

IE Insights

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China's Belt and Road Initiative (BRI)

What it means for Singapore companies

The Belt & Road initiative (BRI) was announced by China President Xi Jinping in 2013. Since then, the initiative has gained global traction. It promises a new wave of development and business opportunities for regions and countries along the Belt and Road.

On 14 and 15 May 2017, China President Xi hosted the "Belt and Road Forum for International Cooperation" in Beijing. The Forum attracted global Heads-of-States and/or special envoys from more than 100 countries as well as international organisations.

The Forum was symbolic in demonstrating the importance of the BRI to China. The BRI is a central strategy of China's economic and foreign policy today. Through BRI projects, China aims to strengthen its international relations, develop its overseas markets, and engender global socio-economic and sustainable development.

Singapore has a key role to play in the BRI. Singapore is situated along the BRI's Maritime Silk Road, and is the preferred port of call along the Straits of Malacca. Singapore is strategically located within Southeast Asia, with strong financial, professional, trade and infrastructural services sectors. Singapore companies are also familiar with doing business in key countries along the Belt and Road. Most notably, Singapore and China enjoy strong bilateral trade and investment ties, as well as people and government relations.

With this Insights paper, we share our analysis and assessment on the BRI's impact on Singapore and the arising business opportunities.

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The Belt and Road (BRI) - Current state of play

The Belt and Road initiative (BRI) is the revitalisation of the ancient “Silk Road”. It began as a plan to boost infrastructure projects along two routes – one from China through Central Asia and the Middle East to Europe; the other linking China to Southeast Asia and East Africa by sea. Although the name and content of the BRI has evolved multiple times since it was first announced, the objective of the initiative has remained consistent.

Through the BRI, China is showcasing its growing lead as a world superpower by establishing one of the world’s largest platforms for global collaboration and trade. 65 countries have been identified by China along the Belt and Road where most projects would land. The impact of the BRI has the potential to be more extensive – it is expected to connect about 80 countries, cover about two-thirds of the world’s population and one-third of global GDP, and consist around one-quarter of total global trade in goods and services. See Figure 1 below on the key economies in the BRI.

Figure 1: Key Economies in the BRI

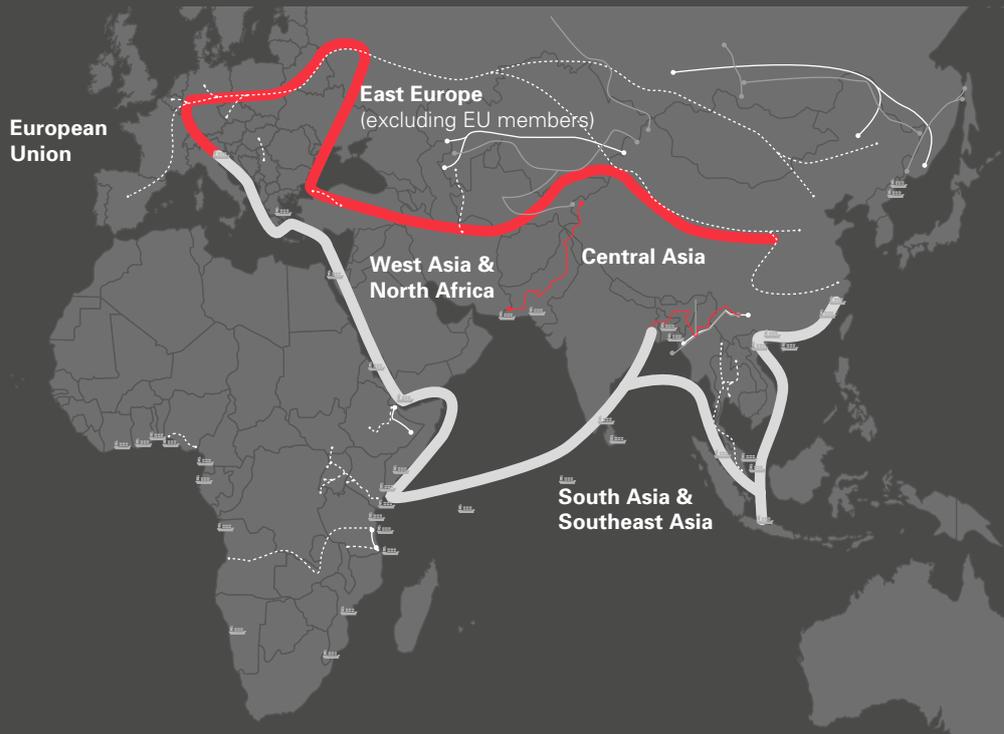
Map Plate	Economies along the Belt and Road
Southeast Asia	Vietnam, Laos, Cambodia, Thailand, Malaysia, Singapore, Indonesia, Brunei, Philippines, Myanmar, East Timor
South Asia	India, Pakistan, Bangladesh, Afghanistan, Nepal, Bhutan, Sri Lanka, Maldives
Central Asia	Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan
Mongolia and Russian Federation	Mongolia, Russian Federation
Middle East and Europe	Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria, Serbia, Montenegro, Macedonia, Bosnia and Herzegovina, Albania, Estonia, Lithuania, Latvia, Ukraine, Belarus, Moldova
West Asia and Middle East	Turkey, Iran, Syria, Iraq, UAE, Saudi Arabia, Qatar, Bahrain, Kuwait, Lebanon, Oman, Yemen, Jordan, Israel, Armenia, Georgia, Azerbaijan, Egypt

The Belt and Road (BRI) - Current state of play

The China State Council approved the Belt and Road Action Plan in 2015. A concrete and detailed BRI framework was issued by the National Development and Reform Commission (NDRC) in China, the main government authority driving the BRI. There are two components to the Belt and Road framework – (1) Silk Road Economic Belt and (2) 21st Century Maritime Silk Road. China’s vision for the BRI is to establish a network of railways, roads, pipelines, and utility grids linking China, Central Asia, West Asia, and parts of South Asia.

