggered a flood of investment in new transport infrastructure across the region, so as to better accommodate the rising manufacturing demand in the respective countries. Southeast Asia, South Asia, and the Middle East have led a construction wave of new airports and ports over the past decade. Cross-regional investment is also on the rise, from Dubai Ports World (DP World)'s investments in Southeast Asia to China Ocean Shipping Company (COSCO)'s in the Middle East, as the region's transport players respond to cross-regional opportunities.

Influence 2

LARGE POPULATIONS AND HIGH-DENSITY CITIES

The challenge of moving large numbers of people within and between big cities may force innovation.

The New Silk Road's vast populations and numerous high-density cities create both challenges and opportunities. The region accounts for about 61% of the world's population, is home to 35 out of the world's 50 most populous cities, and includes more than 700 cities with populations greater than half a million people. With this in mind, rather than applying the experiences of low-density cities such as Oslo, the lessons learned in moving people in and around Jakarta, for example, should prove more relevant when trying to achieve similar efforts in Cairo.

It is indeed important to utilize the right blueprints as mobility pressure will only grow. Today, 10 million flights originate from the region every year. This figure could grow by 12 times or more as the industry develops, if we use the growth of the aviation industry in the US as a benchmark. The sales of automobiles could also see significant growth. Today, about 38 million automobiles are sold in the region per year, which is only about a third of Europe's per-capita level. However, it is not feasible to replicate Europe's trajectory, so the region will need to rely on its own innovations to move forward.

Influence 3

MOBILITY INNOVATOR

The region's unique economic models make it a mobility innovator, alongside Europe and the US.

While the New Silk Road is not the only global mobility innovator, the region has a track record of upending industries and then exporting the respective hardware or solutions to neighboring countries. China's EV industry is the most recent illustration. The country is also a leading developer of drone and high-speed rail technology. The UAE and Saudi Arabia, meanwhile, are investing heavily in and testing mobility solutions. Singapore, on the other hand, has been a road pricing pioneer.

The region's unique economic models partly explain its various innovation drives. The New Silk Road has a range of levers less commonly employed in Europe and the US, from state-backed intervention, state-owned firms, and government subsidies, to sovereign wealth funds (SWFs). However, similar to the landscape in Europe and the US, the region has many private companies and a lot of healthy entrepreneurial spirit. Large markets in China and India can also help bring new products to scale quickly, as does expanding to nearby neighbors for the region's smaller countries.

THE VARIOUS RESULTS OF THESE INFLUENCES

These influences have led to innovation and a number of successful deals by forward-thinking companies across the region. **China's EV sector is perhaps the most well-known recent innovation success story**. Today, EVs account for nearly 40% of China's new car sales. Chinese EV brands, such as NIO and Xpeng, are leading exporters to the rest of the New Silk Road, and, increasingly, they are investing in those same markets, from Indonesia to Saudi Arabia. China's battery manufacturers will be similarly important to the electrification of private and public transportation more broadly, with the country's exports of lithium-ion batteries to the rest of the region rising from US$5 billion in 2017 to US$16 billion in 2022.

The UAE's air and port connectivity with Asia has grown steadily over the past two decades. Emirates Airline flies to over 35 destinations in Asia, moving passengers between Asia, the Middle East, and Europe. At the same time, DP World is well-positioned to benefit from supply chain relocations to Southeast Asia, with over 18 terminal operations across Asia, including in Laem Chabang, Thailand, and Ho Chi Minh City, Vietnam. It also has a growing presence in Indonesia, with projects and terminals in Belawan, Sumatra, and Gresik, Java. DP World is also looking to offer a growing range of solutions, from warehousing to freight forwarding.

The **Gulf Cooperation Council (GCC) states are also investing in transportation as they seek to localize manufacturing and supply chains**. The Gulf Railway Project, for example, will connect the region's six states with more than 2,000 kilometers of track, connecting both cities and industrial hubs to ports. Saudi Arabia's King Abdul Aziz Port in Dammam is already a major transshipment hub and expanding rapidly, while the country's investments into ports and industrial parks along the Red Sea coastal areas can tap into busy trade lanes between Asia and Europe. Oman's Port of Duqm, meanwhile, has similar ambitions to tap into the New Silk Road's intra-regional trade flows.

WHERE WE SEE EXCITING OPPORTUNITIES

Opportunity 1

HIGH AVIATION AMBITIONS

The New Silk Road is investing heavily in new airlines and airports. Opportunities abound, but consolidation is also likely.

The pandemic has challenged aviation globally, and the focus is currently on adding flights and improving operational efficiency. In the first half of 2023, the region's international flights were at about 82% of the levels recorded in 2019. However, opportunities exist for tighter collaboration, as companies seek to capitalize on intra-regional connectivity and growing passenger numbers. More than 78% of the region's international flights are destined for other New Silk Road countries, and the competition is fierce.

Consolidation opportunities may also present themselves if, in certain cases, capacity has grown too fast and financial positions are now stressed. Saudi Arabia's ambitions as an international aviation hub, together with increased investment by India's private airlines, is illustrative of the pressures, especially given that the aviation routes between India and the GCC countries already see significant amounts of travel. Asia's busy intra-regional routes are another point of pressure.

Exhibit 2: The New Silk Road's busiest international air corridors
Rank based on number of seats, January to October 2023

Rank	City		City	Regions
1	Singapore	< >	Kuala Lumpur	Southeast Asia
2	Jeddah	< >	Cairo	Middle East & North Africa
3	Taipei	< >	Hong Kong	North Asia
4	Osaka	< >	Seoul	North Asia
5	Seoul	< >	Tokyo	North Asia
6	Singapore	< >	Jakarta	Southeast Asia
7	Dubai	< >	Riyadh	Middle East
8	Bangkok	< >	Singapore	Southeast Asia
9	Seoul	< >	Bangkok	North Asia & Southeast Asia
10	Jeddah	< >	Dubai	Middle East
11	Hong Kong	< >	Bangkok	North Asia & Southeast Asia
12	Seoul	< >	Fukuoka	North Asia
13	Bali	< >	Singapore	Southeast Asia
14	Dubai	< >	Bombay	Middle East & South Asia
15	Dubai	< >	Lahore	Middle East & South Asia

Note: China's international aviation routes are still performing significantly below pre-pandemic levels.
Source: PlaneStats by Oliver Wyman

Opportunity 2

A GLOBAL EV TRENDSETTER

The region's scale and ambitions will shape the global EV sector, from scooters to cars, and China and India are in the driving seat.

The EV sector is growing globally. However, the New Silk Road is unique, in part, because of its scale. China's EV brands and exports have reshaped the global automotive industry. The rapid growth of two and three-wheel EVs in India promises a different revolution, uniquely suited to many of the region's more congested cities. Indonesia's ambitions may have a similarly outsized impact on the region given the country's scale, from batteries to EVs.

The GCC countries' EV strategies are ambitious, but also aligned with Asia's aspirations. Without a local automotive sector to protect, the region is more open to both imports and investments from Asia. The Middle East may even capture small parts of the supply chain, particularly with regard to the export of products to the rest of the region or Europe. Look for the Middle East's connectivity with Asia's supply chain to be especially strong.

Opportunity 3

FREIGHT INFRASTRUCTURE IN GROWTH MARKETS

The relocation of supply chains outside of China will require heavy investment in air, rail, and sea transport infrastructure across the region.

The need for resilience is driving the relocation of supply chains to countries such as Vietnam, Indonesia, Morocco, and Turkey. However, this requires significant investment in the region's transport infrastructure, especially ports. At the same time, the GCC countries are investing heavily in the expansion of their rail networks and ports, with participation from Asian players, to support the localization of the region's manufacturing and supply chains.

The private sector will play a key role in the financing and construction of such investments, such as the participation of DP World in Indonesia. Public-private partnership (PPP) laws have improved steadily over the past decade in many New Silk Road countries, particularly since the COVID-19 pandemic, with these countries' governments being unable to fully fund new infrastructure projects. Private capital will fill this gap, with pan-regional players, alongside global ones, being well-positioned to capture the rising opportunities.

Opportunity 4

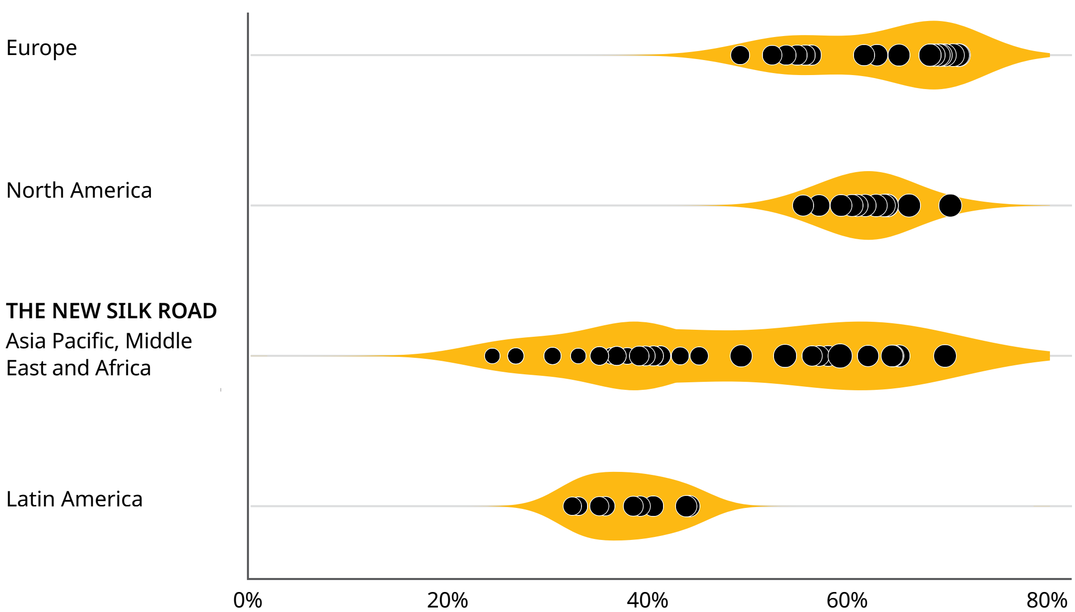
MOBILITY SERVICES AND INNOVATION

The New Silk Road will be a source of local innovation in mobility services, providing an attractive alternative to capital-expenditure-heavy public transit investments.

Building public transit infrastructure in the region's high-density cities will be challenging. Subway systems cannot be constructed fast enough to keep up with the rising demand. Therefore, it is more likely that we will see explosive growth in mobility services, from ride-hailing and ride-sharing, to docked e-scooters, to on-demand bus pooling. None are fixes for already-congested cities. However, they provide easier solutions for cash-strapped governments seeking to transport large numbers of people.

