

## To view 'One Belt One Road' from a geo-economy perspective

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Proposed by China in 2013, "One Belt One Road", now renamed the "Belt and Road Initiative" (BRI), is a global economic plan to create regional connectivity through infrastructure development and promote world trade and economic growth. It plans to connect 65 countries across Asia, and the Middle East to Europe by land along the historic Silk Route and another maritime route, down the Pacific and Indian Ocean and up the Mediterranean Sea. It is arguably the most ambitious economic project in the 21st century in terms of physical and economic scale and geographic spread.

The 65 countries make up 65 per cent of the world population, one third of the world's GDP (gross domestic product), 40 per cent of global trade and one quarter of all goods and services the world moves.

In September last year, I mentioned at a conference that, amid the then pessimistic world economic outlook, there were only two possible major stimuli or drivers that could reignite global growth, namely the Trans-Pacific Partnership (TPP) and the One Belt One Road (OBOR) programme. The TPP is now as good as dead, although there have been recent attempts to revive it. The world is now left with BRI as the only potential global collaborative vision that can be the engine of the world's economic growth. This BRI programme is sometimes likened to the US' Marshall Plan, except that the BRI is 12 times larger.

I attended the "Belt & Road Forum for International Cooperation" held recently in Beijing. I wanted to personally assess the vibe and spirit at the forum and to listen to what participating countries had to say on the BRI. More than 1,500 guests from 130 countries attended the forum. This included 29 state and government leaders, as well as the heads of major world organisations like the UN secretary general, managing director of the World Bank and the International Monetary Fund, vice-president of the European Commission, as well as the heads of the WTO, ICAO and IMO. Initially, Western media reported that the US, Japan and Australia would not be attending the forum. But they were all there and mostly represented by senior representatives.

In his opening speech, China's President Xi Jinping spoke robustly in assurance of investment in infrastructure to open up trade, promote economic growth through globalisation, connectivity with other countries, win-win projects, inclusive development, and peaceful economic collaboration. Other world leaders advocated peace and prosperity, bonding and friendship, good governance, sustainability, quality infrastructures, transparency of procurement processes, social and environment impacts and standardisation of cross-border development. The mood was supportive and encouraging, but there was still a palpable reservation over whether China would lead and deliver this global economic initiative fairly and with transparency.

# Economic Scale\_

So what is the economic scale of BRI? Asia-Pacific will need to spend US\$26 trillion from now to 2030 on infrastructure, and Asia alone will need up to US\$1.7 trillion in infrastructure investment annually over the next 10 years to maintain growth. One estimate of the BRI's cumulative investment over the long term is between US\$4-8 trillion. BRI countries therefore gladly welcome and support BRI to accelerate their infrastructure-driven economic growth. Since 2013, China has poured in US\$60 billion in B&R (Belt and Road) countries. It has announced recently that total outbound investment will reach US\$120 billion to US\$130 billion a year over the next five years giving it a total of US\$600 billion.

So where will the funding be coming from? China in a show of leadership for BRI has initiated financial institutions like the US\$100 billion AIIB (Asian Infrastructure Investment Bank), US\$40 billion New Silk Road Infrastructure Fund and another US\$100 billion New Development Bank to support these infrastructure projects. At the BRI Forum, Mr Xi pledged US\$124 billion to finance BRI projects, of which US\$9 billion will go to assist BRI developing countries. China, as the promoter of BRI, wants to make it happen.

There have been doubts expressed, particularly in Western media, on China's ability to orchestrate this ambitious undertaking successfully. In my view, whether it is China, US, Japan or any other world economic power, a global initiative of this scale will undoubtedly face implementation challenges and obstacles. Funding is the first hurdle, because infrastructure projects will always face issues over their bankability. In addition, where infrastructure projects involve foreign investment, there will be issues such as the host country's political stability, local vested interests and possible resistance, as well as project management and execution risks. And finally, there would still be risks on the completed infrastructures' performance outcomes.

So does China have the capability to deliver this grand plan? Over the past few decades, China has convincingly demonstrated its capability to deliver large scale projects successfully. I first visited China in 1982. China was then in abject poverty. At US\$200 GDP per capita, it was the largest but one of the poorest countries in the world. Within 35 years its GDP per capita gained 40 times to over US\$8,000 per capita. In 1981, 88 per cent of Chinese and 96

per cent of rural Chinese lived below the poverty line. By 2010, less than 10 per cent were that poor. Now ranked as the world's second-largest economy, it has miraculously built up, at one time, more than US\$4 trillion in reserves. No one could have forecast China's dramatic transformation.

China isn't bestowed with oil or other rich natural resources, yet it managed to lift more than 700 million people out of poverty and grew its urbanised population from 16 per cent to 55.5 per cent. It is the most successful story of migration in mankind's history. I have been travelling to China very regularly over the past 20 years dealing in the real estate business in various cities - and I am still at it. Initially, I was less than sanguine about the mammoth projects China chose to embark on. In the last 30 years, China has succeeded in delivering several gigantic transformational infrastructure projects. This includes Shanghai's Pudong district; the Three Gorges Dam; more than 20,000 km of railway including the Qinghai-Tibet high altitude railway; the Beijing-Shanghai high speed railway, which is the world's longest high-speed line ever constructed in a single phase; the Hong Kong-Zhuhai-Macau Bridge; as well as the Beijing Capital Airport, just to name a few.