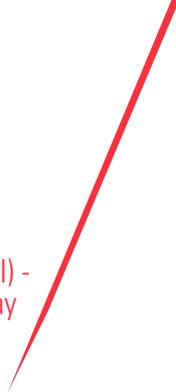
The Silk Road Economic Belt connects China to Europe through Central Asia and Russia; the Persian Gulf through Central Asia and Southeast Asia, South Asia and the Indian Ocean. The Maritime Silk Road (MSR) utilises sea routes and Chinese coastal ports to link China with Europe via the South China Sea and the Indian Ocean, as well as the South Pacific Ocean through the South China Sea.

Figure 2: Key Economies in the BRI



Source:
Moritz Rudolf - Mercator
Institute for China
Studies, IMF, World Bank,
International Monetary
Institute, Renmin
University of China,
Rhodium Group, HSBC,
Daiwa Capital Markets,
Geography Cement,
hongxiang100.com

- Silk Road Economic Belt (Land route)
- Maritime Silk Road (Maritime route)
- Economic corridors
- Gas Pipelines
- Oil pipelines
- - Railway connections
- 🚢 Ports with Chinese engagement



The Belt and Road (BRI) - Current state of play

If implemented successfully, the BRI has the potential to vastly close the global infrastructure gap. More than US\$900 billion worth of projects are planned or underway¹, ranging from ports in Pakistan and Sri Lanka to high-speed gas pipelines crossing Central Asia to railways in East Africa. BRI projects could also contribute to the growth of developing countries by generating investment returns and boosting international trade.

While it is commonly thought of in terms of its impact on infrastructure development, infrastructure is only one of five pillars of the BRI. The Chinese government has articulated five areas of connectivity - namely policy coordination (政策沟通), infrastructure development (设施联通), trade facilitation (贸易畅通), financial integration (资金融通) and people-to-people (民心相通) exchange. These are common features of an internationalised and integrated economy, and each of these pillars presents collaboration opportunities within the BRI framework.

¹ "China's One Belt and One Road Initiative Brings Risks" Report, Fitch Ratings, Jan 2017.

Significance of the BRI

a. Drivers behind the rise of a superpower that cannot be ignored

The BRI is both a political and economic lever for China. It has become Chinese President Xi Jinping's signature initiative² and the most important major foreign policy during his administration to establish global collaborations with other countries. The BRI is thus likely to maintain its momentum for the foreseeable future.

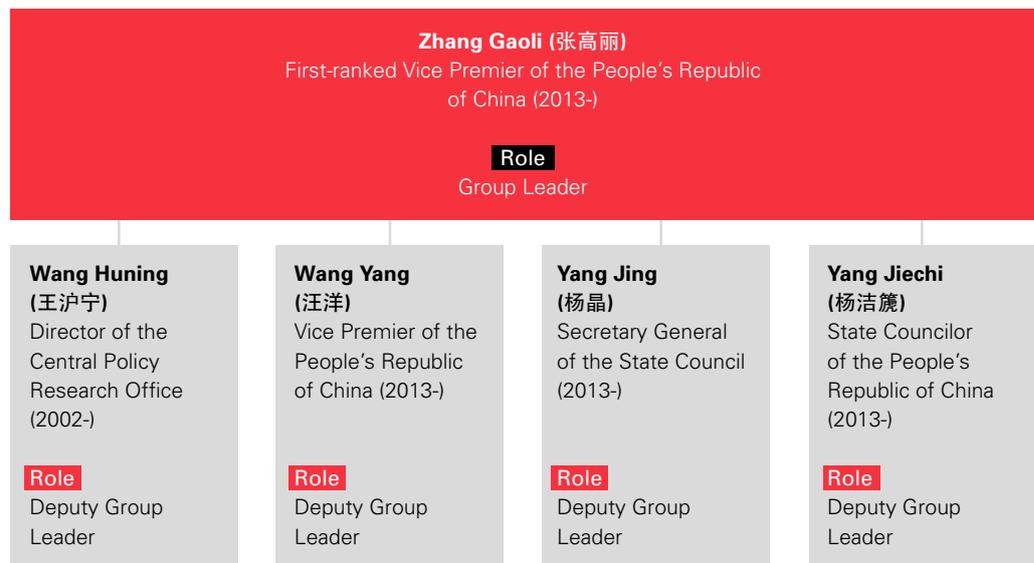
This initiative is a form of strategic economic tool for China to extend its overseas reach deeper and further. Despite early skepticism expressed by some countries towards the BRI due to concerns over China's rising influence, China is taking the opportunity to lead the political and economic integration of Asia, and to promote open trade and connectivity amid rising nationalism elsewhere. The BRI proposition encourages international cooperation with economies across Southeast Asia, Central Asia, Europe, Latin America and South Asia. It is a massive catalyst to the ongoing trend of Chinese enterprises' internationalisation.

