Singapore Institute of International Affairs

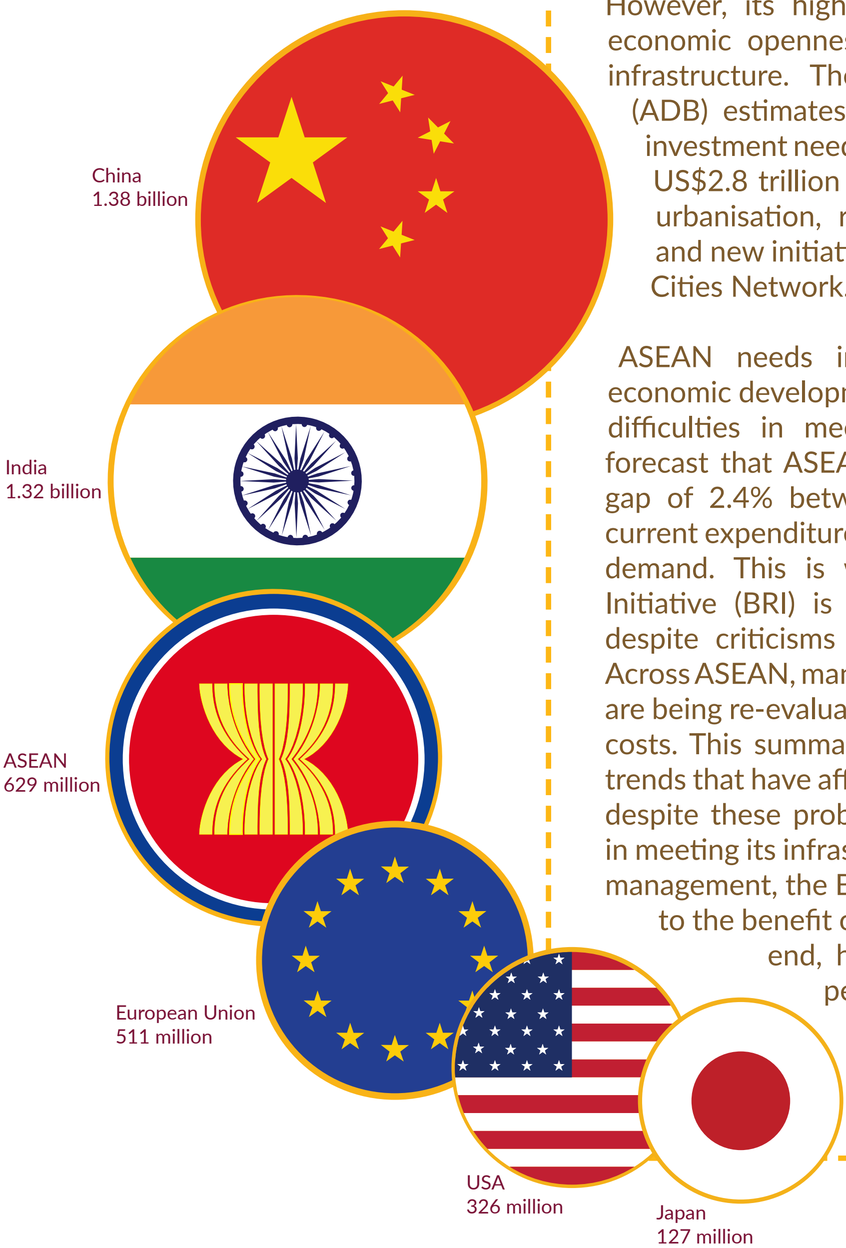
MAKING THE BELT AND ROAD INITIATIVE WORK FOR ASEAN

SUMMARY REPORT | AUGUST 2018

ASEAN's Urgent Infrastructure Demands

ASEAN: THIRD LARGEST CONSUMER MARKET IN THE WORLD

Source: World Bank, 2016



The Association of Southeast Asian Nations (ASEAN) is increasingly seen as encapsulating a region with abundant economic opportunities. However, its high growth rates of 5-7% and economic openness belie a large appetite for infrastructure. The Asian Development Bank (ADB) estimates that ASEAN's infrastructure investment needs from 2016 to 2030 will total US$2.8 trillion due to the rising demands of urbanisation, rapid economic development and new initiatives such as the ASEAN Smart Cities Network.

