UP AND RUNNING? OPPORTUNITY AND RISK ALONG CHINA’S BELT AND ROAD INITIATIVE
Preface

*Up and running? Opportunity and risk along China’s Belt and Road Initiative* is an Economist Corporate Network (ECN) report, commissioned by the Singapore Business Federation. The ECN performed the research and wrote the report independently. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the Singapore Business Federation.

Andrew Staples and Pamela Qiu were the authors. The cover image, design and layout of the report was done by Wai Lam of The Economist Group.

This paper is informed by a survey of senior business leaders in the region conducted online throughout June 2017.

July 2017
Contents

3 Preface

5 Introduction
As China’s Belt and Road Initiative (BRI) gears up, we survey business leaders to gauge their perceptions of the initiative to date and examine what it means for their businesses.

7 Perceptions of the Belt and Road Initiative
The BRI is big on ambition but how is it understood and perceived by business leaders in the region? We asked our respondents how they define the initiative, their current level of engagement or how they envisage engaging with BRI projects, and how prepared they are for that engagement.

10 Opportunity and risk along the Belt and Road
“No reward without risk” runs the old adage, and the BRI has plenty of both. We asked business leaders to identify the opportunities and risks that the BRI presents for their companies.

14 Conclusion
To date, the BRI has been promoted as a high-level vision of economic development and integration across the region, and the extensive political support for the initiative suggests that the Chinese government will aggressively push the project over the coming decades. Companies should evaluate the opportunities presented by the BRI, including whether the rewards outweigh the risks for their own business.

15 Participant data
INTRODUCTION

The decision in 2013 by the Chinese President, Xi Jinping, to promote the New Silk Road Economic Belt and 21st Century Maritime Silk Road, together often known as “One Belt, One Road” (OBOR), follows in a long line of ambitious infrastructure projects in China. However, the international nature of this initiative reflects a more strategic approach which may ensure its long-term survival and success. Chinese state-owned enterprises (SOEs) and private companies alike have lent support to the project, which is now promoted as the “Belt and Road Initiative” (BRI).

The BRI has also prompted China to set up several financing vehicles, such as the multilateral Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF), to provide loans for infrastructure projects in Asia. Beijing officially launched the AIIB in October 2014, with the United Kingdom, France, Germany, Italy and 21 other countries pledging their support throughout 2015. Notably, the United States and Japan withheld support for the bank, seeing it as a geo-financial rival to established institutions such as the Asian Development Bank (ADB) and the International Monetary Fund (IMF). By March 2017 the AIIB had increased its membership to 70, including every G7 country except Japan and the US.
Mr Xi’s aim with the BRI is to re-establish China’s ancient trading routes with neighbours and countries further afield. The initiative covers more than 60 countries, and is composed of an overland “Silk Road Economic Belt” linking China to Europe via Central Asia and the Middle East, alongside a “21st Century Maritime Silk Road” connecting China to Europe via South-east Asia, South Asia and East Africa.

China has championed the BRI as a vehicle for connectivity, mutual development and cooperation. In Mr Xi’s own words, “in pursuing the Belt and Road Initiative... what we hope to create is a big family of harmonious co-existence”. For the region, the potential benefits are substantial; the World Bank has pointed out that the BRI could stimulate Asian and global economic growth and make it more sustainable. At the same time, for China, the BRI has the added attraction of supporting its domestic economy by boosting trade and creating new business opportunities for Chinese companies. Some foreign observers have suggested that the BRI is a convenient outlet to export the overcapacity in some of China’s struggling industries, such as steel, cement, construction, shipping rolling stock and heavy industry. Moreover, the initiative will also develop channels for financing and open up routes for the flow of capital goods.

The sums, and the ambitions, are immense. But beyond the headlines and rhetoric, how does the business world view the initiative? Where are the opportunities, what are the risks and challenges, and what are the expectations for the future?