² President Xi first proposed the New Silk Road Economic Belt during his visit to Kazakhstan in Sep 2013, while the 21st Century Maritime Silk Road was proposed during his visit to Indonesia in Oct 2013.

b. Political structure of the BRI

The significance of the BRI to China can also be seen from the political structure set up to support it. In 2015, a leading group on the BRI was set up at the Chinese central government level to lead the development and progress of the initiative. The leader of the group is Vice Premier Zhang Gaoli (张高丽), who in turn is supported by four deputy group leaders - Director of the Central Policy Research Office Wang Huning (王沪宁), State Councillor Yang Jiechi (杨洁篪), Secretary General of the State Council Yang Jing (杨晶), and Vice Premier Wang Yang (汪洋). The high level representation in the leading group highlights the importance and commitment which China has placed on the BRI to be the key national strategy that will guide China's political and economic growth in this era.

Figure 3: Leading group for advancing the development of the BRI



The BRI is overseen by China's powerful National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce under sanction from the State Council, the nation's chief administrative body. NDRC acts as the coordinating government body of all matters of the initiative and regularly calls for meetings amongst the government ministries and state-owned enterprises (SOEs) for BRI agenda. The appointment of three key ministries to strategise, formulate and implement the initiative goes to show that the BRI is the top Chinese foreign policy, political and economic project, and in turn offers concrete project opportunities for countries and companies alike.

Figure 4: Chinese government departments and institutions in charge of BRI



c. Internationalisation of Chinese enterprises as a response to domestic Issues

The BRI was announced at a time when China experienced a slowdown in its economic growth in 2013. China's exports to developed countries and infrastructure spending at home had become less viable. Western countries had seemingly adopted a more protectionist stance and experienced a slowdown in economic growth. These factors resulted in overcapacity in many sectors in China, such as cement, steel and real estate. Deflation and rising debt were also pressing issues for the Chinese leadership.

The verdict is still out on whether the BRI is the answer for China to resolve domestic issues. However, by pushing a wave of Chinese companies to become globally competitive, it has facilitated the entry for Chinese goods and companies into regional markets to offset the negative impact to a certain extent. In the last two years, the number of domestic companies expanding outside of China has seen a steep increase. More Chinese companies ranging from high-speed rail manufacturers to telecommunication companies (e.g. China Railway International, Sanpower, Huawei), have started to establish international track records and experience to become globally competitive. Chinese companies have also gone on an expansive merger & acquisition drive overseas to acquire assets, intellectual property (e.g. patent purchases, branding rights) and talent.

d. Increasing number of countries participating in the BRI

With billions of dollars of infrastructure investments on the line, there are many incentives for interested countries along the Belt and Road economic corridors to embrace the benefits arising from this initiative. This is especially for developing economies in need of ports, railways, roads and industrial parks.

China has proactively pursued warmer relations with a number of countries to participate in the BRI. The Belt and Road Forum (BRF) for International Cooperation held on 14 and 15 May 2017 in Beijing was a significant event that reflected the priority projects and relationships for China. A total of 1,500 government officials and experts from more than 130 countries and 70 international organisations attended the BRF. China highlighted its close ties with 29 Heads of Governments and Government Leaders at the Forum, including:

- **Southeast Asia:**
Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines and Vietnam
- **South Asia:**
Pakistan and Sri Lanka
- **Europe:**
Belarus, Czech, Greece, Hungary, Italy, Poland, Russia, Serbia, Spain, Switzerland and Turkey
- **Central Asia:**
Kazakhstan, Kyrgyzstan, and Uzbekistan
- **Latin America:**
Argentina and Chile
- **Africa:**
Ethiopia, Kenya
- **Others:**
Fiji

At the BRF, China signed BRI cooperation MOUs with 11 countries (including Albania, Bosnia, Croatia, Herzegovina, Malaysia, Mongolia, Montenegro, Myanmar, Nepal, Pakistan, Singapore and Timor-Leste) and cooperation documents with nine international organisations. Economic and trade cooperation agreements were signed with 30 countries (e.g. Vietnam, Pakistan, Sri Lanka, Philippines, Indonesia, Uzbekistan and Belarus). 76 items were listed as key deliverables at the BRF, with 270 concrete results in five key areas - policy coordination, people-to-people exchanges, infrastructure, trade and financial connectivity.



Significance of the BRI

Of the 270 achievements, a majority of the projects signed were with emerging economies where infrastructure projects will be located physically. Many of the agreements were for bilateral national projects related to water, energy, rail etc. The more developed countries and international organisations are partnering China for “software” aspects such as financial cooperation, policies and training. Singapore’s National Development Minister Lawrence Wong signed an MOU with China on jointly building the BRI in cooperation areas such as trade connectivity and financial integration. Malaysia and Indonesia are two other key Southeast Asia countries that have signed significant deals at the BRF (e.g. rail, gas MOUs with Malaysia and rail, strategic partnership MOUs with Indonesia), demonstrating that Southeast Asia continues to be the focus for China to increase connectivity through the BRI.

The BRI also aligns itself with the development strategies of en-route countries, such as Kazakhstan’s “Bright Road”, Mongolia’s “Steppe Road”, Vietnam’s “Two Corridors and One Ring”, Turkey’s “Middle Corridor”, Russia’s “Eurasian Economic Union”, South Korea’s “Eurasia Initiative”, and Laos’ vision of transforming from a land-locked to a land-linked country.

Substantial results have also been achieved in financial cooperation. Asian Infrastructure Investment Bank (AIIB) President Jin Liqun shared that an additional 15 countries are expected to join the AIIB in 2017, which will increase the number of its member states from 85 to 90. The AIIB was created as a strategic action to develop a shared global vision and build consensus. AIIB member states share the same vision of building a path towards shared benefits by promoting connectivity and improving infrastructure. To support infrastructure development in Asia, the AIIB will join hands with multilateral development banks (MDBs), such as the World Bank, the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development.