ASEAN needs infrastructure to sustain its economic development – yet, it has encountered difficulties in meeting its needs. The ADB's forecast that ASEAN will face an infrastructure gap of 2.4% between 2016-2020 shows that current expenditure levels cannot satisfy regional demand. This is why China's Belt and Road Initiative (BRI) is a game-changer for ASEAN despite criticisms against the BRI sharpening. Across ASEAN, many projects proceed, but others are being re-evaluated in terms of scale, time and costs. This summary surveys recent events and trends that have affected the BRI, and shows that despite these problems ASEAN still needs help in meeting its infrastructure demand. With better management, the BRI can still proceed in ASEAN to the benefit of regional populations. To this end, host governments should not perceive themselves as helpless puppets, but as independent agents with responsibilities to discharge.

The BRI Can Help Transform ASEAN

Enter China's Belt and Road Initiative (BRI) – an ambitious project on trade and diplomacy, and the centrepiece of the rising nation's grand strategy. In 2017, Chinese President Xi Jinping pledged an additional US$124 billion to the BRI, building upon an estimated US$900 billion worth of proposed projects. In comparison, the ADB's commitments in 2017, or the amount of loans and grants signed, amounted to US$20.1 billion. For a poorly connected region like ASEAN in urgent need of infrastructure financing, the BRI is a game changer.

Moving past railways and roads, China is also investing heavily in ASEAN's e-commerce ecosystem as part of its digital silk road strategy. Chinese tech-related investments through companies such as Alibaba, JD.com and Tencent have quadrupled in 2017 alone drastically increased in 2017, with the number of deals quadrupling that year. These include Didi Chuxing and Softbank's US$2 billion investment into Grab, as well as Alibaba's US$4 billion investment into Lazada. Tencent is also the largest stakeholder in Singapore-based Internet platform provider SEA, formerly known as Garena. In Indonesia, Alibaba led a US$1.1 billion investment in Tokopedia and Go-Jek, the country's other unicorn has also raised capital from Tencent. China has also spent approximately more than US$100 billion in Malaysia, Indonesia and the Philippines to support their smart city initiatives.

Yet, the BRI's promises of capital must be considered alongside the shortcomings of its current projects, and amidst larger geopolitical and geo-economic concerns. These concerns are not solely regarding the question of the US' future role in the region, or its ongoing trade tensions with China. Nor are they purely an outgrowth of China's complex relationships with ASEAN and its member states. As China is the main source of financing and contractors for BRI projects, the initiative is presently labelled a Chinese effort.

Recent attention has been directed towards debt issues in countries such as Laos, given that the China-Laos Railway project alone is expected to cost over one-third of its GDP. An equally pressing concern is profitability, with critics often invoking Sri Lanka's Hambantota port to warn of projects that strategically benefit China instead of the host country's economy. Other pressing concerns range from economic to socio-environmental issues, and have sometimes spurred countries to reconsider their Chinese investments. In 2011, the Myanmar government suspended construction of the US$3.6 billion Myitsone Dam over concerns about its effect on local communities and wildlife. More recently, the new government in Malaysia is re-evaluating Chinese investment projects based on their local merits and contributions to the local economy.

Southeast Asia's (SEA) is the world's fastest growing internet region with an existing internet base of 260 million, which will grow to 480 million by 2020, seeing 3.8 million new users each month.

Capitalising on SEA's growing digital economy will require US$30 - 40 billion of investment over the next 10 years.

Source: Study by Google and Temasek, 2017

Not Puppets; Host Governments Have Responsibilities

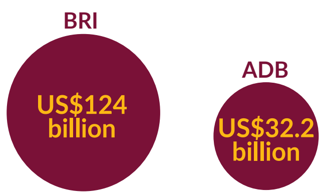
While the BRI is a much needed source of infrastructure financing and development for many ASEAN countries, host governments should not passively accept projects from China. Host governments have responsibilities as well. The ability for ASEAN states to manage offers and proposals to finance high profile projects will become increasingly crucial. There are three main issues that host governments must address: financing risks, geostrategic concerns and socio-environmental consequences.