China, India, and Indonesia are countries to watch. Nevertheless, there will be no single template for the region, as each country faces unique conditions. Cities such as London and New York are likely to grab media headlines, but watch out for innovation in unexpected places across the New Silk Road's more than 700 large-sized cities. Micro-mobility solutions, for instance, already exist regionwide, from Cairo to Bangkok, and Dhaka to Manila, but often fly below the radar.

Exhibit 3: Oliver Wyman Forum's 2023 Urban Mobility Readiness Index Score (65 Cities)



Source: Oliver Wyman Forum, Urban Mobility Readiness Index 2023 Report

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S MOBILITY

The New Silk Road region is large, complex, and evolving quickly. There is no straight-line trajectory of how the next five years will look. However, scenario analysis based on the drivers identified in this report can help us think about the different potential pathways.

Our scenarios are based on a matrix of **integration and transformation**. High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress. The scenarios are not mutually exclusive, and the final pathway may contain elements of each.

Scenario 1

THE NEW SILK ROAD'S MOBILITY REVOLUTION

In this potential scenario that involves high integration and high transformation, the region is a rapid mobility innovator, and private investment in intra-regional air, rail, and sea transport connectivity expands.

The region's many cities are fertile ground for mobility solutions that are more innovative than those found in more mature economies. High mobile phone ownership, young populations, and poor public transit are forces for change. At the same time, the region drives innovation across the global EV sector for two to four-wheel vehicles.

Rising intra-regional tourism and the rebalancing of supply chains, meanwhile, drive investment into air, rail, and sea transport infrastructure. Financial innovation through the greater number of PPP deals fills the public sector funding gap, even as private capital invests in new logistics companies and technologies.

Scenario 2

A HIGHLY CONGESTED, POORLY CONNECTED REGION

This low integration, low transformation scenario sees cities overwhelmed by congestion, supply chains tied to China, and tourism flows that fail to accelerate as living costs rise.

The region's mainly low to middle-income cities are swamped by congestion as the number of cars on the road continues to rise, while cash-strapped governments struggle to invest in public transit systems. Mobility solutions fail to scale, and so remain niche startup opportunities rather than gamechangers. Meanwhile, the take-up of EVs slows down, owing to a shortage of charging facilities.

The pace of the rebalancing of global supply chains stalls. As such, China retains its dominant share of production, challenging the case for new investment in air, rail, and sea transport infrastructure in countries ranging from Vietnam to Turkey. At the same time, the middle-class cuts back on tourism spending, as living costs rise regionally and curb the demand for air travel.

Scenario 3

THE FAST AND THE SLOW

In this potential scenario that involves low integration and medium transformation, the region's mobility leaders leap ahead, even as the laggards become ensnared in worsening congestion and extreme weather conditions.

The region's mobility leaders race ahead as regulation accelerates the electrification of private and public transit networks, the rapid expansion of mobility solutions, and the rebalancing of transport modes. Typically, the most successful cities are wealthier and less populated, or have strong governments that are able to intervene in markets.

The laggards are overwhelmed by rapid urban population growth in cities that already have high density, face post-pandemic funding challenges, or suffer from weak government policymaking. They are unable to decongest cities, such as by building subway systems, or build the types of air, rail, or sea transport infrastructure that would attract foreign investment in manufacturing.

The region's many cities are fertile ground for mobility solutions that are more innovative than those found in more mature economies.

The New Silk Road Series

DEVELOPING FINANCIAL SERVICES ECOSYSTEM

The race has just begun to capture the New Silk Road's rising capital flows.

EXECUTIVE SUMMARY

Intra-regional flows in capital and wealth are emerging as among the most exciting developments in this latest renaissance of the New Silk Road. Wealth pools, investment opportunities, and geopolitics are colliding and resonating with one another to reshape the landscape of the financial sector.

A mixture of world-class financial hubs, a rising middle class, sovereign wealth funds (SWFs), and fast-growing markets is creating the right conditions for stronger financial flows across the region, catching up to goods flows that are already robust.

Global banks are currently in a strong position. However, regional financial institutions, payment service providers (PSPs), and fintech firms all have room to play by offering differentiated solutions, particularly at a time when interest rates are heightened globally. The race to compete has only just begun.

We see four areas of exciting opportunity:

Wealth management taps private markets
The region's high-net-worth individuals (HNWIs) will increasingly look to invest in the region's private market opportunities, but education is key.

The rapid rise of institutional investors
The region is both a wealth pool and investment destination for a rapidly expanding institutional investment industry.

Fintech, digital banking, and financial inclusion
Fintech providers, particularly ones from China, have opportunities to service overlooked customers across the region.

Cross-regional financing platforms
Joint-investment platforms for the financing of infrastructure or capital goods could become more prevalent, given the region's continued capital-intensive growth.

INTRODUCTION: FINANCIAL SERVICES ARE THE NEXT STAGE IN THE NEW SILK ROAD'S GROWTH

Financial services are showing signs of promise. When we authored *The New Silk Road* in 2009, a full chapter explored the region's new SWFs and the opportunities for intra-regional investment. In the end, the trading of goods outpaced capital flows, as the conditions for strong financial ties were not yet right. However, the situation has changed significantly in the past two years, as a result of the region's continued growth, geopolitics and a rebalancing of foreign ties, and the Gulf Cooperation Council (GCC)'s post-oil energy transition and aspiration to bolster its non-oil sectors.

Most exciting is the growth of intra-regional investment and the rise of the wealth management business. For the first time, the region is seeing material capital flows between Asia and the Middle East. The larger and more established corridors, such as between Dubai and Hong Kong, will be the first point of entry for many financial institutions. However, the potential for emerging private capital flows, such as between Bahrain and Shenzhen or Riyadh and Mumbai, is equally exciting and symbolic of how the region's financial centers and corridors are expanding steadily.

Exhibit 1: The rising wealth in the New Silk Road

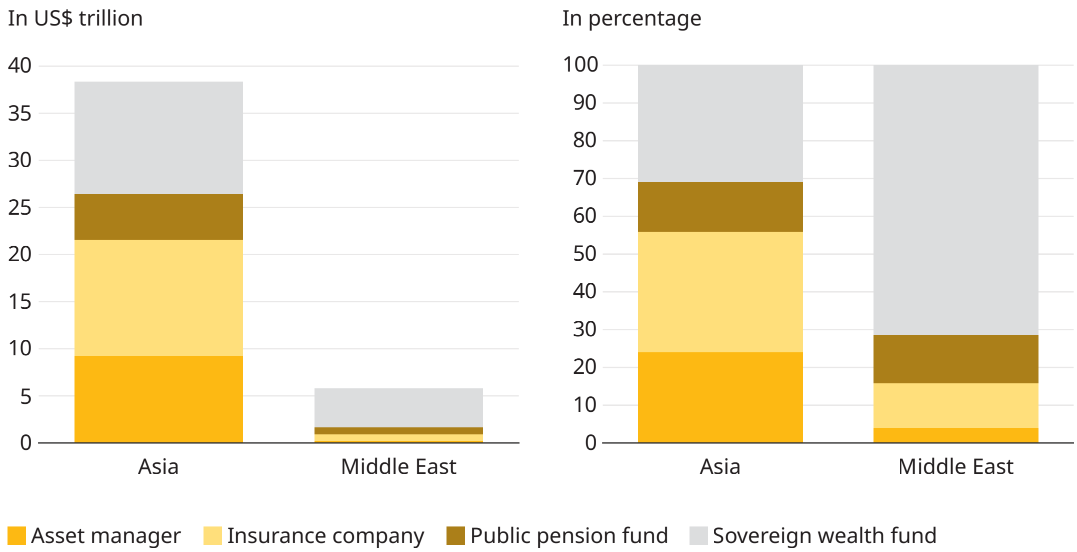
Global financial centers	Ultra HNWIs	HNWIs
7 IN TOP 20 RANK	**US$14.8 TRILLION**	**US$28.1 TRILLION**
	32.6% of global total	33.8% of global total

Source: Altrata, LongFinance, CapGemini, Oliver Wyman analysis

The competitive landscape will also shift as a result. Today, the global financial institutions play a dominant role with their existing footprints across both regions, built up over the past decades. The region's foreign lending profile similarly still reflects those historical ties, rather than the more recent developments. In the Middle East, British and American banks still account for the largest shares of foreign bank claims. The situation is quite different in Asia, where Japan is the largest lender. However, the market situation today looks like it is ripe for disruption.

If this is the case, leading Asian and Middle Eastern financial institutions have a role to play. In our conversations, we find that a range of domestic bank and non-bank players across the New Silk Road have an ambition to build out broader multi-country platforms. How the global players decide to respond, particularly since interest rates have generally risen in their home markets, will be key to the success of domestic players. The rise of local fintechs and PSPs will only create further disruption and opportunity.

Exhibit 2: The assets under management (AUM) of various financial institutions in Asia and the Middle East



Source: Preqin

We see three key drivers of the financial services industry across the New Silk Road:

THREE KEY INFLUENCES ON THE REGION'S FINANCIAL SERVICES

Influence 1

THE REGION'S RISING WEALTH

The New Silk Road, with two-thirds of the global population, is emerging with major wealth management opportunities, particularly for its financial hubs.

The New Silk Road includes three of the world's largest low-tax wealth centers, namely, Hong Kong SAR, Singapore, and Dubai. Even so, more locations are competing to join this select group. The region is also already home to a large and growing number of HNWIs. Moreover, HNWI flows have become increasingly mobile between all three hubs, as investors seek to both diversify their geographical exposure, and capture growth opportunities in the region's many fast-growing markets.

In addition to HNWIs, the region's rising middle class will similarly turbocharge its asset management industry in the coming years. Gross domestic product (GDP) per capita has grown at a compound annual growth rate (CAGR) of 4% in the past five years among the region's wealthiest countries, where it is already more than US$10,000 per capita. At the same time, the Oliver Wyman & Morgan Stanley Global Wealth and Asset Management report predicts that in the coming years, Asia and the Middle East will lead global household financial wealth accumulation.

Influence 2

THE RISE OF REGIONAL SILK ROAD PLAYERS

As the region's financial markets develop and interest rates rise globally, regional Silk Road financial players will find new growth opportunities.

Intra-regional capital flows will grow in the coming years. Japanese banks' claims on Southeast Asia are already overtaking American and European capital, and these banks continue to expand their regional business. Chinese and Middle Eastern banks are similarly likely to grow their regional operations. In fact, many are already opening new regional branches, as they seek to capitalize on stronger commercial ties.

The Silk Road's pan-regional banks will not find it easy. Global banks have highly competitive footprints across the New Silk Road. Therefore, local players are more likely to focus on niche opportunities, rather than build out universal ones. Even if their progress is not straightforward, their participation will change the shape of the region's financial sector. It will both sharpen competition and spur collaboration among global and domestic players.