Reception of the BRI

by the Singapore government, companies and associations

a. Singapore government

The Singapore government has been an early supporter of China's BRI as it sees a congruence of interests with China with regard to the region's developmental needs. Singapore's strategic location in the region makes it well-positioned to play an important role in the BRI. From as early as 2015, Singapore Ministers have publicly expressed their welcome and support of the initiative, citing it as mutually beneficial and encouraging further economic integration, infrastructural cooperation and people-to-people links between countries in the region. Singapore was also one of the founding members of 21 countries which signed the MOU on Establishing the Asian Infrastructure Investment Bank (AIIB) in Beijing in October 2014.

The third Government-to-Government project, the China-Singapore (Chongqing) Connectivity Initiative (CCI), is recognised as a priority demonstration project for the BRI. IE Singapore is working with Chongqing to jointly drive the development of the CCI-Southern Transport Corridor (STC) which aims to improve connectivity between Western China and Southeast Asia through the Qinzhou port at Beibu Gulf, connecting with the ready maritime connectivity of the Singapore port. This will promote enhanced trade between Western China and Southeast Asia, with Singapore and Singapore companies playing a key role in developing this connectivity chain. A consortium of Singapore-based companies, i.e. Pacific International Lines (PIL), PSA, YCH and Kerry Logistics (Singapore), is driving this project.

In conjunction with the BRF, Singapore signed a "policy cooperation" MOU with the NDRC, enabling both sides to "enjoy better bilateral relations, more substantive economic ties and closer people-to-people exchanges". In June 2017, Singapore and China further strengthened partnership in the BRI with the Foreign Ministers of both countries agreeing to work together to improve connectivity, further financial cooperation and enhance training and technology transfer within the BRI framework.

b. Singapore companies

At the company level, Singapore companies have been actively pursuing BRI project opportunities and collaboration with Chinese companies in sectors as diverse as real estate development³, energy⁴, shipping and logistics⁵, and publications and news media⁶ from as early as 2015 when the Chinese government picked up momentum in the formulation and implementation of the initiative.

As the government agency partnering Singapore firms to go global, IE Singapore champions the relevance of Singapore's business community to the BRI and enables firms to capture relevant opportunities. We engage key Chinese policy makers, financial players and state-owned enterprises (SOEs) involved in the BRI to uncover potential partners and multipliers. Our Belt and Road Roundtable Series also brings Singapore and Chinese companies together to discuss how they can partner each other for BRI opportunities. Two editions have been held so far, one in Singapore in April 2016, and the other in Sep 2016 in Beijing⁷.

c. Singapore associations

Singapore associations have been quick and keen to associate the themes of their key events and forums with the BRI to create greater awareness, generate discussions and build mindshare of the initiative with its members. Examples of such Singapore associations are Business China, Singapore Chinese Chamber of Commerce (SCCCI), and Singapore Business Federation (SBF), amongst others. Beyond discussions on projects, these Singapore associations have also played an important role in strengthening cultural and people-to-people exchanges with China's business chambers.

3 In Nov 2015, Ascendas-Singbridge and China Machinery Engineering Corporation (CMEC) entered into a joint venture (JV) agreement for strategic collaboration in industrial / business park investments and developments across Asia, such as India, Vietnam, Indonesia and Malaysia.

4 In Jan 2016, Sembcorp Industries and Chongqing Energy Investment Group inked a MOU to explore strategic partnership on a broad range of development areas, such as renewable energy projects, township development, engineering and construction projects, as well as overseas energy projects, in line with the BRI.

5 In Aug 2016, Pacific International Lines (PIL) signed two MOUs with China Merchant Port (CMPort) and China Machinery Engineering Corporation (CMEC) to explore partnerships in business development and overseas projects in shipping and ports and logistics in Africa, South Asia and Southeast Asia.

6 In Mar 2016, Singapore Press Holdings (SPH) Lianhe Zaobao and Singapore Business Federation (SBF) collaborated on a joint portal dedicated to BRI's updates and news. It was Southeast Asia's first comprehensive website focusing on the BRI, with the objective of driving a deeper understanding of the BRI among Singapore enterprises, and offering Chinese readers around the world a Singaporean and Southeast Asian perspective on the BRI.

7 IE Singapore co-organised its first "One Belt, One Road" Roundtable with China Construction Bank (CCB) in Singapore in April 2016. More than 30 Singapore and Chinese firms discussed infrastructure and connectivity projects. Building on the momentum built up in the first IE OBOR Roundtable series, IE Singapore partnered National Development and Reform Commission's International Cooperation Centre (NDRCC-ICC) and led 14 Singapore companies to Beijing in Sep 2016 to engage partners for collaborations focusing on infrastructure and connectivity projects in Southeast Asia. The Singapore companies were involved in sectors such as infrastructure, transport and logistics and included Ascendas-Singbridge, Ascott, Keppel Land, Meinhardt, Surbana Jurong and YCH Group. They met 18 Chinese state-owned enterprises and private enterprises, such as the China Railway Corporation, China Machinery Engineering Corporation and Ping An Bank, and representatives of the AIB and China Development Bank.