Though it is evident that China can offer incentives to ASEAN, an important question is how ASEAN should position itself to engage China and benefit from the BRI. At present, ASEAN member states have tended to engage China on a bilateral level, and though such an approach streamlines subsequent negotiations, it also limits the bargaining power of the state in question. ASEAN governments can collectively play a bigger role in extracting higher standards from China. Granted, while the Master Plan on ASEAN Connectivity (MPAC) 2025 functions as a pipeline for projects, a framework for negotiating more projects has yet to be developed. Nonetheless, such a proactive approach will make the BRI a truly multilateral and sustainable initiative which promotes win-win cooperation.

Singapore, too, has a role to play in the initiative. Leveraging its position as a financing hub, the Singapore government has presented itself as a valuable partner for China. The full suite of services that Singapore offers in areas such as master planning and dispute resolution would benefit its role as a financing hub for the BRI in Southeast Asia. Already, 33% of outward BRI investments and 85% of China-bound inward investments use Singapore as a nexus. Seen against Singapore's gradual shift towards green finance, including the recent launch of the Green Bond Grant Scheme by the Monetary Authority of Singapore, there are ample opportunities for Singapore to promote green financing along the BRI.

While it is evident that the BRI can lead ASEAN into a new chapter of economic growth by enhancing physical, digital and people-to-people connectivity, ASEAN's next steps will be important. The current pipeline of projects may be affected as numerous ASEAN countries undergo or conclude their election cycles. The time is therefore opportune to set the agenda for a mutually beneficial and sustainable partnership between ASEAN and China.

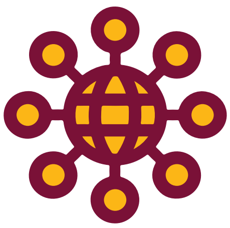
The Asian Development Bank (ADB) estimated that ASEAN would need US$8 trillion till 2020 to plug its infrastructure gaps.



China's large capital outflow in developing the region's infrastructure.

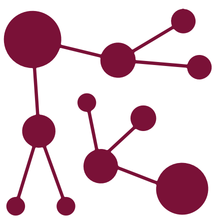
Attracting Private Financing through PPPs

Given Asia’s current reliance on public financing, regional leaders are looking towards the private sector for financing. Public-Private Partnerships are instruments through which host governments could achieve this goal by allocating risks to be handled by suitable parties, thus increasing their bankability, or the attractiveness of projects to private financiers. Should a project prove unsuitable for development under a PPP due to excessive risks, alternative avenues such as asset recycling or guarantees could be explored.



Balancing Geostrategic Concerns through Multilateralism

Host governments could convince observers that the BRI is not a zero sum game by involving more stakeholders. Sub-regional initiatives such as the regional infrastructure fund started by Thailand for its Mekong neighbours would increase ASEAN’s buy-in for infrastructure development. Involving firms from third countries such as the United States and Japan, as well as funding from multilateral institutions such as the World Bank and the ADB would also challenge the perception that the BRI is primarily a Chinese endeavour.



Aligning Connectivity and Socio-Environmental Development Needs

Host governments should monitor whether projects align with their national development plans, including socio-environmental issues. There needs to be sufficient economic capacity or potential in a country to capitalise on improvements to connectivity. Furthermore, host governments should work with China towards international frameworks such as the United Nations’ Sustainable Development Goals.

Singapore's Role as a Financing Hub and Source of Partnerships

With one-third of outbound Chinese BRI investments and 85% of China-bound inward investments transiting through Singapore, the island nation is well-positioned to be a BRI financing hub. There is plenty of room for Singapore to grow in this regard through strengthening cooperation with Chinese institutions, offering services such as dispute resolution, and promoting best practices such as green finance in the region. Furthermore, local firms are well-positioned to form third country partnerships with Chinese firms based on their familiarity with both markets and their domestic sensitivities, and the Singapore government has strived to support such partnerships by securing Chinese funding for local firms, facilitating information sharing and conducting business matching activities.

Managing Cultural and Political Sensitivities

At present, episodes of unrest such as the riots in Vietnam and more gradual tensions such as those against Chinese workers in Indonesia are compounded by the perception that BRI projects are managed and run exclusively by Chinese employers. In this regard, there is a need to ensure that the execution of these projects accounts for cultural and political sensitivities by offering added value or technological transfers to the host country's economy.