Influence 3

GEOPOLITICS AND REBALANCING

Geopolitical tensions are driving countries to build resiliency into their financial infrastructure, and de-risk from the US dollar (USD).

Tensions between the US and China are driving Chinese financial institutions and investors to seek opportunities closer to home, particularly in Southeast Asia and the Middle East. At the same time, Beijing seeks to accelerate the internationalization of the Chinese Yuan (RMB) and reduce its reliance on the USD, while also expanding Hong Kong's role as an offshore RMB hub and an international financial platform for Chinese companies looking to expand globally.

The GCC remains committed to USD peg regimes and maintains a healthy relationship with US financial institutions and investors. Nevertheless, the region is simultaneously rebalancing its financial and investment ties towards Asia, given the latter's growing global importance to global growth and capital markets. The future possibility of tensions between the GCC and the US would only accelerate the pace of rebalancing.

THE VARIOUS RESULTS OF THESE INFLUENCES

Middle Eastern financial institutions are opening branches in Asia as they seek to build their presence. Hong Kong SAR and Singapore have long hosted branches of banks such as First Abu Dhabi Bank and Emirates NBD. However, the fastest pace of branch openings is in China, where around half of the GCC's top banks all have a presence. The banks are not alone. Saudi Arabia's Public Investment Fund (PIF) has an office in both Hong Kong SAR and Beijing. The United Arab Emirates (UAE)'s Mubadala, similarly, has offices in Beijing. Bahrain's InvestCorp is among the more advanced, with offices in Hong Kong SAR, and co-investment funds set up with groups such as the Fung family office, part of the Fung Group, a leading Hong Kong entity.

Chinese and Japanese banks are active players in the GCC's debt capital markets. However, they have differentiated strategies. Chinese banks tend to do larger deals as part of a syndicate, often including American and European peers, and more often in Saudi Arabia. Japanese banks, by contrast, are more likely to serve as the only bookrunner, and tend to focus on the UAE. There is still a lot of room to grow for both countries. Chinese and Japanese banks participated in 5% and 9% of debt capital market deals in the Middle East between 2020 and 2022, respectively. However, these figures are still small compared to a global bank, the Hong Kong and Shanghai Banking Corporation (HSBC), which participated in 30% of the total deal value in the Middle East over the same period.

The New Silk Road's HNWIs are estimated to have cumulative assets of about US$28 trillion, or about 34% of the global total represented by HNWIs worldwide. **Family offices are a growing business across the region**, particularly in Dubai, Hong Kong SAR, and Singapore. The Dubai International Financial Centre only recently opened its Family Wealth Office, and anecdotally is seeing incoming flows from Asian HNWIs. Singapore has recorded explosive growth in family offices, from about 400 in 2020 to about 1,100 in 2022, with much of the business coming from China. The Hong Kong Special Administrative Region Government and the banks based in the city are also working hard to attract family offices from both China and the Middle East. As the flows are multi-directional, there is room for more than a single hub.

WHERE WE SEE EXCITING OPPORTUNITIES

Opportunity 1

WEALTH MANAGEMENT TAPS PRIVATE MARKETS

The region's HNWIs will increasingly look to invest in its private market opportunities, but education is key.

Global private banks already have large footprints offering a range of investment funds and public securities. To this end, a more interesting space for asset managers and regional banks is leveraging their local networks to bring private market assets to HNWIs in both markets. Chinese banks have greater access to the types of private equity deals that might be unavailable to global investment banks, and these deals might still be attractive to HNWI investors from the Middle East.

To win clients, asset managers will need to decide on the right coverage model, as the region's investors may be more familiar with opportunities in Europe or North America, rather than, for example, China or India. With this in mind, it would be better to have a higher share of in-person coverage rather than via digital means. Equally, regional asset managers looking to enter new markets may need to partner with local peers who have existing trusted relationships and the ability to bridge the experience or cultural gap.

Opportunity 2

THE RAPID RISE OF INSTITUTIONAL INVESTORS

The region is both a wealth pool and investment destination for a rapidly expanding institutional investment industry.

The Silk Road region is already a growing pool of wealth for institutional investors, owing to the region's rising affluence and positive demographics. Mutual funds, pension funds, and insurers, among other institutional investors, have seen assets under management (AUM) grow to US$44 trillion by 2022, and their cumulative AUM will continue to rise. Global asset managers have a key role to play in driving growth and innovation. Leading regional players are also going to be increasingly competitive.

The region is already a growing investment opportunity for institutional investors. However, there is still significant room for growth. The region's debt and equity markets are undersized relative to bank financing, with non-bank financing accounting for just 24% of private credit at present. Regulators in the region's financial hubs are working hard to develop their debt markets. Higher interest rates may also push companies to seek more creative sources of non-bank financing.

Opportunity 3

FINTECHS, DIGITAL BANKING, AND FINANCIAL INCLUSION

Fintech providers, particularly ones from China, have opportunities to service overlooked customers across the region.

The New Silk Road is a source of affluence, especially in the GCC and North Asia, but it is also home to 30 countries that have a GDP per capita of less than US$10,000. Most of these countries are underserved by financial players. Fintech providers, allied with established financial institutions, have an opportunity to service this market demographic, thereby tapping into new sources of demand. It helps that many of the world's most exciting start-ups that are focused on this area are found within the region.

China's digital banking and micro-credit technology firms, for example, have opportunities to grow in the lower-income markets of the Middle East and North Africa. Tie-ups with established financial institutions in the Middle East would assist stakeholder management and provide local funding. Alibaba and Tencent are already making moves into markets such as Iraq, applying the lessons learned in China over the past 15 years.

Opportunity 4

CROSS-REGIONAL FINANCING PLATFORMS

Joint-investment platforms for the financing of infrastructure or capital goods could become more prevalent, given the region's continued capital-intensive growth.

The Silk Road region will continue to be a major investor in infrastructure and other capital goods, from railways to aircraft. Financing such big-ticket investments will grow more complex as interest rates normalize globally. New cross-regional funds or platforms would bring together a mix of investors, including commercial banks, asset managers, and SWFs across different geographies, such as China and the UAE, or Japan and Saudi Arabia.

We see a range of cross-regional opportunities. One example could be a joint-infrastructure platform with Chinese and GCC investors funding projects in sub-Saharan Africa. Others could be an aviation leasing platform, given the region's rapidly expanding aviation business, or an SWF-led fund for investments in renewables, especially hydrogen, given the already-strong energy ties between Asia and the Middle East, and the shared national interests in the expansion of renewables infrastructure.

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S FINANCIAL SECTOR

The New Silk Road region is large, complex, and evolving quickly. There is no straight-line trajectory for how the next five years will look. However, scenario analysis based on the drivers identified in this report can help us think about the different potential pathways.

Our scenarios are based on a matrix of **integration and transformation**. High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress. The scenarios are not mutually exclusive, and the final pathway may contain elements of each.

Scenario 1

A SUPERCHARGED FINANCIAL BLOC

This high integration and high transformation scenario sees global and leading regional players building cross-regional financial ties, surging intra-regional HNWI flows, and rising allocation to Silk Road assets.

Chinese and Japanese banks expand their business significantly in the GCC, even as American and European banks deploy more capital in their home markets. Fast payment networks are connected regionally, particularly between the GCC and Asia. The intra-regional use of central bank digital currencies (CBDCs) shows greater promise for cross-border settlement, and the role of the USD declines.

Dubai, Hong Kong SAR, and Singapore grow into even larger wealth management hubs, as improvements to financial infrastructure and regulation help cause capital flows between the three hubs to surge. Cross-regional financing platforms, such as those for aviation and infrastructure needs, emerge with the participation of SWFs. The number of private capital players raising and deploying funds regionally jumps.

The intra-regional use of central bank digital currencies (CBDCs) shows greater promise for cross-border settlement, and the role of the USD declines.

Scenario 2

GLOBALIZED AND USD-BASED

In this potential scenario that is both medium integration and transformation, the region remains highly globalized, as geopolitical tensions ease, global banks expand, and the USD remains dominant.

Geopolitical tensions ease and the international financial system remains highly integrated, with the USD as the Silk Road's primary reserve currency. Global banks account for the largest share of intra-regional transaction banking and capital market flows, even as Japanese and Chinese banks steadily grow their share of foreign bank financing in parts of the region.

The region's asset management industry grows rapidly, owing to the population's rising affluence and positive demographics. Institutional investors drive the growth of the debt and capital markets, reducing the share of bank financing to total credit. Global institutional players see the Silk Road as a major growth opportunity. Regional players expand their niche offerings.

Scenario 3

ONE REGION, TWO FINANCIAL BLOCS

This low integration and medium transformation scenario sees little change from the current status quo. Intra-Asia financial integration accelerates, but the Middle East remains more aligned with Europe and the United States.

Geopolitical risks simmer, but there is no change to Asia's existing financial infrastructure. Intra-Asian financial integration continues to improve with global and Asian regional banks all participating in the opportunities present. Fast payment networks in Southeast Asia and parts of North Asia become increasingly connected. Chinese and Japanese banks go head-to-head in Southeast Asia.

However, the levels of direct investment and HNWI flows between Asia and the Middle East are disappointing, owing to the mismatch in opportunities, risk appetite, and investor priorities. American and European global banks remain the dominant source of funding for Middle East corporates. GCC financial institutions opt not to expand their footprints significantly in Asia.

The New Silk Road region is large, complex, and evolving quickly.

The New Silk Road Series

A DIGITAL DISRUPTOR

The New Silk Road is a force for change in how we interact with the digital world.

EXECUTIVE SUMMARY

The New Silk Road has emerged as a digital disruptor. It is home to both leading digital players and content creators. The image of young Emirati people watching videos of the South Korean girl group BlackPink on Chinese-owned TikTok is a neat illustration of this emergence.

It helps that the region is home to 1.1 billion young people, specifically, those that are part of Generation Z (Gen Z). Most have access to affordable mobile phones and data plans, enabling them to interact with digital content in ways unimaginable even a decade ago.

Asia is a major source of this digital disruption, from digital games to short-form videos. However, the Middle East's ambition to invest in its own digital creative industries will not only accelerate the pace of change, but also its own connectivity with Asia.

We see four areas of opportunity for investing in the New Silk Road's digital disruption.

A digital gaming boom
The region is already a vast consumer and producer of digital games, and these are a growth priority for the Gulf Cooperation Council (GCC) governments.

The entertainment wild card
The rise of new entertainment platforms will trigger greater diversity in how the region's content is both created and consumed.

Generative artificial intelligence (AI) as a creative disruptor
Generative AI will expand the range of opportunities, from digital games to short-form videos, and enable more customization and localization.

Turbocharged digital sales
A mixture of virtual influencers, ecommerce sales, and a digitally savvy market of young people will disrupt the region's traditional sales channels.