How Singapore is relevant to the BRI

Singapore has been China's largest foreign investor country since 2013, and was one of China's top trading partners in ASEAN in 2016⁸. Cooperation between Singapore and China on the BRI has been substantial and has the potential to grow even further. During Singapore's Foreign Minister Dr Vivian Balakrishnan's visit to Beijing in June 2017, both countries' Foreign Ministers agreed that Singapore and China would build three platforms together under the BRI, namely financial cooperation, connectivity cooperation, and third country/market collaboration. Singapore - perceived internationally as a nimble and "neutral" country - and its enterprises can serve as an interlocutor by providing value-add and navigating regional complexities to bring Belt and Road projects to fruition.

⁸ After Vietnam, Malaysia and Thailand - according to statistics from the PRC General Administration of Customs 2016.

a. Singapore is one of the top recipients of China's BRI outward investments

In 2016, China's non-financial outbound direct investment totalled US\$170 billion, more than double that of 2008, and a 44.1% increase from the previous year. Its direct investment in the 53 countries along the Belt and Road amounted to about US\$14.5 billion last year, which was a slight 2% year-on-year decrease. The newly-signed contract value for contracted projects overseas in Belt and Road countries amounted to US\$126 billion, about 52% of total newly-signed contract value for contracted project overseas.

Singapore is one of the top recipients of China's Belt and Road outward investments. The Chinese Ministry of Commerce (MOFCOM)'s figures indicated that Singapore was the top recipient (about one-third) of Chinese outward investments out of 65 Belt and Road countries since 2015. See details in Figure 5 below.

Figure 5: Direct overseas investments from China into Belt and Road countries

	2015	2016	1Q2017
Non-financial investments from China into Belt and Road countries	US\$ 14.8 billion (+18.2% y-o-y)	US\$ 14.5 billion (-2.0% y-o-y)	US\$ 2.95 billion (-17.8% y-o-y)
No. of countries invested in	49	53	NA
Main investment destinations	Singapore, Kazakhstan, Laos, Indonesia, Russia, Thailand	Singapore, Indonesia, India, Thailand, Malaysia	Singapore, Laos, Indonesia, Cambodia, Malaysia
Main sectors of investments	Electricity, housing, communications, petrochemical and transportation	Manufacturing, information, software, IT	NA

Source:
MOFCOM, 2017 and
China "One Belt, One
Road" Portal, 2016

In the area of finance, IE Singapore has signed BRI MOUs with major Chinese Banks including Bank of China (BoC), China Construction Bank (CCB) and Industrial and Commercial Bank of China (ICBC) in 2015 and 2016. These major Chinese banks already have a presence in Singapore. Through the MOUs inked, the banks have put aside funds to increase financing and Chinese partnership options for our companies. In April 2017, CCB and Shanghai Pudong Development (SPD) Bank have expanded their operations in Singapore. CCB has extended some of its Beijing HQ functions with the setting up of its first infrastructure financing services centre (outside of China) in Singapore, while SPD Bank has chosen Singapore to locate its first overseas branch outside of China (and Hong Kong).

This is a positive reflection of Chinese enterprises recognising Singapore's role as a regional financial centre for financing Belt and Road projects. In addition, Singapore is one of the largest offshore renminbi centres in the world.

b. Singapore's competitive advantage as Asia's infrastructure hub

Singapore, as an established infrastructure hub in Asia, is well positioned to play a part in the regional infrastructure space, and thus a natural partner for China's BRI.

i. Engineering capabilities

Singapore has accumulated capabilities in planning, executing and operating complex infrastructure assets. Singapore companies have developed capabilities in various parts of the infrastructure value chain including master planning, engineering design, proprietary technology and equipment, procurement, construction and operations. We have such capabilities in a wide range of sectors including ports, airports, land transport systems, power generation, water and waste management, public housing and industrial park development - areas in high demand in the region. Today, the local workforce has the capability to plan, engineer and operate complex infrastructure projects with great efficiency.

ii. Financial ecosystem

Singapore is recognised as a major financial centre for the Asia Pacific region and home to well-established instruments in both equity and debt financing. The capital intensive nature of Belt and Road infrastructure projects makes it crucial for project developers to have access to project equity and long-term project financing. Many foreign banks have set up their project finance offices in Singapore, including the likes of Sumitomo Mitsui Banking Corporation (SMBC), Standard Chartered and Crédit Agricole. Singapore banks are looking to gain a share of the pie by growing their project finance teams. Singapore is increasingly the location of choice for infrastructure funds, such as the Armstrong Southeast Asia Clean Energy Fund. The Singapore Stock Exchange is a useful means of capital recycling via business trusts, supported by an advanced policy framework for business trusts. Examples of infrastructure business trusts listed on Singapore Stock Exchange include Keppel Infrastructure Trust and CitySpring Infrastructure Trust.

Singapore's existing strong networks and close collaboration with multilateral institutions strengthen our relevance in playing a significant role in China's BRI projects. Together with ADB, IE Singapore established the Asia Infrastructure Centre of Excellence (AICOE), aimed at building a pipeline of bankable public-private partnership (PPP) projects in Asia through the mobilisation and funding of transaction advisors for PPP projects. Singapore has also worked with the World Bank and other countries to enable the Global Infrastructure Facility (GIF), a platform to help prepare complex infrastructure PPP projects across the world⁹.