BRI Projects in ASEAN

MYANMAR

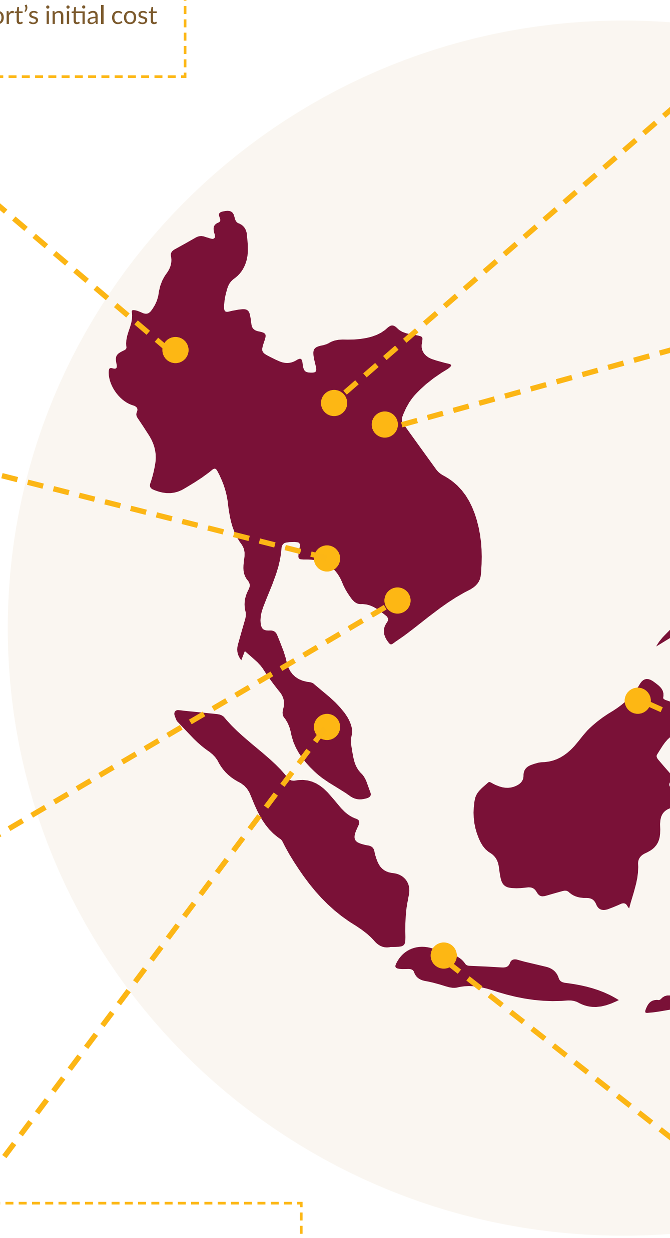
The Kyaukpyu Deepwater Port
US$1.3 billion

Part of a Special Economic Zone, this port is being built by subsidiaries of China's CITIC Group Corporation, with assistance from Singapore's Surbana Jurong. CITIC controls a 70% stake, and will run the port for 50 years under a build-operate-transfer agreement. Despite opportunities, however, real concerns about debt prompted a downscaling of the port's initial cost of US$7.2 billion to US$1.3 billion.

THAILAND

The Eastern Economic Corridor/EEC
US$44 billion

This 13,285 sq km economic zone in southern Thailand includes a Smart Digital Hub to optimise cross-border flows with China and ASEAN. Projected to be completed in 2021, the EEC has attracted US$5 billion from China's HNA Innovation Finance with support from Thailand's CT Pokphand. While cooperating with China, Thailand is also exploring multilateral financing avenues such as the regional infrastructure fund for Mekong countries.



CAMBODIA

The Sihanoukville-Phnom Penh Highway
US$1.8 billion

This 190 km highway will be financed by the China Road and Bridge Corporation through a public-private partnership. Expected to be completed in 2023, it will reduce transport fees and stimulate economic growth.

