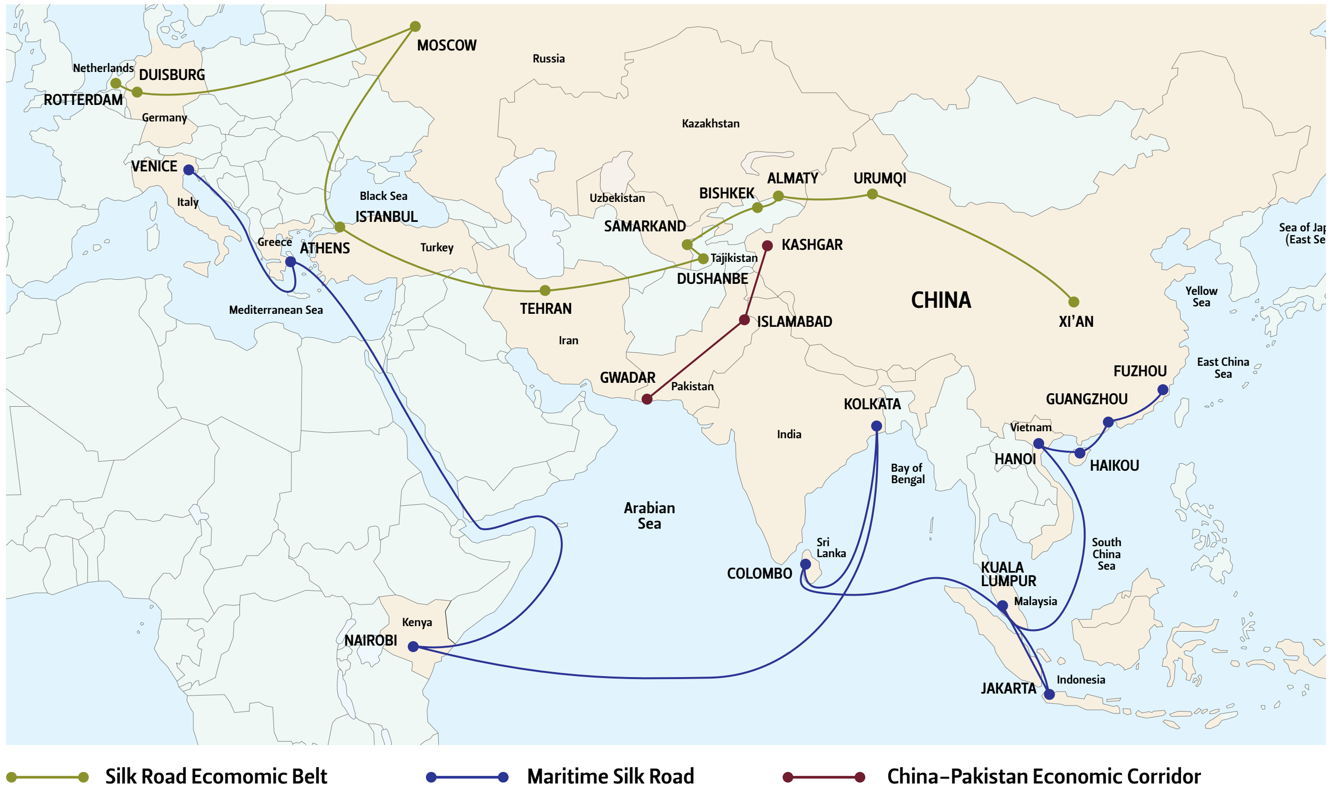
BUSINESS

THE SILK ROUTE OF THE 21ST CENTURY

China’s Belt and Road Initiative is touted as today’s new Silk Route. The ambitious project aims to bring prosperity to countries it passes through and provide this side of Southeast Asia a boost in wealth and workforce. Five years on, experts on the project discuss its hits and misses.

BY SREEREMA BANOO

CHINA'S PROPOSED NEW SILK ROADS



MAP: XINHUA.

On 7 September 2013, China's President Xi Jinping, in a speech at Kazakhstan's Nazarbayev University, spoke of the traditional friendship between China and Kazakhstan, proposing that China and Central Asia cooperate to build a Silk Road Economic Belt. In October that same year, the Chinese president talked about building a 21st Century Maritime Silk Road to promote maritime cooperation. A month later, the Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) called for accelerating infrastructure links among China, its neighbours and the rest of the world, and facilitating what was then known as the "One Belt, One Road Initiative".