INTRODUCTION: A DIGITAL DISRUPTION

The New Silk Road has emerged as a digital disruptor. Factories and oil fields might have best described the region's economic activity a decade ago, but the region is now home to leading digital players and content creators. The image of young Emirati people watching videos of the South Korean girl group BlackPink on Chinese-owned TikTok is a neat illustration of this emergence. The changes underway have the potential to radically redefine what the New Silk Road means for the rest of the world. It is no longer simply an exporter of consumer goods or crude oil, but also a force for change in how we interact with the digital world.

Exhibit 1: The New Silk Road has emerged as a digital disruptor

FIVE
Gaming companies in the world's Top 10

1.1 BILLION
Population between 15 and 29 years of age

70%
Use AI daily or at least once a week[2]

Source: United Nations Population Division, Oliver Wyman Forum analysis

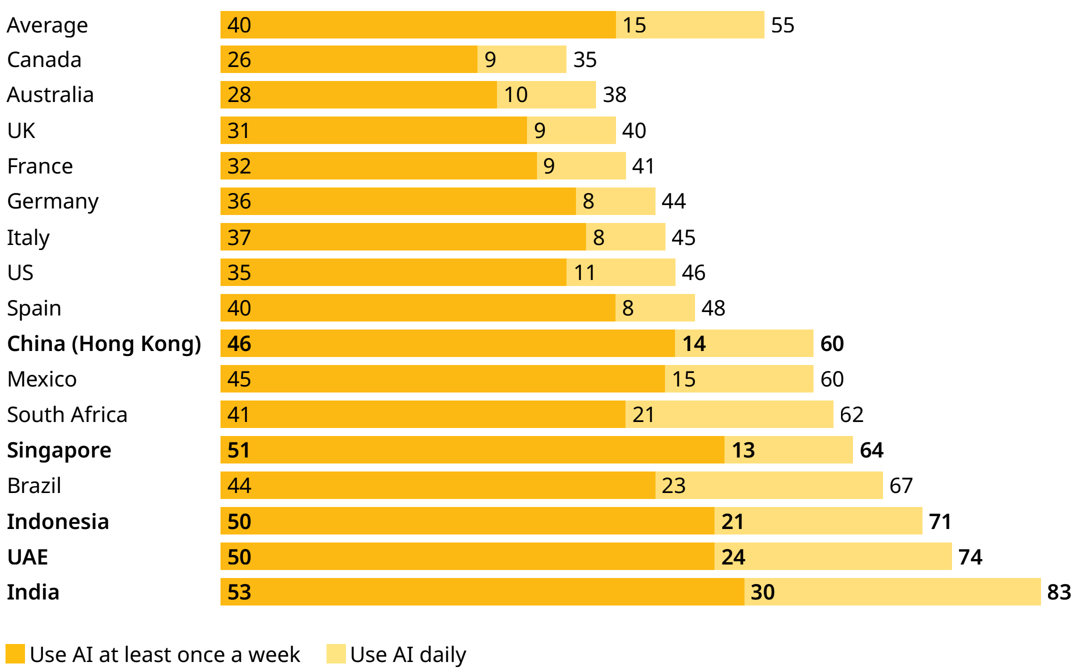
The region's 1.1 billion young people, those between the ages of 15 and 29 and therefore part of Gen Z, are accelerants for change. They are engaging with the world around them in ways not available to previous generations. This is because they are making use of low-cost smart devices, affordable mobile data plans, and a proliferation of local applications (apps) and content creators. The region's digitally savvy Gen Z is changing the way we work, shop, and consume content, much as Gen Z is doing globally. Moreover, while our New Silk Road series might focus on conventional subjects, such as topics on finance or supply chains, it is youth-led digital disruption that is especially exciting.

Asia is a major driver of this change. Chinese, Japanese, and South Korean online gaming companies are global leaders. Chinese short-form video apps, such as TikTok, go head-to-head with players such as Instagram Reels and YouTube Shorts. The region is also a source of digitally consumed content, from South Korean idol groups to Japanese anime studios. The Middle East's ambition to invest in its own creative industries, from Saudi Arabia's e-sports and e-gaming ambitions to the UAE's national strategy for digital creative industries, will equally trigger new entrants in the space and build further ties between Asia and the Middle East.

2 India, Indonesia, Hong Kong SAR, Singapore, UAE.

The recent rise of generative AI may expand those opportunities. The region's more than 50 countries, in which the inhabitants speak even more languages, has made it historically difficult to build out regionwide digital platforms based on creative content. However, the ability to localize content, such as online games, or dub content, such as short-form videos, may drive a rapid growth in cross-regional opportunities. The Oliver Wyman Forum 2023 Generative AI Survey shows that the New Silk Road countries are generally far more open to the technology than their peers in the United States and Europe, and they could therefore surprise the world at the speed of adoption of generative AI.

Exhibit 2: Generative AI use has skyrocketed, particularly across the New Silk Road
How often are you using generative AI in your current job?
Percentage of all employees, by country



Source: Oliver Wyman Forum Generative AI Survey, October-November 2023, 16 countries, N=16,033

THREE KEY INFLUENCES ON THE REGION'S DIGITAL SECTORS

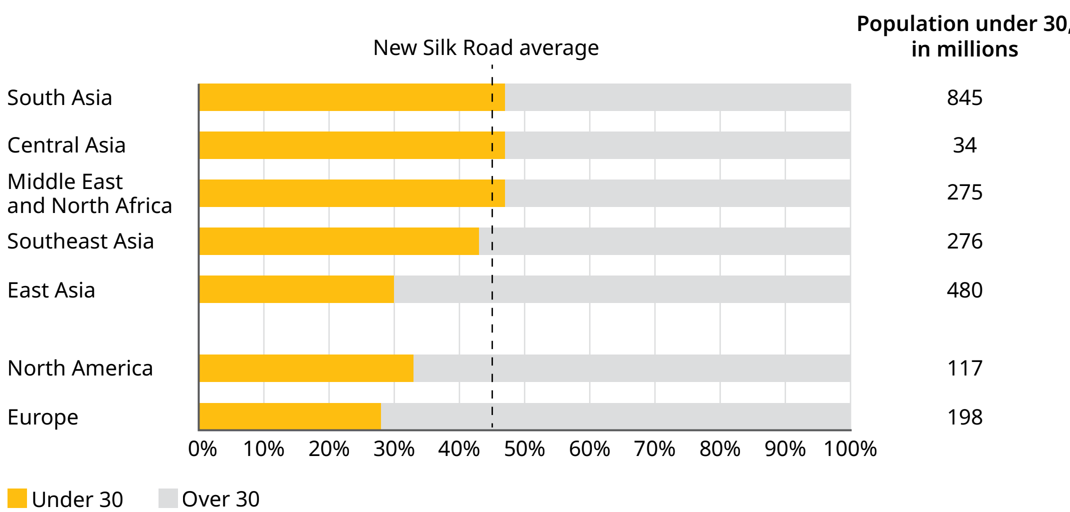
Influence 1

A YOUNG POPULATION OF DIGITAL ADOPTERS

The region's demographics are generally younger than those in the rest of the world.

Youth populations globally tend to have higher rates of digital adoption, from smartphones to mobile gaming. It matters then that the New Silk Road's population is on average 31 years of age, compared to 39 years of age in the United States and 44 years of age in Europe. Of course, not all parts of the region are young. North Asia's demographics are comparable with those of Europe. However, 41% of the New Silk Road's population is below the age of 30, compared with 33% and 28% of those of the United States and Europe, respectively, making it over a billion and a half person market of early adopters.

Exhibit 3: The region's demographics are generally younger than those in the rest of the world



Source: United Nations Population Division

The region's populations of young people are also online and connected, owing to the widespread ownership of affordable smartphones, and strong public and private investment in mobile data networks. Smartphone ownership shares range from 60% in Egypt and 71% in India, to over 90% in China. High ownership rates have allowed populations to leapfrog technologies. For example, while fixed broadband penetration rates are just 20% in Indonesia and 8% in India, respectively, the young people in those markets are still very much online and active via their smartphones with wireless broadband access.

Influence 2

A WILLINGNESS TO EXPERIMENT

The New Silk Road region's usage of new technologies is often faster than in more mature economies.

The New Silk Road countries are fast adopters of new technologies. The Oliver Wyman Forum 2023 Generative AI Survey, for example, shows that respondents across the New Silk Road are consistently more likely to be using this technology in their current jobs. Specifically, the share of respondents using AI more than once a week is 83% in India, followed by the UAE (74%), Indonesia (71%), Singapore (64%), and the Hong Kong SAR (60%). These figures are all significantly higher than in more mature markets, such as the United States (46%) and Germany (44%).

Moreover, the willingness to engage with generative AI is consistent across a range of uses. The region's respondents are significantly more likely to seek AI-generated financial advice relative to their peers in the rest of the world, including Europe and the United States, for example. There is a similar readiness to use the technology in retail or physical health scenarios. However, this does not mean the region is overlooking the risks of generative AI, with the large majority of respondents across the region being worried about the technology's bias risks and deep fakes.

Influence 3

PRIVATE INNOVATION AND STATE AMBITION

The New Silk Road benefits from a powerful mix of private innovation and state capital and support.

Most New Silk Road countries have unique levers to support their innovation drive: state-owned firms, government subsidies, and sovereign wealth funds (SWFs), all provide levers less commonly seen in Europe or the United States. Saudi Arabia's e-gaming strategy is an example. In addition to a national-level strategy, the country's Public Investment Fund (PIF), which is its SWF, has made strategic investments in gaming companies, such as Japan's Nintendo and China's VSPN. The UAE's Mubadala, another SWF, has made similar investments into AI, in support of its well-defined national strategies.

Public sector ambition is equally matched by private sector entrepreneurialism. South Korea's NC Soft, Singapore's SEA Gaming, and China's NetEase are all examples of companies that have built world-class gaming platforms. The region's leading animation and music content creators are equally ambitious. To be sure, the United States is the world's innovation and technology giant, but the New Silk Road's private sector firms are competitive regionally, and often globally, particularly in areas where they align with government policy and tap the region's scale.

THE VARIOUS RESULTS OF THESE INFLUENCES

The New Silk Road's gaming industry is big business. Japan's Nintendo stands out for its success globally over many decades, with Saudi Arabia's PIF now owning 8% of the firm, equating to a valuation of approximately US$4 billion. China's Tencent and NetEase have, meanwhile, built out large mobile gaming platforms, hiring engineers in Egypt to localize content. South Korean gaming companies are also major content producers, and they are tapping the Middle East's potential. Recent South Korean industry surveys show that Qatar is generating the highest revenue on a per-player basis globally for the country's gaming companies. It is not surprising then that South Korea's Kakao Entertainment has since received a US$482 million investment from Saudi Arabia's PIF, alongside Singapore's own state-backed investment fund GIC.