MALAYSIA

Digital Free Trade Zone (DFTZ) in Kuala Lumpur

The DFTZ is a logistics hub jointly developed by KLIA and Cainiao Holdings, and is part of Malaysia's digital drive. Due to begin operations in 2020, the project has received US$100 million from both KLIA and Alibaba. While this project is moving forward, the new Malaysian government is currently reviewing other Chinese projects based on their contributions to the local economy.

LAOS

The China-Laos High Speed Rail Link
US$5.9 billion

This railway will be built by Chinese railway companies, and is expected to be completed in 2021. 70% of the cost is expected to be paid for with a loan from China's Exim Bank, with Laos accounting for the remainder.

VIETNAM

The Hanoi Cat Linh-Ha Dong Metro Line
US$868 million

This elevated rail project will be built by China Railway Sixth Group Co., Ltd and Beijing Tieyan Construction Supervision Co., Ltd. China will provide US$669 million in loans, with Vietnam accounting for the remainder. Despite tensions surrounding the South China Sea, Vietnam has continued to engage China for infrastructure projects.

THE PHILIPPINES

New Manila Bay, City of Pearl

Master-planned to be Manila's integrated central business district, it is a 407ha self-sustaining smart city which is slated to be completed by 2035. The project will be jointly developed by a consortium of Chinese and Filipino companies. This is part of a series of projects offered to the Duterte government under improved ties with Beijing.

BRUNEI DARUSSALAM

The Muara Besar Petrochemical Refinery
US$15 billion

Brunei's largest-ever foreign investment project. The 260ha refinery is a joint venture between China's Zhejiang Hengyi company (70% stake) and its Bruneian partner Damai Holdings Limited (30% stake). China's investments in Brunei come at a time when western investors are apparently withdrawing from it.

INDONESIA

The Kalibaru Expansion of Tanjung Priok Port
US$3.97 billion

This expansion aims to triple the annual capacity of Tanjung Priok Harbour in North Jakarta. Slated to be completed by 2023, the project has attracted US$590 million from China's Ningbo Zhoushan Port Company. Despite opportunities, the increased visibility of Chinese companies and workers has led to heightened tensions with local Indonesians.

ABOUT THE SINGAPORE INSTITUTE OF INTERNATIONAL AFFAIRS (SIIA)

Founded in 1961 the SIIA is an independent think tank dedicated to the research, analysis and discussion of regional and international issues. It is Singapore's oldest think tank and a founding member of the regional alliance, ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS). Since 2013, the SIIA has consistently ranked as one of the top think tanks in Southeast Asia and the Pacific, in the Global Go-To Think Tank Index by the University of Pennsylvania. For 2017, the SIIA was ranked the no. 1 think tank in Asia and in the top 50 globally (excluding USA).

The SIIA's ASEAN programme examines the impact of politics and socioeconomic policies in ASEAN on business and investment in the region. The SIIA also monitors emerging trends in key ASEAN economies and their relations to major partners such as China, Japan, the USA and EU. The SIIA organises thought-leadership events such as the ASEAN-Asia Forum and ASEAN-Myanmar Forum, providing a networking platform for high-level corporates and leading businesses. It also publishes regular research and opinion pieces, whilst holding closed-door presentations to members on geopolitical events of the day.

AUTHORSHIP AND ACKNOWLEDGEMENTS

This report is authored by Chen Chen Lee, Director of Policy Programmes; Shangari Kiruppalini, Senior Policy Research Analyst (ASEAN); and Kevin Chen, Policy Research Analyst (ASEAN). Layout design by Siti Bazilah Abdul Rahman, Media & Marketing Executive

Directed and Edited by SIIA Chairman Associate Professor Simon Tay.

In preparing this report, the SIIA obtained the views of high-level representatives from the following companies and organisations (in alphabetical order):

1. AECOM
2. China Construction Bank Corporation (CCB)
3. Enterprise Singapore (ESG)
4. General Electric Company (GE)
5. Mitsui & Co., Ltd.
6. PricewaterhouseCoopers
7. Surbana Jurong Pte Ltd.
8. United Overseas Bank Ltd (UOB)

The SIIA interviewed these companies on a non-attributable basis. Not all the views made in this report can be attributed to all the companies we engaged. None of the points made in the report belong to any of the above companies, and none of the points made in the report should be assumed to be the position of any one company.