This report from The Economist Corporate Network combines analysis from The Economist Intelligence Unit with the results of a survey of business leaders within the region to examine progress with, and perceptions of, the BRI. The survey attracted 77 respondents from a broad mix of industries, and generally from large multinational companies: 68.5% had global revenues of more than US$1bn (see figure 9 on page 15 for more data on the participants).
PERCEPTIONS OF THE BELT AND ROAD INITIATIVE

The BRI is big on ambition but how is it understood and perceived by business leaders in the region? We asked our respondents how they define the initiative, their current level of engagement or how they envisage engaging with BRI projects, and how prepared they are for that engagement.

DEFYING DEFINITION

Just over half of our respondents (52%) define a BRI project as “any infrastructure-related project with mainland Chinese involvement” while 14% adopt a more stringent definition whereby “only projects in some way funded by the AIIB or SRF” qualify (see figure 1). A quarter of respondents admit to being “not sure” while a further 9% put forward their own definition.

Figure 1: How do you define a BRI project?
% of respondents

<table>
<thead>
<tr>
<th>Definition</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any infrastructure-related project with mainland Chinese involvement</td>
<td>52%</td>
</tr>
<tr>
<td>Only projects in some way funded by the AIIB or SRF</td>
<td>14%</td>
</tr>
<tr>
<td>Not sure</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

The confusion is understandable, for although the Chinese authorities offer plenty of principles, ideals and features, they fail to offer a concise definition of what does or does not constitute a BRI project. This may partly reflect the lack of ownership of the project. Despite the high-level political backing given to the BRI, no single entity has day-to-day oversight. Moreover, China has struggled to articulate its vision, particularly to outsiders, due to repeated re-branding. Mr Xi first talked about a “Silk Road Economic Belt” in late 2013. But as this failed to capture China’s maritime ambitions, a new name was devised: “Yidai Yilu”, or “One Belt, one Road” in English. However, this term was confusing—the “belt” referred to the land route, while the “road” referred to the sea route—and risked implying that it was part of a grand strategic plan to lock regions and countries.
in China’s embrace, when the government’s intention was, and is, to position the initiative as one of connectivity and development. Recognising this issue, China has promoted the use of The Belt and Road Initiative (BRI) since mid-2016 and most recently at the inaugural Belt and Road Forum for International Cooperation (BRF) held in Beijing in May 2017. The lack of detail and vagueness is a challenge for companies who are interested in investing and want to evaluate the opportunities presented by the BRI. As the results from our survey suggest, there is a need to offer a more granular level of detail to bring the lofty aspirations into a sharper focus. Simply put, China needs to communicate more clearly more details of the BRI in order to win over the firm commitment of investors. Indeed, 45.3% of respondents indicate that their company “is unclear about what the opportunity might be at this point” (see figure 2). This lack of clarity is likely to be the result of a combination of factors that include uncertainty around how BRI projects are developed and implemented, a reluctance to invest within a framework that is sometimes perceived as lacking in transparency and good governance, and the risk of launching projects in countries with challenging risk profiles such as Pakistan, Myanmar and Afghanistan. At the same time, just under a third of our respondents claim to be either already involved in a BRI-related project (12.5%) or expect to become involved in one within the next 18 months (17.2%). Moreover, a further 20% report that they are actively gathering information and evaluating potential opportunities with a view to involvement. Given the scale and scope of the BRI, this is unsurprising. At the BRF in May 2017, Mr Xi promised additional loans and grants of around Rmb540bn (US$79bn) for the initiative. The China-based SRF, set up in 2014 with capital of US$40bn, will receive Rmb100bn for renminbi-denominated lending, while China’s major policy banks, the China Development Bank and the Export-Import Bank of China, will provide the equivalent of Rmb250bn and Rmb130bn, respectively, in financing to projects across BRI countries over an unspecified timeline.

On balance, then, our survey respondents are roughly evenly split between those who can discern an opportunity and those who, at this point at least, cannot. Over time, we would expect to see this balance to shift and reflect a greater number of companies moving from an “evaluation” stage to “involvement”.