The GCC countries' national generative AI ambitions are also making waves globally. The UAE was the first country in the world to appoint a Minister of Artificial Intelligence in 2017. Abu Dhabi's Core42, the Mohammed bin Zayed University of Artificial Intelligence (MBZUAI), and Silicon Valley-based Cerebras Systems subsequently launched Jais, an open-source bilingual large language model that can provide longer and more detailed answers to queries in both Arabic and English. The Dubai Assembly for Generative AI is, meanwhile, an example of how the country is bringing together the government and private sector to drive growth in the sector. The UAE is also in a unique position to bridge the geopolitical divide and adopt competing technologies, such as those developed in China and the United States.

The New Silk Road is a pioneer in the realm of AI-generated virtual influencers. Japan's Imma popularized the idea of AI-generated influencers, after her debut in 2018, and has reportedly collaborated with such brands as Porsche Japan, IKEA, Dior, and Puma. South Korea's Rozy is a more recent AI-generated influencer, digitally crafted to look almost identical to a living person. The number of Chinese AI influencers is also growing rapidly. Generative AI will also help virtual influencers go international. Chinese AI streaming company, Xiaoice, enables virtual influencers to speak 129 languages. It also recently helped a Chinese furniture company make its first sales in Thailand, overcoming talent shortfalls in markets where there is a lack of experienced social influencers.

WHERE WE SEE EXCITING OPPORTUNITIES

Opportunity 1

A DIGITAL GAMING BOOM

The region is already a vast consumer and producer of digital games, and a growth priority for GCC governments.

The region's gaming industry has enjoyed rapid growth over the past decade, accounting for five of the world's Top 10 gaming companies by revenue. Moreover, Chinese, Japanese, and South Korean gaming companies will continue to lead regional and global game development. The New Silk Road will also remain a driver of industry versatility, from consoles to mobile pay-to-play games, as developers must target a wide range of income levels, from the Philippines to Qatar.

Look for the GCC's entry into the gaming world to further expand the region's influence on the global gaming industry. Saudi Arabia has positioned e-gaming as a national growth pillar, aiming to nurture 250 gaming companies and 35,000 jobs. The UAE has equally ambitious plans. At the same time, tie-ups between the Asian and Middle Eastern gaming industries have accelerated rapidly via investment deals and licensing arrangements.

Opportunity 2

THE ENTERTAINMENT WILD CARD

The rise of new entertainment platforms will trigger greater diversity in how the region's content is created and consumed.

The New Silk Road has a vibrant and growing entertainment business: K-pop bands such as BlackPink are global leaders, attracting crowds of 25,000 when they performed recently in Riyadh; Turkish soap operas are similarly popular across the Middle East and parts of Asia; India's US$1.5 billion film industry is wildly popular among expatriates and local populations; and China's film industry has overtaken the United States' gross box office.

The region's high digital adoption rates and the shift of content, from conventional content providers to initially streaming and, more recently, platforms such as TikTok, will turbocharge the New Silk Road's entertainment industry. Look for a greater diversity of digital entertainment options, with even established streaming channels already offering significantly more content from countries such as South Korea and India.

Opportunity 3

GENERATIVE AI AS A CREATIVE DISRUPTOR

Generative AI will expand the range of opportunities, from digital games to short-form videos, and enable more customization and localization.

The rise of generative AI will amplify the opportunities in gaming and entertainment. In gaming, the technology will permit more dynamic game worlds, enabling users to develop their own content, ideal for a region with multiple cultures, languages, and preferences. An Indonesian gamer, for example, would be able to customize a Chinese-developed game by adding non-playing characters (NPCs) influenced by local Indonesian trends.

Generative AI may also expand what small studios can achieve when designing games for local markets, such as Egypt or Thailand, alongside the more established Japanese console and Chinese pay-to-play developers. The same is true for the entertainment industry, as generative AI allows studios to more easily dub Japanese anime into local languages, or develop their own local versions for sharing on short-form video platforms.

Opportunity 4

TURBO-CHARGED DIGITAL SALES

A mixture of virtual influencers, ecommerce sales, and a digitally savvy market of young people will disrupt the region's traditional sales models.

The convergence of short-form videos, online influencers, and digital sales is a more recent phenomenon, with its origins in the New Silk Road. TikTok and its Chinese version Douyin are the region's success story so far. However, other local competitors are emerging. In the race to sell to the region's 4.3 billion consumers, digital sales will continue to grow as a sales channel, particularly when targeting the region's large populations of young people.

Mobile gaming and entertainment will offer additional sales opportunities. Purchasing new skins or weapons while playing Chinese mobile games, or buying branded merchandise when watching a Japanese anime streaming channel is already possible. Nevertheless, look for greater cross-platform integration, even as generative AI makes it easier to translate content between markets or localize AI-generated sales influencers, such as Japan's Imma.

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S DIGITAL DISRUPTION

The New Silk Road region is large, complex, and evolving quickly. There is no straight-line trajectory of how the next five years will look. However, scenario analysis based on the drivers identified in this report can help us think about the different potential pathways.

Our scenarios are based on a matrix of **integration and transformation.** High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress. The scenarios are not mutually exclusive, and the final pathway may contain elements of each.

Scenario 1

A DIGITAL NEW SILK ROAD

In this potential scenario that involves high integration and high transformation, the region's innovation and adoption of new digital technologies surges, as regional platforms expand.

The ownership of smart devices rises rapidly and digital platforms flourish, from e-gaming to entertainment. Content creators enjoy commercial success, attracting investment capital and state support. The New Silk Road region leverages not only global platforms, but also innovative regional champions focused on more localized content.

The growing use of generative AI sees leading regional players localize their products for multiple markets, whether using virtual influencers or tailoring digital games, thereby building significant scale. Governments take a more relaxed approach to this new creative renaissance, permitting greater leeway for the private creative sector to flourish.

Scenario 2

INNOVATIVE, BUT LOCAL

In this potential scenario that involves low integration and high transformation, the region is an innovator of digital technologies, but state priorities discourage cross-regional platforms.

The New Silk Road countries that prioritize digital creative industries and generative AI race ahead, benefiting from either strong state support or a robust private sector. SWFs play an outsized role investing in both incumbents and startups. While the region sees leaders and laggards, even the latter see some measure of innovation and startups.

The opportunities for regional platforms are more limited, owing to tight regulations on the cross-border movement of data. Governments use regulations to both protect consumers and nurture local champions. The region's biggest digital players make investments in local platforms in order to capture growth opportunities.

Scenario 3

SECURITY AT ALL COSTS

This low integration, low transformation scenario sees governments respond to political crises by tightening control on their respective creative sectors and new technologies, with state-owned agencies also playing a greater role.

New Silk Road governments tighten controls on their respective creative sectors and new technologies in response to political crises across the region. Policymakers focus on social and political stability at all costs, and see the creative sectors as potential sources of instability. Cross-border data sharing and investment is highly restricted to deter foreign influences.

In this scenario, SWFs and state-owned agencies are more important players, ensuring strong government control of the creative and digital sectors. Innovation is possible, but limited to a small number of firms. Collaboration with American and European peers in this scenario is also more challenging, given the different political priorities in play.

The Middle East's ambition to invest in its own digital creative industries will accelerate the pace of change, and its own connectivity with Asia.

The New Silk Road Series

REMAPPING SUPPLY CHAINS

The Silk Road countries have always been central to global trade. For centuries, people have transported goods by land or sea between Asia, the Middle East, and Europe. Today, the region is a global manufacturing hub that accounts for 40% of global trade.

EXECUTIVE SUMMARY

The New Silk Road is the world's manufacturing hub, accounting for over 40% of global trade. However, supply chains are evolving fast in response to prices, politics, and pandemics, and so the region's manufacturing footprint will look very different in 10 years' time.

While China will remain the region's largest manufacturer, lower-cost producers, such as Vietnam, India, or even Egypt, will grow in importance. Higher-cost producers, such as South Korea, Japan, Saudi Arabia, and the United Arab Emirates (UAE), will also have roles to play.

Whether because of the shift from cost to resilience or the development of new technologies, the Silk Road will shape the world's future supply chain. There are multiple pathways ahead, and while some are more positive than others, we see four exciting areas of opportunity:

China Inc goes truly global
Chinese manufacturers are increasingly investing in the Silk Road, rather than just exporting, opening up new joint venture opportunities.

Emerging private capital opportunities
Production relocation from China to the rest of the region is creating new opportunities for private capital, from manufacturing to logistics.

Asian manufacturing ecosystems
By targeting Asian manufacturing ecosystems, the Gulf Cooperation Council (GCC) region can position itself as a hub for exports into the Middle East and Africa.

The green manufacturing imperative
With the region facing looming carbon regulations, green leaders will capture larger shares of the world's future supply chain.

INTRODUCTION:
A CHANGING GLOBAL SUPPLY CHAIN

The Silk Road countries have always been central to global trade. For centuries, people have transported goods by land or sea between Asia, the Middle East, and Europe. Today, the region is a global manufacturing hub that accounts for 40% of global trade, its share having risen steadily over the past 20 years. Whether buying a pair of jeans, a new iPhone, or an electric car, the item was likely manufactured using energy or component parts from Asia and the Middle East.

Exhibit 1: New Silk Road's trade profile

40%
Share of global trade

1ST
Largest regional free trade agreement in the world

36%
China's share of the region's total trade

Source: International Monetary Fund

However, prices, politics, and pandemics have reshaped global supply chains. Firstly, China's prices started rising more than a decade ago, triggering MNCs that make consumer goods to search for cheaper alternatives. Trade tensions between the US and China then resulted in significant tariff hikes, further accelerating the shift away from China. Finally, the COVID-19 pandemic and lockdowns disrupted supply and transport networks, focusing attention on the need for resilience. In this respect, global supply chains are once again changing to the region's benefit.

Supply chains do not change overnight. However, we expect the region's share of global exports to remain high, if not rise further. Importantly, economic and political shocks are forcing industries to focus on resilience, not just cost, making it more viable to relocate production from highly competitive China to other markets, such as India and Vietnam or potentially Egypt and Jordan. The data is already signaling a shift, with a number of countries increasing their global export market share, albeit with gains limited to specific product categories.

China will of course remain a critical manufacturing hub. Global manufacturers will continue to produce "in China for China" as the country is the world's largest market for many goods, from cars to luxury handbags. Part of this production will also still be exported globally. However, companies are adopting "China+1" or "friend-shoring" strategies, and if even a small share of China's manufactured goods exports, worth US$3.1 trillion or 21% of the global total, were to relocate abroad, it would significantly impact the rest of the region's opportunities.

