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NATION IS DRIVING DEVELOPMENT ALONG BELT AND ROAD THROUGH INVESTMENT IN INFRASTRUCTURE BUILDING

AFP

Visitors look at scale models of Chinese-made bullet trains on display at a shopping mall in Jakarta. China has won a high-profile contest over Japan to build Indonesia's first fast-train rail link.

By PEARL LIU in Hong Kong
For China Daily Asia Weekly

Silk, tea and porcelain were once all carried on horses across thousands of miles along the historical Silk Road.

That same road and parts beyond are now loaded with infrastructure investment from the Chinese mainland, making those tired old horses irrelevant.

Chinese infrastructure investment is powering the development of countries throughout the route, where demand is great for land transportation such as roads and railways, as well as power plants and other facilities.

"China knows well that its development is linked to Asia and beyond and, in part, is banking its future on responding to its neighbors' huge infrastructure needs via the One Belt, One Road (Initiative)," said Alexious Lee, head of China industrial research at CLSA, an independent investment group.

With outward investment of around $103 billion, China has surpassed Japan to become the second-largest foreign direct investor globally.

About 40 percent of Chinese firms are looking to invest overseas. Much of their investment is going into infrastructure. A government push in this direction has also helped, and ensures that such investment will continue to grow.

President Xi Jinping launched China's Belt and Road Initiative in 2013 with two main projects as its basic framework: The land-based Silk Road Economic Belt and the oceanic 21st Century Maritime Silk Road.

Both will be built around new infrastructure and aim to boost cooperation and trade among countries along the routes, primarily in

Asia and Europe.

And China is ready to start building thanks to a $40 billion Silk Road infrastructure fund with capital from the country's foreign exchange reserves.

The fund's first investment is in a dam in Pakistan through a stake in China Three Gorges South Asia Investment, which has won the bid to build the $1.65 billion Karot dam on the Jhelum River, one of the largest rivers that flow into India and Pakistan.

PricewaterhouseCoopers, the global accounting and consulting firm, estimates that some $250 billion worth of projects have been contracted since the Belt and Road plan was announced in 2013.

The impact of the new initiatives is already being felt in some sectors. Chinese machinery maker XCMG Group, for example, opened a factory in Uzbekistan and sent 300 staff abroad, the company said in September.

XCMG is hoping to ride the wave of infrastructure construction to grow its income overseas from 15 percent of the company's total to 30 percent.

And China's largest cement maker, Anhui Conch, is building cement plants in Indonesia, Vietnam and Laos, the company said.

For Chinese investors, pouring capital into infrastructure in developing Asia can be an appealing option with predictable returns. What is more, it is an option that can further build China's links with countries along both the modern trading routes.

"Returns from infrastructure investments are perhaps not as stellar as promised by other, riskier investments, but they are steady and more predictable and long-term," said Michael Watson, a project law expert at Pinsent Masons, a global law firm.

"The current volatility may well encourage investors to value long-term, developed economy, government-backed assets more where these long-term stable returns are available."

In October 2014, China initiated the Asian Infrastructure Investment Bank (AIIB), which has an initial capital of $100 billion to support infrastructure projects in Asia.

Out of the 51 AIIB members, 21 are from Asia and most are emerging or developing nations including Myanmar and Laos, as well as middle-income countries like Malaysia.

"(The AIIB) is going to be a major development in Asia certainly, and it will be fascinating to see what impact it will bring to infrastructure markets across Asia," said Jody Fitchet, business development manager at Pinsent Masons.

"Hopefully we could see the availability to fund and get the right projects in Asia."

The firm worked on the *China Invests West* report and has been tracking developments with its clients throughout Asia.

By 2017, China will become a net overseas investor, according to the Economist Intelligence Unit. All this makes the country a formidable competitor for infrastructure projects in the region.

"China does not only have money, but it has the skills, the construction companies and engineering companies," Lee from CLSA said.

"The country will play a leading role to help developing countries fill the gap in their infrastructure construction."

The push in that direction is already visible as China's investments in overseas infrastructure rise rapidly, Lee said.

For the past five years, investments have been climbing at a compound annual growth rate of about 17 percent. By the end of 2014, the total value of China's private-public partnership contracts rose to $114 billion and was expected to top $300 billion before the end of the decade.

Investing in infrastructure overseas is as challenging for companies as investing in any other space. In developing markets, stability and predictability are concerns.

"Economic stability, policy stability, which is both at national government level and local government levels, and economic transparency are critical and are the main questions raised by our clients, Chinese infrastructure investors," Fitchet from Pinsent Masons said.

"Infrastructure investment is long-term and investors have to look at the stability and policymaking, from government to government."

The new policy from China may provide good opportunities for both Chinese investors and the countries that receive the investments.

"Many of these countries need development. The only thing that they cannot find is the right partner.

"Over the last five to 10 years, many of the infrastructure projects got postponed because they had weaker financials and (found it) very difficult to get funding. When China steps in, it helps."

On Sept 30, Indonesia announced it had picked China over Japan to build the country's first fast-train rail link. The news represented a key victory for China as the two countries had been locked in a high-profile contest for the contract for months.

According to a Kyodo news agency report, presidential chief of staff Teten Masduki told a small group of reporters that Japan failed to win because its proposal was more about government-to-government cooperation, while Jakarta preferred business-to-business cooperation.

"Competition is definitely a positive thing for destination countries like Indonesia as it can give them a range of choices with the best offerings," Fitchet said.

The offers underline the differences between the two main competitors for infrastructure projects.

Japan has been the leader in financing infrastructure in the region for the past couple of decades. With 16 percent of the share, Japan is the biggest investor in the Asian Development Bank (ADB). Four-fifths of the projects the ADB funds are related to infrastructure development in Asia.

In May, Japanese Prime Minister Shinzo Abe unveiled a plan to inject $110 billion into infrastructure projects and expand by 30 percent the amount of financing Japan provides overseas.

And Japan has a strong reputation in the space thanks to its bullet-train technology and a decades-long head start over China.

But China, which launched its first high-speed train in 2008, has surpassed Japan in terms of the size of its investments and it seems to have developed the technical capabilities that other countries need.

The length of the country's high-speed railway network, which now spans 16,000 km and is about six times as long as Japan's, is a global calling card.