ALL ABOARD? In terms of how companies are getting or could get involved, almost half of our respondents (47.5%) are or expect to be engaged through providing professional services (see figure 3). This suggests a less risky form of involvement compared with, for example, delivering construction

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**Figure 2: In terms of the BRI, my company**

<table>
<thead>
<tr>
<th>% of respondents</th>
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<tbody>
<tr>
<td>Is currently involved in a BRI-related project</td>
</tr>
<tr>
<td>Is not currently involved, but expect to be so within the next 18 months</td>
</tr>
<tr>
<td>Had previously considered involvement, but decided not to do so at present</td>
</tr>
<tr>
<td>Has established a dedicated OBOR unit to evaluate commercial viability</td>
</tr>
<tr>
<td>Is at the initial information gathering and analysis stage</td>
</tr>
<tr>
<td>Is unclear about what the opportunity might be at this point</td>
</tr>
</tbody>
</table>

Source: The Economist Corporate Network

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‘China’s official English-language BRI information website, The Belt and Road Portal, provides guidance to the effect that: “In diplomatic documents, the English version of “丝绸之路经济带和21世纪海上丝绸之路” is “the Silk Road Economic Belt and the 21st-Century Maritime Silk Road”. The English version of “一带一路” is “the Belt and Road”, which can be abbreviated as “B&R”. In informal occasions, when “一带一路” appears for the first time, it must be translated into the full English version, which is “the Silk Road Economic Belt and the 21st-Century Maritime Silk Road”. Except that, “一带一路” can be translated into English flexibly, such as the “Belt and Road Initiative”, “the land and maritime Silk Road initiative”. Other versions are not preferred.” Source: https://eng.yidaiyilu.gov.cn/
Up and running?
Opportunity and risk along China’s Belt and Road Initiative

The BRI will benefit if more details are clearly communicated to the business community – 45% of respondents are unclear what the opportunity is for their business. Over two-thirds of respondents claim to be ready for the BRI or are working towards it. Nearly half of all respondents expect to engage with the BRI through professional services.

Are companies geared in the right way to benefit from the opportunities presented by the BRI? Clearly, companies which are ready to capitalise on the opportunities will have a “first-mover” advantage. In our survey, 40% of respondents believe that they are well positioned, but a third do not (see figure 4). Another 28% say that they are “working towards it”.

This mix of responses reinforces one of the main findings that we can conclude from our survey—that companies are at very different stages of factoring in the BRI into both their strategic and operational plans. As the BRI grows in scale and significance across the region in the coming years, however, companies that think seriously about how to build on these opportunities will no doubt have a competitive advantage.

Summary points

- The BRI will benefit if more details are clearly communicated to the business community – 45% of respondents are unclear what the opportunity is for their business.
- Over two-thirds of respondents claim to be ready for the BRI or are working towards it.
- Nearly half of all respondents expect to engage with the BRI through professional services.
Over 80% of respondents agree or strongly agree that the BRI represents an opportunity. Yet in contrast to this strong endorsement a more nuanced response emerges when respondents are asked if the BRI presents a risk, with 34% agreeing to some degree, 38% disagreeing and a further 28% neither agreeing nor disagreeing (see figure 5).

Where respondents see both risk and opportunity, they may simply be reflecting the fundamental economic decisions facing international businesses concerning where to allocate resources. For example, emerging markets with young, dynamic populations, rising incomes and attractive GDP growth prospects clearly offer opportunities for growth but the on-the-ground realities of the business environment mean that for some the risk is not worth the potential return.

Interestingly, while the geographic breakdown of our survey respondents was fairly evenly split between Asia (33%), Europe (32%) and North America (32%), Asia-based firms were more likely to agree that BRI represents a risk (53%) than those from elsewhere (26%). Why is it that while both sets of respondents agree on the opportunities, Asian firms appear more bearish? It may be that distant head offices in Europe or North America have a less granular understanding about the challenges on the ground, or that some Asian respondents fear being excluded from the party. This explanation might resonate with firms from Japan, for instance. At the same time, European and North American companies may be well advised to examine the risks and commercial viability of specific BRI opportunities for their own businesses.

GREAT EXPECTATIONS
What is behind the overwhelmingly optimistic assessment of the BRI? As shown in figure 6, three-quarters of respondents are looking forward to an increase in demand for their products or services. This is particularly true of companies in the professional services, construction and financial sectors.
Over half expect to develop partnerships with Chinese companies or to implement significant new investments, while 45% anticipate greater appetite for M&A activity.