⁹ Initial capitalisation of US\$100 million.

iii. Policy framework

Singapore has proven that it is far-sighted in planning, strong in systems integration and efficient in implementing and operating complex infrastructure. This is complemented by its ability to formulate appropriate policy frameworks to enable the implementation of such infrastructure. We understand the need to correctly price infrastructure to ensure a suitable return for the investment of infrastructure assets. We have done well in a number of areas including electricity supply, water, waste-to-energy and public transport. These areas of policy development can be tweaked and adjusted to suit the situation in different countries for BRI projects. Our financial, legal and technical consultants have also built up good track records in these fields.

iv. Developing infrastructure talent

As Singapore continues to develop as the region's infrastructure hub, we recognise the need to develop a strong pool of talent for this industry. Building a strong talent pool equipped with the right skills to actively participate in regional infrastructure development is one of our key priorities. We partner various stakeholders to invest in training on three levels.

// At the tertiary level, students are encouraged to explore a career in the infrastructure industry through IE Singapore's Infrastructure Development Internship Programme. The programme allows students to obtain first-hand experience in companies across the infrastructure sector, including project developers, engineering firms, banks and professional services providers. Over the past three years, we have built up a strong pipeline of undergraduates with infrastructure specialisations through scholarships and internships with companies such as Clifford Capital, DBS, Hyflux and Sembcorp.

We also want to groom our young talent to be China-ready and Asia-ready. To this end, IE Singapore has organised two rounds of the China Ready Programme for mid-level executives in Guangzhou Knowledge City (GKC) and Suzhou Industrial Park (SIP). Our Go SEA Award matches students with internship opportunities across the region, while the expansion of our Young Talent Programme will support job attachments in India in partnership with the Confederation of Indian Industries and three Singapore universities. We have also supported the launch of National University of Singapore's (NUS) Master of Science (MSc) in Project Management and specialisation in project finance. These talent initiatives encourage students to build proficiency in infrastructure and contribute to the sector.

// Mid-career PMETs looking to upgrade or reskill their competencies to take on jobs in the infrastructure industry can tap on IE Singapore's Global Ready Infrastructure Talent (GRIT) Programme to support their transition. By partially subsidising the salary of trainees placed in participating companies, the GRIT Programme will create more opportunities for mid-career professionals to receive on-the-job training and successfully transit into the infrastructure industry.

c. Opportunities from the BRI

The active participation and strong turnout of high level government representatives at the BRF in Beijing in May 2017 spoke of the broad global support for the BRI, as well as China's growing influence in the world. China has sent a strong message to the world on the direction and nature of future BRI projects through the BRF. At the BRF, President Xi pledged to inject an additional US\$113 billion for the BRI to continue creating new opportunities for international cooperation.

IE Singapore views that there is much room for Singapore companies to seize opportunities to participate in Belt and Road projects. They are not just in infrastructure and transport, but also trade, professional services, e-commerce and other internationalising Chinese sectors.

i. Finance

China is putting together consortiums of banks and funds to stand behind the BRI. Our Singapore companies can tap these alternative funding agencies led or contributed by China (E.g. AIIB¹⁰, BRICS Bank¹¹ and the Silk Road Fund¹²). China's State Administrative of Foreign Exchange (SAFE) injected US\$90 billion into the China Development Bank (CDB) and the China Exim Bank, to support development and infrastructure projects along the BRI. At the 'One Belt, One Road' Summit in May 2017, President Xi announced that the Silk Road fund will be increased by 100 billion yuan. CDB and China Exim Bank will also commit 250 billion yuan and 130 billion yuan respectively in special loans to BRI projects.

While China's BRI offers the region a vision for closer economic, political and social relations, the success of China's BRI depends on its eventual implementation and commercial viability of related projects. Singapore, as a regional financial centre¹³ and one of the largest offshore renminbi centres in the world, can help address the financing needs of the Belt and Road projects, particularly in Asia. Singapore and the Chinese government can work together with the private sector to foster deeper cooperation by (a) unlocking greater private sector financing for infrastructure projects; (b) expanding the role of Asia's bond markets and unlocking financing from institutional investors to complement traditional financing sources such as public sector funding, official development assistance and banks; and (c) developing appropriate risk management solutions for the Belt and Road projects, such as insurance pooling to allow expertise sharing and capacity pooling to offer customised risk protection for large and complex infrastructure projects.

10 Initially funded at US\$40 billion.

11 Initially funded with US\$50 billion; major contributors include China and India.

12 Silk Road fund was established with US\$40 billion for its coffers, and is sponsored by China's foreign exchange reserves, as well as government investment and lending arms (World Bank, 2015).

13 Singapore's three domestic banks, DBS, OCBC and UOB, have strong client networks in both China and Southeast Asia. For instance, UOB launched a cross-border initiative that generated over RMB500m (\$73m) in investment flows between Chongqing and Southeast Asia in 2016.

ii. Trade

As a global trading hub, Singapore can cooperate with Chinese and international players in the connectivity of commodity supply chain infrastructure under the BRI. For instance, Singapore companies can participate in the exploration and development of coal, oil, gas, metal minerals and other conventional energy sources, together with Chinese and other global energy companies that already have a presence in Singapore. Singapore is Asia's top commodity trading hub, with close to 80% of top commodity firms, including China SOEs and POEs, based here.

iii. "Software" / Professional services

China has plans to set up more BRI related offices and facilities such as an Advisory Council and a Liaison Office for the BRF¹⁴. There is thus a greater need and urgency to export our professional services in tandem with BRI developments. As reflected by the agreements inked at the BRF, the new software sectors under the BRI include e-commerce, innovation and technology, talent, and community building / healthcare. Singapore could actively seek to facilitate BRI projects along the MSR, for both financial and non-financial deals. This can be better achieved by attracting the Chinese government to set up a BRI-MSR projects and planning office in Singapore so that BRI-MSR projects can better tap Singapore's expertise.

iv. Multilateral / International organisations as conduits to project opportunities

Multilateral / international organisations, including the Chinese developmental institutions, are playing a more significant role¹⁵ in the BRI. Singapore can work closer with them to access project opportunities. They are also effective platforms to profile our companies' capabilities as qualified service providers for international projects. Even if a Singapore company is not the project owner, there are opportunities for Singapore professional services companies to be members, advisors or consultants to projects driven by these international organisations. For instance, Singapore company vCargo Cloud Pte Ltd was appointed by ADB to pilot a custom information platform to exchange information across Central Asia Regional Economic Cooperation (CAREC) countries, to achieve simplified and harmonised procedures across them.