Large-scale infrastructure development projects are a key feature of the programme which was renamed the Belt and Road Initiative (BRI). New roads, highways, ports, gas pipelines and industrial parks are expected to create new economic opportunities for recipient countries. Given the open-ended nature of the BRI, there are no targets on the proposed investment amount. However, most estimates put the total investments under the BRI at US$1 to US$2 trillion over the next decade.

Much of the funding for BRI projects has so far been carried out by China's large commercial banks, China Development Bank and the Export-Import Bank of China. In addition, China has also established several new international economic institutions, including the New Development Bank and the Asian Infrastructure Investment Bank.

Although there is no official master plan or blueprint for the BRI, the most authoritative official document released by Beijing in March 2015 entitled *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road* outlines the framework and key areas of cooperation. This white paper has since been written into the constitution of the CPC, a move that is seen as reinforcing China's commitment to the initiative.

It is estimated that as many as 80 countries and organisations have already signed on to the BRI. The response has been a mixed bag of optimism and some measure of scepticism. In general, developing countries appear to be more in favour and welcoming of the initiative compared to developed countries. And this is unsurprising.

A special report released by Nomura in April this year, describes the BRI as "a platform for lower-income recipient economies to fast track to a higher stage of economic development by increasing foreign direct investment (FDI) inflows, plugging infrastructure gaps, leapfrogging to a digital economy, and integrating their trade into global supply chains". All of these, it adds, can boost productivity and help lift potential growth.

Tracing the BRI's geographic scope which encompasses the whole Eurasian landmass and onto Africa, University of Malaya's Institute of China Studies deputy director Dr Ngeow Chow Bing points out that the vast majority of the countries between the prosperous East Asia and Western Europe are poor developing countries. "And the BRI wants to unlock their developmental potential."

This pattern, says Ngeow, illustrates a plain fact – that the BRI is addressing the developmental needs of developing countries. "One of the bottlenecks of development is infrastructure and connectivity. These are the things that are not easy to develop because it requires huge amounts of capital and many developing countries are short of that. And when China reflects on its own development experience, one of the conclusions it makes is the role infrastructure has played.

"You want investment. You want to create markets and trade. These mean that you need to have roads, bridges, railways, and power stations. So China is of the opinion that this is something they want to share with developing countries," he says.

But this isn't mere altruism on China's part. China stands to benefit both economically and geopolitically, from balancing its own development by integrating the less-developed regions of the country with the outside world to creating new sources of demand. The BRI also seeks to create a better return on its capital besides furthering the internationalisation of China's currency.

The BRI is also viewed as part of President Xi's plan to improve China's visibility and influence around the world. At the 19th Communist Party Congress in October 2017, President Xi said that China would no longer shy away from world leadership, and would even aim to promote its economic model to other developing countries. "It is time for us to take centre stage in the world and to make a greater contribution to humankind," he said. Furthermore given events in the West, in particular the US' tendency to be more inward looking under President Donald Trump and the UK's Brexit, China through the BRI is perceived as the new champion of free trade. "China is using the BRI to construct a new interconnected economic web that solidifies its regional leadership," adds Nomura in its report.

Unsurprisingly, in a move that's widely seen as a response to China's rising influence, US Secretary of State Mike Pompeo announced at the end of July, US$113 million in new investments in the Indo-Pacific region. He further added that the US would "oppose any country" that seeks to dominate the region.

THE WINNERS

Pakistan

Five years on, who have been the BRI's biggest beneficiaries? Baker Tilly's Belt and Road Desk director Koh King Kee, says Pakistan stands out as one of the BRI's biggest winners. Of the BRI's six economic corridors, the flagship is the China-Pakistan Economic Corridor (CPEC) which consists of a collection of infrastructure projects linking southwest China to Pakistan. These projects are thus far concentrated in the transportation, utilities and energy sectors.

"US$13 billion out of US$19 billion of China's FDI in CPEC are in the energy sector, and to date more than half of the early-harvest projects are being completed," he says, noting that 11,000MW of electricity has been added to the national grid as a result.

"CPEC has also opened a back door for China, connecting Gwadar Port to Kashgar, and this has reduced the shipping journey from 12,900km to 2,900km... so what you have today is a case of people from Urumqi (in China's Xinjiang province), a city that used to be the furthest from the sea enjoying seafood from the Indian Ocean. You could never imagine that before," he says.

PHOTOGRAPH: GETTY IMAGES.

Fishing boats sit moored at the harbor as gantry cranes stand in the background at Gwadar Port in Gwadar, Balochistan, Pakistan. What used to be a small fishing town on the southwestern corner of Pakistan is giving way for construction of roads and buildings to house banks, insurance and clearing agents.