Yet companies will need to invest in capacity and capabilities if these opportunities are to materialise, and it appears that the timeline for this has been pushed to the medium term for most respondents. We asked what plans companies have in response to the BRI and when these plans will be actioned. In the immediate term (this year), respondents seem to be focusing on building up their human capital (40%) and establishing new representative offices (32%), with just under 30% looking for joint venture partners or potential acquisitions.

The majority, however, report a more measured timeline with plans stretching out over the next three years. As ever, companies will work at a pace that they are comfortable with and capable of meeting.
but there is a risk of falling behind as others dance to a quicker beat. Given the nature of BRI projects—large-scale infrastructure development—the pace of engagement may be determined by sector with financing, consulting and other professional services in the vanguard, followed by construction and civil engineering, and finally those that operate on the newly developed infrastructure itself such as logistics providers.

**CHALLENGING CONCERNS**

Given the risk profile of many destination countries along the belt and road, a proper assessment of the challenges in destination countries will be necessary. Financial institutions will need to be cognisant of the range of credit risks present in BRI countries. Construction firms and other enterprises building their presence in countries along the BRI will need to prepare for potential threats to their operations in these new markets.

We asked our respondents about their concerns in six areas: governance, transparency, political risk, financial risk, operational risk and working with Chinese state-owned enterprises. Figure 8 shows that political risk, transparency and governance top the list of concerns, with well over three-quarters of all respondents claiming to be either “very” or “moderately concerned”.

Governance and transparency concerns have dogged both the BRI and the establishment in 2016 of the AIIB which, although a separate (Chinese) initiative and promoted as a new international finance institution, is one of the main funding conduits for BRI projects. Concerns have been raised, most vocally by the US, that through these initiatives, China will exert disproportionate influence over Asia’s development agenda. India has also raised concerns over sovereignty and territorial integrity, and opposes the China Pakistan Economic Corridor that passes through territory in Kashmir (held by Pakistan but claimed by India).

The AIIB has gone to great lengths to address concerns over its governance structure.

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**Figure 8:**

**What concerns, if any, would you have about engaging with BRI related projects?**

<table>
<thead>
<tr>
<th>% of respondents</th>
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</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Political risk</td>
</tr>
<tr>
<td>41</td>
</tr>
<tr>
<td>36</td>
</tr>
<tr>
<td>16</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>Governance</td>
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<tr>
<td>39</td>
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<tr>
<td>39</td>
</tr>
<tr>
<td>16</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>Transparency</td>
</tr>
<tr>
<td>38</td>
</tr>
<tr>
<td>40</td>
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<tr>
<td>15</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>Financial risk</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>39</td>
</tr>
<tr>
<td>24</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>Operational risk</td>
</tr>
<tr>
<td>27</td>
</tr>
<tr>
<td>41</td>
</tr>
<tr>
<td>23</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>Working with Chinese SOEs</td>
</tr>
<tr>
<td>24</td>
</tr>
<tr>
<td>29</td>
</tr>
<tr>
<td>31</td>
</tr>
<tr>
<td>16</td>
</tr>
</tbody>
</table>

Source: The Economist Corporate Network
its governance structure over the past year. As the largest single shareholder (26%), China has appointed the bank’s president, Jin Liqun, a veteran of the ADB and World Bank, but the five vice-presidents are from India, Indonesia, France, Germany and the UK. Additionally, the bank’s international advisory panel includes two former prime ministers and one chief executive (Japan, Pakistan and Hong Kong), three former finance ministers (of South Korea, Nigeria and Sweden), a former US ambassador to the ADB and a former central bank governor (Malaysia), although members act in an individual capacity and not as national representatives.

Of more immediate importance to the business community, however, are concerns that China will show subtle or even overt favouritism towards Chinese companies, and SOEs in particular. This may be one reason for the interest in partnering with Chinese firms identified above.