It will be a long road ahead. Yet, as the events of the past few years have upended calculations, the New Silk Road countries can aspire to play a much larger role in regional and global supply chains.

Supply chains do not change overnight. However, we expect the region's share of global exports to remain high, if not rise further.

THREE KEY INFLUENCES ON THE REGION'S SUPPLY CHAIN SHIFTS

Influence 1

CHINA+1 SOURCING STRATEGIES

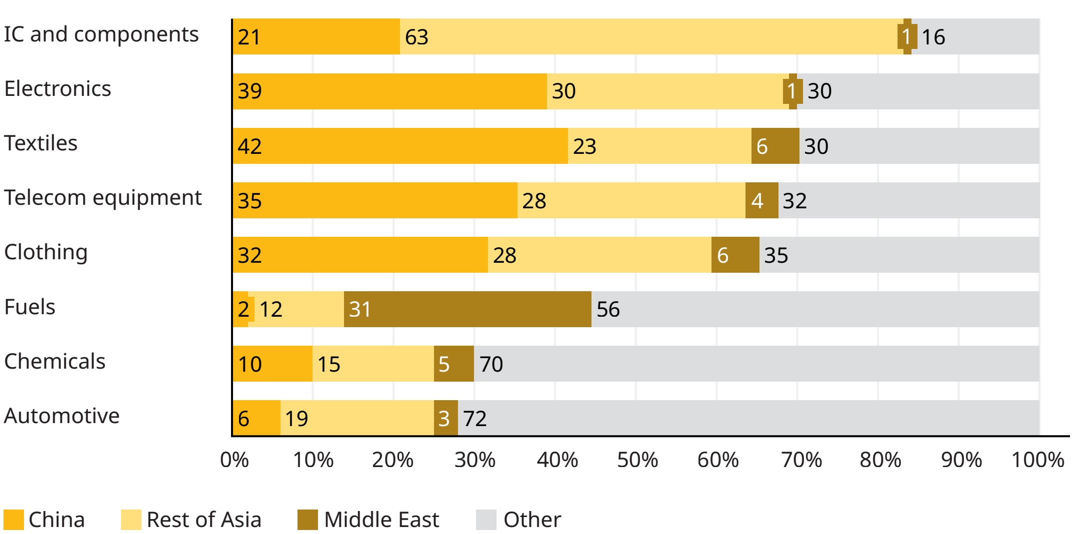
Companies are relocating shares of production away from China as they seek to both build resilience in their supply chain, and chase lower costs.

Companies are relocating a share of production away from China in a process that started as early as the late 2000s in response to rising wages and labor shortages. However, geopolitical tensions between the US and China, as well as globally, have accelerated matters, with companies seeking to build resilience in their supply chains by sourcing from other countries, in what is often described as a "China+1" or "friend-shoring" strategy.

Production has not spread widely, so far. Vietnam is the major beneficiary. Over the past five years, its share of global exports of manufactured goods has risen from 1.3% to 2.0%. India and Indonesia are attracting more and more attention, but they lack supply chain depth so their gains have been limited. Low-cost Egypt, Jordan, and Morocco are also potential beneficiaries. Friend-shoring has also seen some higher-end production return to South Korea and Japan.

Exhibit 2: The Silk Road's share of global exports by key category

Percentage share of global total



Source: World Trade Organization

Influence 2

THE RISE OF INDIAN MANUFACTURING

India is a low-cost manufacturer with a large domestic market. Its ties to the Gulf Cooperation Council (GCC) are also of growing importance to supply chains.

India is a potential gamechanger for the New Silk Road because of its large domestic market, low-costs, and ties to the GCC. Investment flows between India and the GCC are significant, with a major driver being Indian expatriate businesses. The GCC is also developing ties with India via free trade agreements (FTAs), such as the India-UAE Comprehensive Economic Partnership Agreement (CEPA). At the same time, investors from the GCC are investing more actively in India's supply chain, such as in food and semiconductors.

We therefore see India's role in the New Silk Road supply chain as potentially more strategic than other low-cost competitors, such as Vietnam. We recognize the challenges to developing the country's export manufacturing, especially in the high-tech realm, to be far from a simple task. However, such progress may also have a wider range of implications, especially for the GCC, as it seeks to develop its own manufacturing resiliency in areas such as food and critical minerals.

Influence 3

THE GREEN MANUFACTURING IMPERATIVE

With the region facing looming carbon regulations and the changing priorities of MNCs, green leaders will capture larger shares of the world's future supply chain.

The region's vast supply chain to date is largely dependent on fossil fuels. From Europe's carbon tax regulations to MNCs imposing sustainability targets on suppliers, however, there is growing pressure for change. While the greatest impact is on hard-to-abate sectors, such as steel and cement, the effects will be felt broadly. Suppliers to large MNCs, for instance, increasingly need to demonstrate their use of renewable energy, or prove that they have engaged in sufficient water recycling.

The energy relationship between the GCC and North Asia will also have to adapt as a result. South Korea and Japan are already exploring opportunities to import blue hydrogen from the GCC, partly to fuel their own heavy industries. The GCC itself is also seeking to develop its own green steel industries given the region's cost advantages. The region may even capture a small slice of North Asian production in hard-to-abate sectors, particularly for exports destined for Europe.

THE VARIOUS RESULTS OF THESE INFLUENCES

These influences have resulted in a series of deals quite different to those of a decade earlier. **Chinese electric vehicle (EV) and battery companies** have not only tripled their exports to the Silk Road region in the past three years, but they are also making investments in the region. For example, China's Skywall has agreed to build a lithium battery plant in Turkey. Meanwhile, Human Horizons, the owner of the HiPhi brand of premium EVs, has inked a US$5.6 billion agreement to produce EVs in Saudi Arabia. The capital is also flowing the other way, with CYVN, an Abu Dhabi-owned smart mobility fund, investing US$738 million in NIO, a leading Chinese EV brand.

At the same time, the **UAE has steadily upgraded its trade ties with Asia.** The country has already signed CEPA trade and investment agreements with India and Indonesia. Discussions have started on the signing of a UAE-Vietnam CEPA to benefit players such as the Dubai Multi Commodities Centre, which is already a trade hub for Vietnamese coffee to the region. The UAE has also successfully applied to join the Association of Southeast Asian Nations (ASEAN) as an observer, and other trading opportunities will emerge as the UAE and other countries in the GCC continue to upgrade and expand their FTAs with Asia.

Additionally, **India is creating waves.** Apple and the company's suppliers have accelerated the relocation of their production from China to India. Today, 7% of iPhones are produced in India and the recent iPhone 15 launch was the first to feature a Made-in-India model. India's supply chain ties to the GCC are also developing further. Abu Dhabi-based Next Orbit Ventures is a key investor in the Indian Semiconductor Manufacturing Company (ISMC), a consortium proposing to build a US$3 billion chipmaking plant in India. The deal still faces many hurdles, but the fact it is in consideration signals the profound shift in supply chain calculations.

WHERE WE SEE EXCITING OPPORTUNITIES

Opportunity 1

CHINA PARTNERSHIP OPPORTUNITIES

Rather than simply exporting, private Chinese firms are increasingly investing across the Silk Road and opening new joint venture opportunities.

Chinese companies are investing more and more abroad as they seek to avoid trade tariffs in their own market, build an international footprint like other global MNCs, or respond to slower growth at home. This is in contrast with the past when the majority of Chinese companies sought to either win engineering, procurement, and construction contracts or open up new export markets with little impact on local manufacturing.

Foreign companies will therefore have a greater number of opportunities to open joint ventures with Chinese partners. They will also be able to move relationships beyond pure assembly to deeper levels of engagement. Local content rules are likely to accelerate the shift, as the region's governments pursue higher-quality investment rather than just low-cost assembly plants. Low-cost markets from Vietnam to Egypt will all be targets.

Opportunity 2

EMERGING PRIVATE CAPITAL OPPORTUNITIES

Private capital's role will grow as production relocates from China, opening up new opportunities from manufacturing to logistics.

The Chinese government presently plays an outsized role in China developing industrial parks and other infrastructure relative to the rest of the region. However, as manufacturing expands across Southeast Asia, South Asia, and the GCC, opportunities for the region's private sector to participate will be far greater. As such, we expect investment funds and private equity to play an increasingly important role over time in the New Silk Road supply chain.

In our view, private capital will focus particularly on the following: real estate opportunities, including industrial parks and warehousing; logistics, especially road freight; selective opportunities to supply strategic goods, where companies are prepared to pay costs higher than those in China to guarantee supply; or in private sector opportunities that will be especially focused on the decarbonization of the supply chain, from green manufacturing to low-emissions transport.

Opportunity 3

ASIAN MANUFACTURING ECOSYSTEMS AROUND THE GCC

Asian companies have yet to fully tap opportunities to use the GCC as a hub for regional markets.

Asian manufacturing firms operate as part of complex ecosystems, ranging from multi-tiered supply networks to financial and logistics service providers. This in part explains the tendency of companies to expand regionally alongside their existing partners and ecosystems, while focusing their attention on manufacturing clusters, such as Ho Chi Minh City in Vietnam or Thailand's Eastern Economic Corridor. It is also a reason why supply chains shift slowly.

The GCC has opportunities to capture the same ecosystem opportunities by attracting not just single companies, but entire ecosystems. The attraction for Asian players is the opportunity to use the GCC as a platform to service neighboring markets, ranging from South Asia, to the Middle East, to North Africa, or even beyond. It is a long-term play for the GCC. However, even a small shift in production to the region would have a large multiplier effect on local economies.

Opportunity 4

A BIGGER GREEN MANUFACTURING PUSH

The region has lagged in terms of its decarbonization efforts, but regulatory changes may accelerate a shift into green manufacturing.

The New Silk Road is a major producer of clean energy. However, the decarbonization of manufacturing is progressing more slowly. Should Europe and other regions impose higher taxes on carbon-intensive products, such as via the Carbon Border Adjustment Mechanism, the region will have to change if it hopes to continue exporting hard-to-abate products. We see this as a long-term opportunity, but with the potential to drive a large structural shift in the global supply chain.

The GCC and Morocco have the potential to manufacture green steel for export to Europe and other markets given their growing access to clean energy sources, including hydrogen, and the resulting cost advantages. At the same time, South Korea and Japan are equally exploring ways to import ammonia from the GCC for their own decarbonized production efforts. China, meanwhile, has access to large-scale hydropower and solar power, while it is albeit still simultaneously investing in fossil fuels.

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S SUPPLY CHAINS

The New Silk Road region is large, complex, and fast-evolving. There is no straight-line trajectory to how the next five years will look. However, scenario analysis based on the drivers identified in this report can help to forecast the potential pathways.

Our forecasts are based on a matrix of **integration** and **transformation**. While high levels of integration and transformation would supercharge the New Silk Road, low levels would extend timelines for progress. The forecasts are not mutually exclusive, and the final scenario may contain elements of each.