14 The NDRC will also establish a Facilitating Centre for Building the BRI. They have launched the official BRI portal on the internet and the Marine Silk Road Trade Index.

15 The Chinese Government signed BRI cooperation documents at the BRF with organisations such as IMF, the UN, World Bank, the World Economic Forum, World Health Organisation, the World Intellectual Property Organization etc. The highest number was signed with at least 10 programmes / divisions of the UN (E.g. UN Development Program, UN Industrial Development Organisation, UN Population Fund, UN Conference on Trade and Development etc.).

Strategies for Singapore companies to participate in China's BRI

a. Find Chinese partners to seize opportunities

Singapore companies should strategise ways to find common grounds with Chinese companies to become complementary partners – e.g. twinning Chinese enterprises' strengths in financial, human and technology resources, with Singapore companies' experience in navigating regional markets, operating with a brand of trust, and deploying niche expertise e.g. in urban and industrial park planning.

From our engagements with Chinese enterprises looking to expand into Southeast Asia, the key challenges Chinese enterprises face are not in hardware specifications but rather the "soft", intangible aspects such as an understanding of the local language, cultural and business landscape. It is in these areas that Chinese enterprises may need partners to complement their efforts.

Singapore companies could have the knowledge and capacities to take the lead in navigating regional markets. Singapore companies can highlight Singapore's strengths of being strategically located in the heart of trading routes along the Belt and Road, and being able to offer advisory, engineering, construction and a strong pool of international talent (e.g. bankers, construction, project engineers, risk managers) for BRI projects.

Harnessing the Singapore Inc. brand of credibility to deliver good value to projects that have a Chinese elements will allow Singapore companies to enjoy greater access to BRI funding for third country projects – resulting in a win-win-win value proposition and outcome. Several Singapore companies have already inked Chinese partnerships for the BRI:

- i. Pacific International Lines (PIL) and China Merchant Port Holdings signed an MOU to develop new markets in Southeast Asia, South Asia, and Africa as part of the BRI strategy. PIL's Managing Director, Mr Teo Siong Seng, has acknowledged the collaboration as an example of potential benefits for businesses from the BRI.
- ii. Ascendas-Singbridge formed a joint venture with China Machinery Engineering Corporation (CMEC) to invest in industrial and business parks in China, India, Vietnam, Indonesia and Malaysia.
- iii. Surbana Jurong partnered with China Highway Engineering Consulting Corporation to provide design and consultancy services for highway and infrastructure-related projects on a global scale under the BRI.
- iv. Sembcorp signed an agreement with Chongqing Energy Investment Group to explore a strategic partnership on a broad range of development areas including renewable energy projects, township development, property development and design, engineering and construction projects, as well as overseas energy projects.

b. Develop stronger business, distribution and logistics networks within Southeast Asia, South Asia and beyond

For Singapore companies to effectively find industry and market gaps to participate in the BRI, they have to consider their value add and complementarities to Chinese companies under the BRI. One of the critical business capabilities which Singapore companies have to develop are stronger business, distribution and logistics networks within Southeast Asia, South Asia, and beyond.

The e-commerce industry is a strong case in point. In recent years, we have seen China's e-commerce market-movers, such as Alibaba and JD.com, place greater focus on expanding into Asia because of the region's phenomenal growth potential. However, Chinese enterprises need companies familiar with the region to overcome the fragmented and diverse Southeast Asian markets. Ninja Van is a home-grown Singapore logistics provider company that has leveraged its strong regional partnerships to provide faster and more seamless cross-border deliveries in Southeast Asia at attractive rates. Another home-grown logistics company YCH developed its own proprietary software to integrate its services at all points along the supply chain – from managing raw materials all the way to distributing consumer goods and managing returns – to fulfill the unique logistics requirements of its international customers. Through last mile logistics companies such as Ninja Van and YCH, Chinese e-commerce partners can now engage Southeast Asian consumers with maximum fulfilment ease and minimal risks.

Other Singapore company examples include PIL, which has grown its regional shipping routes and businesses through setting up a joint venture with China's COSCO Shipping Corporation Ltd to jointly explore building inroads into Southeast Asia markets and beyond. Ascendas-Singbridge has also developed a strong business park portfolio across Indian cities Bangalore, Chennai, Hyderabad, Pune and Gurgaon, thereby allowing it to offer complementary real estate solutions and value-add to potential Chinese partners in the Indian market. Singapore's sovereign wealth fund GIC acquired P3 Logistics Parks - headquartered in Czech Republic with logistics network across all of Europe - from TPG Real Estate and its partner Ivanhoe Cambridge for S\$3.69 billion in Nov 2016. GIC had anticipated that the BRI would bring about increased opportunities for the European logistics sector.

