

Monday, February 26th 2018

Dear Mustafa,

I am back in Karachi and yesterday in the Sind Club, where I am staying, there was a classic car show. It was all slightly surreal but the timeless atmosphere of the club and the cars allowed me to ponder what events will shape our lives over the coming decades. Electric cars, artificial intelligence, medical miracles - these are the usual suspects. But my guess is it will be China's 'One Belt...One Road'. This policy still seems remote in the West, but it feels omnipresent in Pakistan, and will have a long-lasting effect on power, politics and global finance.

And who has gained a military foothold in the country since my last visit in October? Well...surprise, surprise Pakistan has agreed to China building a new naval and air base at Jiwani, a village few miles up the coast from the port of Gwadar, one of the strategically vital parts of China's 'One Belt...One road' vision. Pakistan is clearly nailing its colours to the mast of a new Chinese order.

In the meantime Trump's USA has cut off military aid to Pakistan. But Pakistan doesn't really care, as they now have an 'all weather' friend in China. And what will be the key consequences of this shift of allegiances? Trade and finance, not just the military, will shift over to China's orbit.

The Bank of China and ICBC are opening branch offices in Pakistan. China has also given Pakistan a \$2-5bn swap line for Renminbi / Rupee trade. Basically they are saying to Pakistan

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"don't bother settling with us in US\$ any more - please use Renminbi". There is an explicit policy in Pakistan to promote the use of the Chinese currency as equal to the US Dollar. This verges on blasphemy! However, as these Chinese banks become operational in Karachi and across this country of 200m+ people it will only be a matter of time before these banks are offering locals current accounts in Renminbi.

If you now consider that Pakistan is just one country on the 'One Belt...One Road' map, and that there are more than 60 countries that have signed agreements with China and who might therefore be using the Renminbi in the near future, you begin to see the real challenge that is facing the US Dollar. The USA will have lost their leverage not only in Pakistan, but potentially much more widely than that.

Of course where does 'One Belt...One Road' end? London. And which is the only city in the world with the global financial 'plumbing' in place to effectively provide clearing and dealing to an additional reserve currency - London. So as the post-Brexit UK gropes its way to try to preserve its place in the financial hierarchy, the City of London may be thrown a life-line from an unexpected source.

See you in London in a week - Chris