I have seen too many of China's ambitious dreams at work and how they have all become reality in an incredibly short time. I have therefore learnt not to underestimate China and to not doubt their proclaimed ambitious plans.

Of course, these were largely domestic projects and I am mindful that cross-border undertakings, such as the BRI, will pose dramatically different challenges. Such a massive undertaking will certainly face a myriad of uncertainties surrounding the plan caused by political, financial, technical, environmental and social, and/or other collaboration issues. These are a "given" in global infrastructure businesses, whether it is promoted by China or by any other economic powerhouses. Having said that, I believe China will need to move this initiative in partnership and collaboration with other countries, as well as commercial and multi-lateral development organisations to ensure its ultimate success.

So how do I view BRI and the perceived growing influence of China in the world?

With rising protectionist sentiments in the US and the European Union (EU), world growth and global trade is crucial to help prevent such views from escalating. Jobs are a key political problem in all

these countries, especially in the EU and among the lower middle class in the US. The implementation of the BRI itself has the potential to create growth, demand and jobs, and can therefore help to dampen protectionist sentiment globally.

For developing countries, growth is even more critical. Most developing countries like those in Asean, Central Asia and South Asia are facing what demographers call the "youth demographic bulge", caused by a rising number of young people. Joblessness will be highly destabilising for these countries. Any global impetus and initiative to foster economic growth and create jobs in these regions can only be a positive.

There have been some initial questions raised on the mutuality of benefits between China and the host countries. It has been claimed that trains that travelled to China fully loaded returned empty, suggesting an imbalance in the trade equation. In an apparent attempt to address such concerns, the Chinese ambassador to the UK, Liu Xiaoming wrote recently in Financial Times that in the first quarter this year, China customs cleared 62 trains, 2,850 containers and 35,027 tonnes of cargo carrying industrial products and only 11.4 per cent returned empty. Containers almost doubled and empty containers halved. Since 2011 China trains made 3,000 trips to Europe linking 27 Chinese cities in 21 provinces to 28 cities in 11 European countries. China is expected to make 5,000 such trips every year by 2020. From 2014 to 2016 total trade between China and the BRI countries exceeded US\$3 trillion. Trade in services is also rising in proportion.

Chinese investment in BRI countries now amounts to US\$60 billion with another US\$14.5 billion signed during the BRI Forum. In the next five years, Chinese outbound investment is forecast to reach a total of US\$600 billion to US\$800 billion and it will largely go to BRI countries.

From an economic standpoint, many companies from developed countries such as the US, the EU and Japan can also benefit from BRI. China and the host countries will certainly need to tap global industries and service providers from the developed countries in the whole value-added chain, ranging from master planning, design, architectural services, consulting, project management, legal and financial services, etc. Big players in the construction industry and machine and equipment suppliers such GE, Siemens, Caterpillar, Rolls Royce, Airbus, Bouygues, EDF will have potentially huge roles in BRI projects. Financial firms like Goldman Sachs, UBS, JP Morgan

can also be involved in infrastructural financing. Such industry players will welcome the potential of such big jobs outside their own countries, where the infrastructural developments typically have reached a more mature stage. The knock-on effects of the implementation of BRI and the potential benefits to industry players from developed countries cannot be denied.

With BRI and increasing growth and development, today's developing countries like Asean, Central Asia and central Europe can develop, industrialise and urbanise. As income levels in these regions increase and the middle class expands, they can also become future markets for developed countries. It may be true that the BRI will increase China's dominance and influence. Any country which invests and/or trades heavily with another country is bound to have some degree of political and even subconscious cultural impact on the host country. To me, that is inevitable. Whether that is positive or negative is subjective, and obviously, different countries will have different geopolitical considerations. China's dominance and influence in world trade is already being felt worldwide, with or without BRI.

## Pragmatism and Benefits\_

China realises that the BRI must be open and inclusive to succeed. They should also surely be aware that such a plan cannot succeed without the cooperation of the host countries and the support of other developed countries. For the host countries, the potential direct and indirect benefits of the BRI will likely outweigh any concerns of China's global dominance, political or otherwise. I foresee that pragmatism will prevail and they will embrace the BRI for its economic benefits. For other countries that are not directly involved, they can still benefit by participating in the implementation process and partake in the growth opportunities. Non-participation and non-engagement, in my view, is not an option!

In conclusion, I would like to say that the world now lacks a key growth engine. I see the BRI as the main locomotive for the global economy over the next decade. This is a plan designed for global infrastructure development to improve connection between Asia and Europe. Having a plan or vision is better than having no plan or vision. Trying to make it work is better than speculating over why it will not work. Emerging countries, with their limited

resources, may not have the means to grope around to seek their own vision for global expansion. China, with all its capabilities and experience, cannot fully deliver the plan in its entirety without the participation and collaboration of all the host countries. It will also need support in services and expertise from other developed countries.

If all parties concerned do go on board and work with China in this plan, the implementation of BRI will likely transform the world economic landscape for the better. It will result in a "win-win-win" situation for China, developing as well as developed countries. While economic growth and wealth creation by themselves cannot solve all the geopolitical problems that plague this world, it can certainly help to eliminate poverty and improve the quality of the lives of the mass population, reduce the problems of unemployment and indirectly, encourage political stability, particularly in vulnerable and less developed regions.

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