Bangladesh

Another winner is Bangladesh, which is set to receive total investments of US$38 billion, equivalent to 15% of its 2017 GDP under the Bangladesh-China-India-Myanmar Corridor project, focussed on rail, power, roads, ports and oil pipelines, reports Nomura.

Koh adds that China's plan to migrate some 85 million labour intensive jobs to the BRI countries is also in Bangladesh's favour given its low labour costs. That Bangladesh has not been able to take advantage of its competitive manufacturing base boils down to the country's infrastructure gaps. Nomura in its report points out that BRI projects that address these gaps will give Bangladesh the opportunity to move towards more value-added exports, attract more foreign investment, and raise its share in global trade.

Southeast Asia also looks to be another major beneficiary of the BRI. Nomura says US$53.3 billion worth of infrastructure-related projects have been identified in the pipeline, with about 90% of these having already broken ground.

Malaysia

In the region, Malaysia was one of the BRI's early supporters and was ahead of the pack in securing Chinese investment. BRI-related projects in Malaysia include the recently suspended East Coast Rail Link, Malaysia-China Kuantan Industrial Park, the expansion of Kuantan Port, Malacca Gateway, Alibaba's Digital FTZ and Xiamen University Malaysia.

Outside of these projects, Dr Au Yong Hui Nee, Dean of the Faculty of Business and Finance at UTAR, points out that Malaysia has been China's largest trading partner in Southeast Asia since 2009. China in turn, is Malaysia's largest trading partner with bilateral trade reaching RM240.9 billion in 2016, amounting to 16.2% of Malaysia's total trade, she points out. And in 2017, that figure rose 20.6% to RM290.65 billion.

The Philippines

In the Philippines, President Rodrigo Duterte's more welcoming stance towards China is also paving the way for China-funded infrastructure projects and investments, says Nomura, estimating that US$4.4 billion worth of infrastructure projects are now in the pipeline.

Indonesia and Thailand

Over in Indonesia, after some delays the Jakarta-Bandung high-speed railway project is finally making some headway, with recent reports indicating that the 142km-long project is in full swing. In Thailand, starting from 2017 the government has been exploring plans to connect its Eastern Economic Corridor (EEC), a US$44 billion initiative to turn its eastern provinces into a trade and industry hub, with the BRI's infrastructure priorities. The Thai government has also given the green light for a 220km high-speed train project to link three airports as part of the EEC development.

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MISSED OPPORTUNITIES

Although countries have been welcoming of the BRI, there have also been scepticism and criticism. The adversarial attitude is apparent from India which has objected to the CPEC because it runs through the Pakistan-occupied Kashmir. India also boycotted the high-profile Belt and Road Forum organised by China last year.

But many observers such as Koh feel that India may be missing out, noting that India stands to benefit from the BRI. "India has a huge population where 50% of the employment comes from the agricultural sector and 90% from the informal sector. On top of that, India boasts a young population," he says, adding that the country can benefit from China's move to relocate its labour intensive jobs.

"Already we are seeing the move to relocate textile and furniture industries out of China to CPEC, and India also has an opportunity here," he says, pointing out that the hourly wage is US$0.70 cents in India compared to US$3.60 in China.

Koh reckons that developed countries in the West have also not participated sufficiently in the BRI. This, he feels, is rooted in their prevailing scepticism towards the BRI, with terms such as "debt trap diplomacy" and "creditor imperialism" rife in discussions about the BRI from western think tanks and media. Recent reports that a Chinese loan for the first phase of a highway project linking the port of Bar on Montenegro's Adriatic coast to landlocked neighbour Serbia has sent Montenegro's debt soaring, and as a result puts the completion of the project in doubt; it does not do the BRI any favours.

But Koh, who has studied the so-called controversies surrounding some of the BRI projects, including the oft-cited Hambantota port project in Sri Lanka, believes that the issues are more complex. "The truth is, developing countries do not have good credit standing and if they were to go to the international market to raise funds, they will be subject to high interest rates and strict lending terms. And when China comes along and says that it is willing to consider a loan, what is that country to do?" he asks.

Ngeow adds that China, based on its experience, is cognisant that infrastructure projects are long-term investments and its comparative advantage is that its state-owned enterprises have that appetite to invest long term.

"So the issue then becomes whether developing countries are willing to take that as a risk or view it as a long-term indebtedness to China," he says, pointing out that these are the issues being hotly debated at the moment. Even in the case of Malaysia, Prime Minister Tun Dr Mahathir Mohamad has said that Malaysia will be "friendly with China, but not be indebted to China."