Turning to political risk, the map above shows the risk profile for countries in Africa, Asia and Europe. Many countries in developing Asia and Africa face severe political, economic, social and security challenges. Taken at face value, this reality is one of the ideological foundations of the BRI: China hopes to bring peace and prosperity to the region by making the investments in sorely needed infrastructure that private-sector players and local governments are unwilling or unable to do. Yet, high-profile construction projects also necessitate the heavy involvement of the destination country’s government, and hence the risk profile.

Indeed, China has faced setbacks borne from political challenges in some BRI countries. For example, in 2011 Myanmar suspended work on a vast Chinese-financed dam at Myitsone, as the then-leader of the opposition, Aung San Suu Kyi, had called for a reassessment of the project.

Summary points

• The BRI is regarded far more as an opportunity than a risk, yet concerns around governance, transparency and politics persist.
• Many companies are considering engaging with the BRI through joint ventures and/or acquisitions.
• Working with Chinese SOEs may be a way to mitigate risk and secure better opportunities.
CONCLUSION

In May 2017 the Chinese president, Xi Jinping, addressed the inaugural Belt and Road Forum for International Cooperation (BRF) in Beijing. The hosting of the high-profile event underlines China’s seriousness about the BRI and its push to promote connectivity through economic engagement and investment in the region, and which Mr Xi referred to as “the project of the century”.

In addition to funding announcements (see page 8), China detailed plans to enhance the governance architecture of the BRI, including the establishment of a mechanism to facilitate high-level coordination, as well as dedicated centres for finance and economics development, construction promotion and multilateral development financing collaboration. Given the concerns highlighted in our survey, these steps are welcome; but as it is still early days, more time is needed to see if this is enough to fully reassure the international community about the transparency of the initiative.

To date, the BRI has been promoted as a high-level vision of economic development and integration across the region, and the extensive political support for the initiative suggests that the Chinese government will aggressively push the project over the coming decades. For many companies, there are significant risks, given the often-challenging operating environments in the more than 60 countries in the BRI and the possibility of low returns on several projects. However, Mr Xi’s government has clearly decided that the potential benefits of the scheme—geopolitical as well as economic—are worth bearing. This suggests the likelihood of a significant boost in the financing available for infrastructure development across the region.

Our survey shows that the business community overwhelmingly regards the BRI as an opportunity. Yet a lack of clarity from China, questions around transparency and concerns over operational risks in BRI countries suggests that most will move cautiously. Encouragingly, the Chinese authorities and associated actors have recognised the need to engage with the business community and address these concerns. For instance, Chinese banks are asking international institutions—sovereign-wealth funds, pension funds and so on—to join them in lending to BRI projects, in the hope that this will help to ensure higher standards.

Ultimately, companies will need to evaluate the BRI as they do any other opportunity and decide whether the rewards outweigh the risks. This should also become easier to do as the project gains traction and related actors gain experience. China has shared the vision, business leaders must now decide if they are ready to get up and running on the Belt and Road.
PARTICIPANT DATA

Figure 9: Data on the companies that took part in our survey
% of respondents

In which sector do you operate?
- Professional services: 27.3%
- Industrials, transportation and logistics: 11.7%
- Financial services: 11.7%
- Consumer, healthcare and pharmaceuticals: 9.1%
- Basic materials & mining: 6.5%
- Technology: 5.1%
- Energy and utilities: 3.9%
- Government: 3.9%
- Telecoms: 3.9%
- Other: 16.9%

What was your firm’s global revenue for its latest full financial year?
- Less than US$10m: 9.6%
- US$10m to US$50m: 1.4%
- US$50m to US$100m: 2.7%
- US$100m to US$500m: 8.2%
- US$500m to US$1bn: 9.6%
- US$1bn to US$5bn: 20.5%
- US$5bn to US$10bn: 15.1%
- US$10bn or more: 32.9%

Where is your firm’s global HQ?
- Asia*: 31.6%
- Europe: 31.6%
- North America: 31.6%
- Rest of world: 5.3%

*Asia refers here to ASEAN 10 economies, Japan, South Korea, Greater China, India and Australasia

Source: The Economist Corporate Network
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