

The Belt & Road Initiative and What It Means for South East Asia

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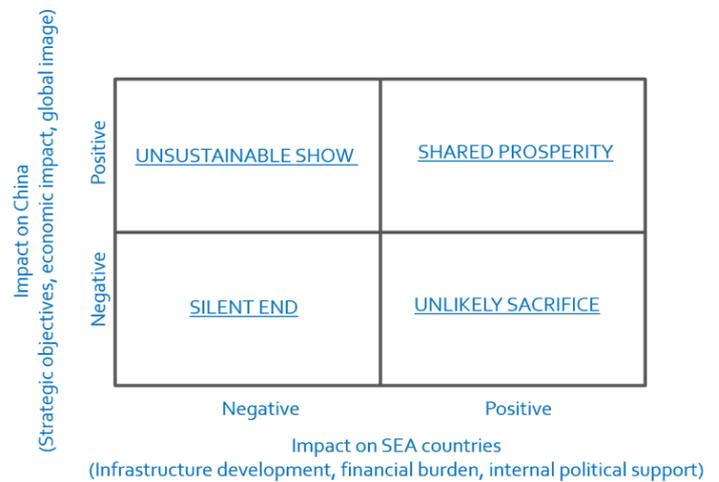
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Launched five years ago, the Belt and Road Initiative (BRI) has mobilised much Chinese funds and State-Owned Enterprises (SOEs) to invest, construct and operate projects in South-East Asia (SEA), South Asia, Central Asia and even further away in Africa. Given that infrastructure in many of these countries in these regions are under-invested, the BRI represents a huge opportunity for these countries to uplift their infrastructure and build strong foundations for economic development.

An example of a BRI project is the development of a US\$9b deep-sea port and industrial park in Kyaukpyu. Situated in the western Rakhine State of Myanmar, Kyaukpyu will provide Western China with access to the Bay of Bengal, and is therefore highly strategic to China. To Myanmar, the project will lead to economic development and potentially reduce some of the ethnic tension in the Rakhine state. The project is therefore strategic to both countries. The project is currently still under negotiation between the Chinese consortium leader CITIC Group¹ and the Myanmar Government.

Possible Scenarios of BRI

To understand the possible outcome of BRI, we can look at how the potential impact of BRI on China and SEA interplay to lead to different scenarios.



The impact will be positive for China if it is able to develop access points for its manufactured exports and its imports of strategic resources, if the BRI allows its state-owned enterprises (SOEs) to establish their market presence in SEA and if the BRI leads to a stronger global leadership role for China. However, if the projects turn out to be commercially unviable, the economic benefits of BRI for SOEs will be in doubt. Furthermore, if the BRI generates negative media for China, it will lead to a negative image for China.

Second, we look at the impact on SEA countries. If the BRI leads to sustainable infrastructure development

without incurring too much financial burden or loss of internal political support, the BRI will have a positive impact on SEA countries. Conversely, if it leads to infrastructure projects that are not well-utilized, too much government debt and too much opposition internally, the BRI will have a negative impact on SEA.

How China and the SEA countries go about securing their own interests and how they react to one another's actions will be key to how the BRI plays out.

The current backlash against BRI in some countries suggest that the impact for SEA countries may be perceived to be slightly negative today, rightly or wrongly. This is not sustainable. If China is perceived to benefit from the BRI while the SEA countries do not benefit much, then the SEA countries will stop participating. Similarly, if SEA benefits from the BRI while China does not, it is also not sustainable.

In the longer term, the two more likely scenarios are:

- (a) Silent End - if the impact on China and on the SEA countries turn out to be more negative than positive, both sides will slowly disengage themselves from the BRI and the initiative will fizzle out over time.
- (b) Shared Prosperity - However, if there are effective efforts by both China and the SEA countries to develop win-win solutions, the BRI may enter a golden phase where both sides enjoy many years of mutual benefits.

The BRI creates the opportunity to build much-needed infrastructure in SEA and for strong economic development in these countries. If we do not take advantage of the BRI, and it ends up in the "Silent End" scenario, it would be an unfortunate loss of opportunity for the entire region. This should be avoided.

Shared Prosperity

To help the BRI move towards the win-win scenario of "Shared Prosperity", we can consider the following:

Pragmatic Infrastructure Roadmaps

First, the SEA countries should each develop a pragmatic Infrastructure Roadmap. Such a roadmap should have a clear vision of what infrastructure projects are important and should be given priority within the next 10 years. It should estimate the costs of these projects, identify those that are commercially viable and those that require

government support. It should examine how these can be financed without creating a budget deficit crisis for the country, including whether private sector companies can be involved in the financing, ownership and operation of such projects. It should also address social and environmental concerns in the community.

Countries with such an Infrastructure Roadmap will be in a better position to decide what projects to be pursued pro-actively under the BRI framework and what projects should be held back. In this way, the SEA countries would be able to leverage on the funds made available by the BRI to advance its infrastructure development plans, rather than take on projects that turn out to be ineffective or too costly. In this regard, glamorous large-scale projects may not always be the most impactful projects.

Principles of Market Forces

Second, principles of market forces should be adopted as much as possible. Feasibility studies should have realistic commercial projections, and reviewed carefully to determine if projects should be pursued. For instance, users of the infrastructure should be made to pay for the services they consume, at full costs if possible. Commercial operators of the infrastructure should be engaged on a Private Public Partnership basis if viable. SEA Governments must be prepared to help overcome political and social obstacles if the projects are beneficial to the countries.

State-Owned Enterprises from China should assess the commercial viability and sustainability of the projects before taking the plunge. While there are strategic reasons for implementing infrastructure projects, we should leverage on market forces and commercial interests to make these projects financially sustainable as much as possible.

High Standards of Governance

Third, more emphasis needs to be placed on the governance of the BRI projects by the Chinese SOEs, the SEA governments and other companies involved. If BRI projects are associated with improper use of funds, the global image of China, the Chinese SOEs and the SEA governments will be negatively impacted. To prevent this, a stronger code of governance should be exercised by the Chinese SOEs and the SEA governments for BRI projects.

Strong Project Leadership

Finally, each major infrastructure project must be supervised by a competent leader. A leader with a clear vision, good management skills, integrity and strong political support will be able to deliver the infrastructure project on time and on budget. Conversely, without good project leadership, even structurally sound projects will be badly implemented and end up as failures.

Making BRI a Multilateral Initiative

It will be useful if the BRI becomes more multilateral in its implementation. This will not be easy. Involving third countries will take time and can be complicated. And not all countries want to be involved in costly infrastructure projects. But if successfully done, this

will provide an independent view of the commercial viability and risk management of the project.

Conclusion

When all these considerations are accounted for and proper measures put in place, the BRI will have a much higher chance of success. And the scenario of “Shared Prosperity” will become a likely outcome.

This article is co-created by Surbana Jurong Academy.

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Reference

¹Singapore design and engineering firm, Surbana Jurong was also involved in the master-planning of the industrial park.