Only with strong business networks and capabilities in Southeast Asia, South Asia, and beyond, will it be easier for Singapore companies to gain a foothold and continue collaboration with Chinese companies in African, Central Asia and South American countries with underdeveloped infrastructure - thereby allowing Singapore companies to expand their global reach.

c. Adopt an open attitude to integrate China's industry standards

In recent years, China has developed its own industry standards for new and growth industries and exported them to the rest of the world. Examples include the various cross-border commodities financial services platforms, UnionPay system, Alipay system, the Yuan-gold price fix and Beidou global navigation system. Given the massive number of Chinese users for these standards and the possibility of these standards adopted internationally, Singapore companies should be willing to adopt an open mindset towards integrating these standards, just like how we have done so for various international standards over the years. This will allow us to benefit from the increased trade and financial flows as a result of being interoperable with these standards, and develop an early mover advantage.

How Singapore companies can access funding for BRI projects

Besides having inked MOUs with Chinese commercial banks in 2015 and 2016, IE Singapore has also established connections with multilateral Chinese financial institutions (FIs) such as CDB, Sinosure and AIIB. These FIs are mandated to provide funding support for Belt and Road projects. To date, about US\$310 billion has been pledged publicly to support BRI projects.

IE Singapore can be a bridge to help Singapore companies access the available funding. Companies can tap the available funding regardless of size and project value, especially if they are “third-country” collaborations in emerging economies outside of China.

Besides assessing project feasibility and bankability, the Chinese FIs generally need to assess projects based on the following factors too. This is because the Chinese FIs are cognisant of the BRI narrative set out by the Chinese central government.

i. The first and most important criteria is for projects to contain “Chinese element(s)”.

// There should be participation by Chinese enterprises in the project, be it through partnerships, suppliers / vendors, or investments. If Singapore companies do not already have potential Chinese enterprises to work with, they need to adopt an open mindset to cooperate and not compete with them. It will also be beneficial for Singapore companies to tap on the strong clientele and network of the Chinese FIs to identify potential partners or project opportunities;

// Alternatively, if Singapore companies can articulate and demonstrate how the project would eventually benefit Chinese users or community upon completion, it could also satisfy the “Chinese element” requirement.

ii. Justify how and why these projects can catalyse the connectivity and influence of China in countries along the BRI in the long-term.



How Singapore companies can assess funding for BRI projects

Based on our relationships established with the Chinese FIs, IE Singapore can offer insights on the niche competencies and financing requirements of different banks to ensure the recommended projects are given priority and due consideration.

- i. **China Construction Bank (CCB) supports mainly infrastructure projects such as rail and power plants, while the strength of Bank of China (BOC) lies in trade finance. These banks also have an overseas presence in different geographies.**
- ii. **As a state-owned policy bank, CDB is the “Big Brother” of Chinese FIs. For some projects which commercial banks are not able to take on the risks alone, they may prefer to participate in syndicated or club loans led by CDB instead. The involvement of Sinosure would also help mitigate risks for them.**

Singapore companies should adopt an open mindset to explore financing and partnership opportunities through Chinese FI branches that cover Singapore. For those that do not yet have a presence in Singapore, IE Singapore can facilitate the connections with representatives from the FIs that are in charge of Singapore and neighbouring markets.

Risks and challenges for Singapore companies

a. Geopolitical risks

The BRI, and indeed most major infrastructure projects, is closely associated to geopolitics. The political and financial risks of infrastructure projects in developing countries along the Belt and Road are real. Several Chinese projects in Southeast Asia have failed to negotiate mutually agreeable terms with local partners or secure backing from local government and Chinese state financial institutions. This is unlikely to change in the short term.

Singapore companies need to closely monitor geopolitical developments of the regional infrastructure projects that they are pursuing, as they will affect funding and project priorities. IE Singapore will be able to provide insights and updates to our companies based on our overseas networks, close relationships with Chinese financial institutions, as well as multilateral banks / international organisations such as CDB and World Bank.

b. Domestic challenges in China

China is taking the lead on the BRI while balancing domestic developmental issues. Its economic transition has experienced a recalibration and seen imbalances of excesses in certain sectors. Will such issues as well as controlling capital outflows have an impact on the pace in which Chinese enterprises deploy resources to these BRI international projects?

Singapore companies need to keep a close tab on domestic developments and foreign affairs announcements in China. Every change and rationale behind it would send signs of assurance or certainty on the willingness of the Chinese side to overcome challenges arising from the BRI. For example, the willingness of the EXIM Bank of China and Sinosure to shoulder greater commercial risks of projects outside China would be a positive development.

With nine out of our more than 35 of our worldwide Overseas Centres located in China, IE Singapore can provide insights from the ground to assist Singapore companies on risk assessment and propose mitigation measures to ensure smooth progress of projects.

Conclusion

Since its inception in 2013, the BRI has been profiled with much fanfare and political support from more than a hundred countries and international organisations. The BRI will no doubt give rise to new opportunities for Singapore companies, but they come with competitive challenges and risks which need to be collectively overcome by the Chinese government, financial institutions and most importantly, companies involved in the BRI projects. Notwithstanding, Singapore companies should consider carefully their strategic responses to this new era where the BRI looks set to stay. IE Singapore will continue to tap on our extensive global government and business networks and work closely with Singapore companies to explore BRI collaborations with Chinese companies in infrastructure, connectivity, energy, finance and trade in Southeast Asia, South Asia and beyond.

INTERNATIONAL ENTERPRISE SINGAPORE

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Our vision is for Singapore to be a leading global economy by:

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