Forecast 1

A REGIONALIZED ECONOMIC BLOC

In this potential scenario that involves high integration and medium transformation, intra-regional trade would rise rapidly as manufacturing relocates, FTAs are upgraded, and the region integrates and transforms rapidly.

The Silk Road's intra-regional trade would rise to 70% of total trade, as the shift in supply chains would result in greater flows of intermediate inputs between countries. The region's existing bilateral and multilateral FTAs would continue to expand and upgrade. The GCC countries would also join Asia's major trade groups as observers or full partners, and talk of a super-regional trade group, such as an Asia, Middle East, and Africa, or "Silk Road" bloc would emerge.

Additionally, private sector opportunities in industrial real estate, logistics, and warehousing would grow rapidly, with sovereign wealth funds and major private capital investors taking the lead. The GCC would also develop rapidly as a manufacturing and logistics hub for Asian companies expanding into the Middle East and Africa.

Intra-regional trade would rise rapidly as manufacturing relocates, FTAs are upgraded, and the region integrates and transforms rapidly.

Forecast 2

A CHINA-CENTRIC ECONOMIC REGION

This low-integration, low-transformation potential scenario involves China remaining central to the region's manufacturing supply chains, as the scope for supply chain relocation reaches its limit.

This is because Vietnam would see costs rise rapidly as land and labor shortages loom, while India would struggle to scale foreign manufacturing owing to its well-known constraints. On the other hand, China's cost competitiveness, automation, and access to clean energy would ensure its ability to retain a significant share of the region's export manufacturing. Manufacturing would grow across the region, but China would be critical to the supply of component parts.

Cross-border payment systems, meanwhile, would develop slowly, as the return on investment would remain low given that intra-regional trade flows would be lower than in other potential scenarios.

Forecast 3

A CLEAN AND DIGITIZED ECONOMIC BLOC

In this potential scenario that involves medium integration and high transformation, there would be a shift toward decarbonized and digital trade that is faster than expected, leaving a widening gap between innovation leaders and laggards.

Regulatory changes across the region and in Europe would accelerate the push to decarbonized production to the benefit of clean energy producers in the GCC. Decarbonization efforts would accelerate the digitization of trade to improve traceability, but a gap would open up between sector leaders, such as China and Japan, and laggards, such as Indonesia and Egypt, who risk being stuck producing low-value manufactured goods.

Private capital, meanwhile, would focus on building carbon-neutral industrial parks, leaving legacy industrial assets struggling to compete for high-value exports. While the returns on new and legacy investments would widen steadily, China's clean energy ambitions would ensure the country retains a sizeable share of global exports despite political tensions.

The New Silk Road region is large, complex, and fast-evolving. There is no straight-line trajectory to how the next five years will look.

The New Silk Road Series

NEXT-GEN PAYMENT AS SUPERCHARGER

The New Silk Road is now a source of innovation and disruption in the emerging payment solutions space.

EXECUTIVE SUMMARY

The New Silk Road could be a driver of digital payment solutions, as the region seeks to improve the cost and efficiency of transacting across more than 50 countries that are home to 62% of the world's population. Progress to this end is important to the region's growth.

We see the region's rising intra-regional trade, cross-border mobility, and geopolitics as forces for change, so long as the region continues to integrate. The New Silk Road is also an innovator in many areas, such as cross-border fast payment networks.

This report recognizes there are multiple pathways to improving digital payment solutions, and that the challenges are not small. However, the New Silk Road is already making progress in this area, and the implications for global payment systems and the US Dollar (USD) could be profound.

We see four areas of exciting opportunity:

Cross-border fast payment connectivity
Southeast Asia is driving connectivity between retail fast payment networks, and we see opportunities for other regions to participate.

Enhanced solutions by banks and payment service providers (PSPs)
Leading financial institutions are already delivering improvements in wholesale multi-currency cross-border settlement.

China's bilateral flows and the Chinese Yuan
China is the largest export partner for over half of the countries in the New Silk Road and is trying to grow the volume of CNY settlement. Digital payment solutions will play a role.

Connecting the Silk Road with central bank digital currencies
The region's major central banks are well advanced on cross-border CBDC payment options, which are albeit more a long-term bet.

INTRODUCTION: THE NEXT GENERATION OF PAYMENT NETWORKS

The Silk Road is best known as the world's major historical trade route. Today, the cross-border flow of people and goods is equally important, for the New Silk Road region is home to 62% of the world's population spread across more than 50 countries. Unlike Europe or the United States, the region is not part of a single currency or monetary union, so cross-border financial transactions are a tax on the region's efficiency and productivity (Exhibit 1). Therefore, improving the speed, cost, and reliability of cross-border transactions is important to the New Silk Road's success.

Exhibit 1: Cross-border transactions in the New Silk Road
Trade, currency, and time

Trade volume

$11.4 TN

Total intra-regional
Silk Road trade in 2022

Currency share

11%

New Silk Road's share of
global payment currencies

Settlement time

2-3 DAYS

To clear a cross-border
transaction on average

Source: International Monetary Fund, SWIFT, Oliver Wyman

Emerging payment solutions will be fundamental to any progress. When we first started writing about the New Silk Road in the mid-2000s, international transactions were still complex in many countries. It was hard at times to find a vendor or automated teller machine (ATM) that accepted international cards. Things have changed a lot since then, with tap-and-go payments with international credit cards or digital wallets, such as Alipay, being just some of the improvements. However, there is so much more to do, from connecting fast payment services to increasing the utilization of central bank digital currencies (CBDCs).

The benefits could be enormous. In a report Oliver Wyman co-published with JPMorgan in 2022, we estimated that cross-border digital payment solutions could save US$120 billion in cross-border fees per year. However, we also recognize there are many pathways to improving speed, cost, and reliability, with some being more challenging than others. The spectrum ranges from improvements in the messaging system of SWIFT, to bulk disbursements into local payment rails by major banks or credit card operators, to the development of CBDCs.

The changes also matter for the future of the USD. Asia and the Middle East still rely on the USD as a primary settlement currency. Hong Kong SAR and the United Arab Emirates (UAE), among other countries, still peg their own currencies to the USD. However, any improvement in cross-border payment solutions may also lead to the greater use of multi-currency settlement solutions. While the USD's primary role will not change rapidly, the New Silk Road's use of alternative multi-currency settlement solutions or, alternatively, a dollar-backed stablecoin or digital dollar will be key to the USD's future global role.

We see three key drivers of payment solutions and multi-currency settlement across the New Silk Road:

THREE KEY INFLUENCES ON THE REGION'S EMERGING PAYMENT NETWORKS

Influence 1

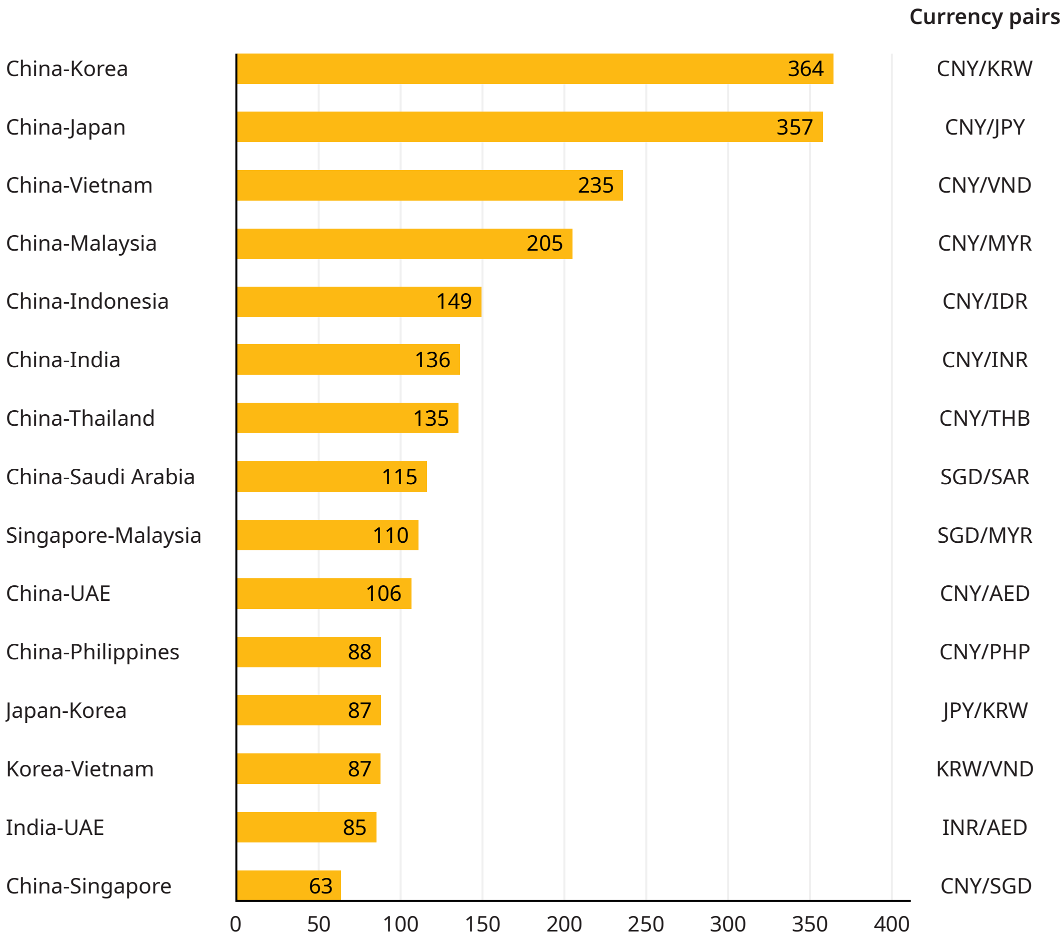
INTRA-REGIONAL TRADE AND CAPITAL FLOWS

The majority of the region's trade is with other Silk Road countries, making a strong case for wholesale multi-currency payments.

The region already trades largely with itself. Over 60% of the region's total goods trade flows stay within the Silk Road region, making it a huge trading bloc. China has emerged as the largest bilateral trade partner for over half of the 52 countries in the region, so the logic for settling in CNY in new payment solutions is growing (Exhibit 2). Rising bilateral trade corridors among other countries, such as Malaysia and Singapore, or the UAE and India, will also increase the motivation to improve settlement speeds for non-USD currencies.

Any improvement in cross-border payment solutions may also lead to the greater use of multi-currency settlement solutions.