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SO WHERE DO WE GO FROM HERE?

There have definitely been lessons that China and beneficiary countries in the BRI can heed when navigating future projects. One of these is the need to involve more stakeholders, says Au. Ngeow concurs, adding that although BRI investments are negotiated bilaterally, China on its part should move away from dealing exclusively with the power holders of the countries it is investing in. "This is something they need to work on, because if the power holders use the China or BRI projects for their own interests then the project is tainted," he adds.

Ngeow also feels that China needs to work on engaging with its international critics. "In terms of public relations, China is still a student, so to speak... and I think in part this is due to their domestic environment. Their state-owned enterprises do not need to deal with public relations in their own country but that is not the case when they operate overseas. And when issues arise, they just dismiss the critics which only serves to reinforce the negative perception. That's something they need to build on," he adds.

Koh reckons that Chinese bureaucrats, officials and corporations often do not understand the business environment and the political risks. "So perhaps after five years it's time to review and reassess some of the projects," he suggests.

And what of beneficiary countries of the BRI? Koh believes that countries need to assess their needs and then look at the areas in which China excels. In Malaysia, for instance, projects relating to fibre optic technology, improving Internet penetration, digital payment systems, e-commerce, robotics and technology in agriculture to reduce dependence on foreign labour, and education are some of the areas worth exploring.

As for infrastructure projects, he says these cannot be evaluated strictly on the basis of commercial profit. "Railways, for example, don't make money but they serve as a catalyst to help the economy," he adds.

It is also worth remembering that although infrastructure has been in the limelight, the BRI also emphasises people-to-people bonds. For instance in China, at the national, provincial and university levels, funding is available for scholarships for foreign students, says Au, adding that this is something Malaysians can take advantage of. According to UOB, in its report on the BRI in May this year, almost two-thirds of the international students in China hail from BRI countries.

There are also opportunities for ASEAN as a whole. Au points out that bilateral trade between China and ASEAN had grown from US$9 billion in 1991 to US$346 billion in 2015 – making the BRI a key geopolitical priority for ASEAN countries. In addition, UOB's report notes that the share of tourists from China to ASEAN has increased since the launch of the BRI in 2013, growing to 21% of total tourist arrivals in 2017, from 12% in 2012.

Another area of cooperation that's been discussed is linking the ASEAN Master Plan For Connectivity to the BRI. Similar to the BRI, this master plan calls for a system of roads and railways to link contiguous ASEAN members with one another, as well as a system of ports for vessels and short shipping routes. "There have been many discussions on this, and China has also expressed its willingness to strategically link the BRI with the ASEAN Master Plan For Connectivity but it's just talk at the moment," says Ngeow.

China's expertise in high-speed rail technology coupled with the long-talked about Singapore to Kunming Railway (or the Pan-Asia railway network) is another area of possible development, says Koh.

Looking ahead, observers are generally optimistic of the BRI. The biggest threat, says Ngeow, lies in US-China relations. "If there is a trade war and if it's not handled well by China and it suffers economic decline as a result, then I think that will affect the BRI. China's economy is the determining factor... if China continues to grow, then so will the BRI." UN

THE BRI AT A GLANCE

Six economic corridors

1. **China-Pakistan Economic Corridor** linking South Western China to Pakistan,
2. **China-Mongolia-Russia Economic Corridor** linking Northern China to Eastern Russia, through Mongolia,
3. **China-Central Asia-West Asia Economic Corridor** connecting Western China and the Arabian Peninsula,
4. **New Eurasia Land Bridge**, which is an international railway line running from Lianyungang in Jiangsu province through Alashankou in Xinjiang, to Rotterdam in Holland, covering more than 30 countries and regions along the route,
5. **China-Indochina Peninsula Economic Corridor**, linking China with the Indochina Peninsula and crosses Vietnam, Laos, Cambodia, Thailand, Myanmar, Malaysia and Singapore, and
6. **Bangladesh-China-India-Myanmar Economic Corridor**, which covers investments in the transportation, telecommunications and energy sectors of the four countries.

Five pillars of connectivity

1. **Policy coordination:** Promoting inter-governmental cooperation and building a mechanism for policy exchange and communication,
2. **Facilities connectivity:** Strengthening infrastructure planning and construction, and achieving facilities connectivity,
3. **Unimpeded trade:** Removing investment and trade barriers, and creating a sound business environment,
4. **Financial integration:** Deepening financial cooperation and promoting financial system development,
5. **People-to-people bond:** Promoting people-to-people exchanges and friendly cooperation.