Exhibit 2: The total annual trade flows and potential payment corridors
In billion US$



Source: International Monetary Fund

Intra-regional capital flows are also rising. Japan's funding of Southeast Asia has expanded rapidly over the past 15 years, and its funding is also rising in the Middle East. The foreign issuance of CNY-denominated Panda bonds is likewise increasing, particularly with China's lending rates now being much lower than those of the rest of the world. The prospect of increased intra-regional capital flows, including between Asia and the Middle East, further argues for the improved connectivity of intra-regional payments and, potentially over the long term, multi-currency settlement.

Influence 2

MOBILITY AND SMALL-VALUE PAYMENTS

Large-value trades are important, but so are small-value retail payments and remittances by individuals.

The New Silk Road region is home to nearly five billion people spread across more than 50 countries. Travel among those countries is rising rapidly and, in turn, driving strong demand for cross-border retail payments. For example, over 75% of international flights originating from the Silk Road region are destined for other Silk Road countries. This is equivalent to around 300 million trips per year, either for business or leisure, with those travelers making multiple foreign currency purchases while abroad.

The region is also a huge source of migrant workers, all requiring fast, efficient, and affordable small-value remittance payments. Most of those workers stay within the Silk Road region. The air route between India and Saudi Arabia, for example, is the region's busiest. The Philippines provides a similarly large number of overseas workers, of which 78% work in Silk Road countries, particularly Saudi Arabia (24%), the UAE (14%), and Hong Kong SAR (7%).

Influence 3

THE RETURN OF GEOPOLITICS

While the Silk Road region is historically tied to the USD, political tensions or rebalancing are driving it to search for non-USD alternatives.

A number of countries in the Silk Road region are seeking to either de-risk or rebalance their traditional foreign policy relationships. China's relations with the US have worsened and the two are slowly decoupling. At the same time, some countries in the Middle East are taking a more neutral foreign policy stance. When faced with growing global political tension, it is natural for governments to seek greater resilience in their infrastructure for cross-border payments.

Multi-currency settlement and emerging payment solutions are an important part of the countries' infrastructure needs. China has been more explicit in its hopes to develop alternatives to the USD. The digital CNY (eCNY), for example, may yet play a key role by providing the country with greater monetary sovereignty. Moreover, while the USD is highly likely to remain the Silk Road's primary foreign settlement currency, geopolitics will only accelerate any changes, as political imperatives shape market forces.

THE VARIOUS RESULTS OF THESE INFLUENCES

The New Silk Road is now a source of innovation and disruption in the emerging payment solutions space. **Project mBridge** is an initiative by China, Hong Kong SAR, Thailand, and the UAE, with the support of the Bank for International Settlements (BIS) Innovation Hub in Hong Kong SAR, to develop a CBDC targeting wholesale cross-border settlement. In 2022, 20 banks in the participating countries used the mBridge platform to conduct 164 cross-border payment transactions totaling US$22 million. The project is not the region's only CBDC effort; Project Dunbar is another that includes Singapore and Malaysia, as well as Australia and South Africa.

The region has also launched the world's first linkages of domestic fast payment systems. PayNow-PromptPay allows customers of participating banks in Singapore and Thailand to transfer funds of up to around US$720 between the two countries using just a mobile phone number, much as they do at home. Transfers are completed in minutes, rather than from one to two days. Singapore has since also connected its domestic fast payment system to India's Unified Payments Interface (UPI), similarly allowing for rapid cross-border small-value transfers. These projects target individuals and small and medium-sized enterprises (SMEs), and have laid a trail for Project Nexus to follow.

Project Nexus aims to standardize the way fast payment systems in different countries connect to one another. With each operator connecting via a single connection to the Nexus platform, the respective operators are able to have access to all fast payment systems on the same network. Led by the Monetary Authority of Singapore (MAS) and BIS Innovation Hub in Singapore, the project initially focused on connecting fast payment systems between Indonesia, Malaysia, Singapore, the Philippines, and Thailand. Subsequently, in March 2023, the Nexus prototype successfully connected fast payment networks between Malaysia, Singapore, and Europe's Eurosystem, enabling payments to be sent across the three using only mobile phone numbers.

WHERE WE SEE EXCITING OPPORTUNITIES

The rapid pace of change means new opportunities are opening up for companies and investors focused on the region's supply chain. We have identified four of the more exciting ones.

Opportunity 1

FAST PAYMENT NETWORK CONNECTIVITY

ASEAN countries are driving connectivity between domestic fast payment networks, and we see opportunities for other regions, including the GCC, to participate.

Mobility between ASEAN countries for either business or tourism is high, and the opportunities to connect fast payment networks for individual or small-value transactions is significant. We estimate between 30 and 35 million intra-regional ASEAN trips are made annually by plane alone. If only US$500 were transferred via fast payment networks during each trip, it would be equivalent to US$15 billion to US$17.5 billion worth of cross-border transactions. The figure would of course be much higher if we were to then add small-value SME transactions.

Project Nexus will help ASEAN countries lead the charge and so provide a benchmark for the rest of the region to follow. ASEAN countries are also among the most highly connected in the region in terms of fast payment networks, and member states are committed to pursuing payment connectivity. If successful, other countries may join the program, particularly financial hubs, such as Hong Kong SAR and Dubai, or countries where international flight connectivity with ASEAN countries or tourism flows from ASEAN countries are strong.

Opportunity 2

ENHANCED SOLUTIONS BY BANK AND NON-BANK PSPs

Leading financial institutions are already delivering improvements in multi-currency cross-border settlement.

For all the focus placed on high-tech solutions, we see banks and credit card providers with large cross-border networks making disbursements directly into local payment rails as just one driver of cheaper, faster, and more reliable cross-border settlement. Programs by the Hongkong and Shanghai Banking Corporation (HSBC) and Mastercard are just two examples. Paypal's USD-backed stablecoin is another. If more ambitious innovation efforts struggle, these types of enhancements to the existing infrastructure offer a way forward.

The landscape may become increasingly fragmented and competitive in a region with more than 50 countries, and where financial inclusion, capital controls, or a lack of direct banking relationships compound the existing challenges. PSPs are bridging the gap by establishing partner networks between banks and alternative payment methods, often focusing on just a few countries. In many cases, their relationships with regulators are as important as their technology.

Opportunity 3

CHINA'S BILATERAL FLOWS AND THE CNY

China is the largest export partner for over half of the New Silk Road countries and is trying to grow CNY trade settlement volume.

Chinese firms that are building supply chain footprints in Southeast Asia or business ties to the Middle East will drive opportunities for retail and wholesale CNY-settlement solutions and create greater offshore liquidity. The New Silk Road region also includes many small wholesale traders who place relatively low-value orders for consumer goods from Chinese manufacturers and would benefit from lower fees and faster transactions.

Capital controls are still a constraint on cross-border CNY payments. However, Beijing seeks to accelerate CNY internationalization, and new payment solutions have a role to play. Improvements to the Cross-border Interbank Payment System (CIPS) international banking network, for instance, would boost progress. Collaboration between Chinese tech players and Chinese banks abroad, similar to the collaboration between Citibank and PayPal, might equally create new solutions and help navigate capital controls.

Opportunity 4

CONNECTING THE SILK ROAD WITH CBDCs

The region's major central banks are well advanced on cross-border CBDC payment trials, which are albeit more a long-term bet.

CDBCs are an exciting albeit potentially long-term opportunity. Asia and the Middle East are moving steadily to build the necessary infrastructure via programs such as the earlier-referenced mBridge, as well as Project Dunbar (between Singapore, Malaysia, Australia, and South Africa) and Project Aber (between the UAE and Saudi Arabia). CBDCs are also becoming attractive at a time when the prevailing geopolitics are raising questions around monetary sovereignty and the role of the USD.

The next challenge is creating commercial use cases. The obstacles are not small, and recent pilot projects have identified issues that still need to be resolved, including the standardization of legal rules. However, given the importance of cross-border trade and capital flows to the Silk Road region, and the progress that a number of the region's central banks have made toward developing CBDC infrastructure, the solutions could be a gamechanger in the long term.

THREE SCENARIOS FOR THE FUTURE OF THE NEW SILK ROAD'S DIGITAL PAYMENTS

The New Silk Road region is large, complex, and evolving quickly. There is no straight-line trajectory of how the next five years will look. However, scenario analysis based on the drivers identified in this report can help us think about the different potential pathways.

Our scenarios are based on a matrix of **integration and transformation.** High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress. The scenarios are not mutually exclusive, and the final pathway may contain elements of each.

Scenario 1

A SUPERCHARGED FINANCIAL BLOC

In this potential scenario that involves high integration and high transformation, fast payment connectivity improves, there is rapid progress on CBDCs, and the region sees rising wholesale CNY settlement.

Fast payment connectivity accelerates among ASEAN countries, with a large share of individual cross-border transactions settled instantly and at low fees. The GCC, Hong Kong SAR, and India connect to the ASEAN countries' fast payment networks. Bank and non-bank PSPs roll out a range of enhanced solutions for connecting liquid and illiquid markets.

The USD remains the region's major settlement currency, but the CNY is increasingly used between China and its major trade partners as digital platforms improve. At the same time, CBDC pilots identify viable commercial opportunities led by China's push to expand the use of the CNY, including eCNY, for wholesale trade settlement.

High levels of integration and transformation will supercharge the New Silk Road, while low levels will dampen the region's progress.

Scenario 2

BILATERAL GAINS, BUT WINNERS AND LOSERS

This low integration, high transformation scenario sees ongoing progress, but mainly between countries with large bilateral flows, and strong political and regulatory ties.

Singapore's fast payment connectivity to other ASEAN markets improves, including Thailand, Malaysia, and Indonesia, as well as the UAE and Saudi Arabia, owing to the latter pair's greater ambitions. Multi-currency settlement is increasingly used for major bilateral trade corridors, particularly between China, the ASEAN countries, and the GCC.

Hong Kong SAR and mainland China accelerate financial integration with eCNY increasingly used for cross-border transactions, alongside existing digital wallets. However, CBDCs generally struggle to gain traction, aside from a handful of high-profile transactions between major international hubs, as their business cases fail to generate sufficient appeal.

Scenario 3

REGULATION AND INERTIA KILL EFFORTS

In this potential scenario that involves low integration and low transformation, progress stalls as the technical and regulatory hurdles to achieve improved cross-border payment solutions are too great.

Domestic regulators continue to push ahead with improvements to domestic payment solutions, but have little appetite to negotiate the complex agreements needed for intra-regional connectivity. Major banks and a handful of larger PSPs are the main drivers of improvement in cross-border payment efficiency, and they do so by tweaking the existing infrastructure.

The USD remains the region's primary settlement currency in the absence of faster, cheaper, or more secure alternatives. China's slowing economy and debt challenges constrain the ability of regulators to push ahead with eCNY internationally. There is also limited appetite for CNY financing, not least because China's import demand remains soft.

The New Silk Road is a global driver of innovation and opportunity in the emerging payments space.

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