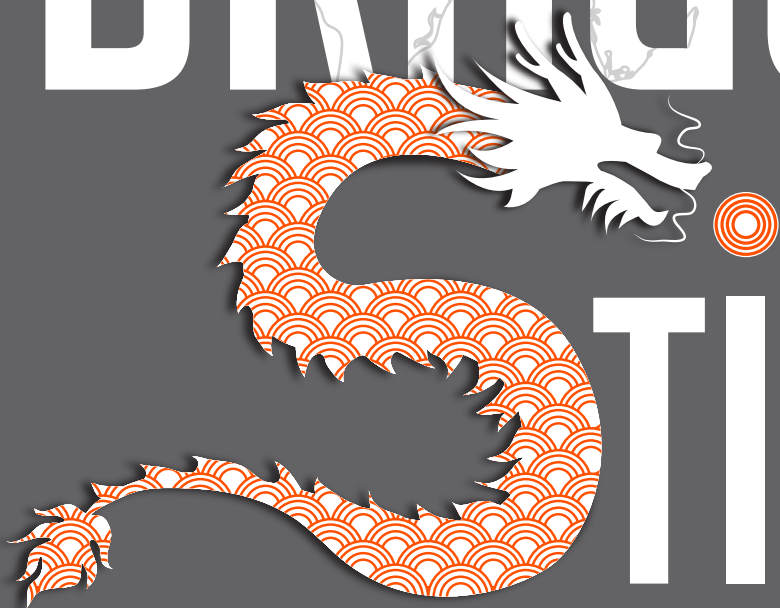


THE DRAGON

THE
NEW
SILK ROAD



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THE CHINESE DREAM

中国梦

“China is a sleeping giant. Let her sleep, for when she wakes she will move the world.”

– Napoléon Bonaparte (1769-1821)

Awakening The Dragon

China’s president, Xi Jinping (习近平), is a man with a big dream – his Chinese Dream. This has quickly morphed into what he called “One Belt One Road (OBOR)” and finally rebranded as the “Belt and Road Initiative (BRI)”, possibly to sound less threatening. Nonetheless, China’s reinvention of the ancient Silk Road remains formidable. The dragon has awakened from its slumber.

Way back in 2013, Xi was quick to reassure the then American



President Barack Obama: “The Chinese Dream is about peace, development, cooperation and win-win results, and it is connected to the American Dream and beautiful dreams of the people in other countries.”

The dream is a massive USD1 trillion worth of mega-infrastructure projects made up of oil and gas pipelines, factories, roads, railways, ports and whole new cities stretching from Asia to Africa and on to Europe. In comparison, any project costing less than a billion seems a proverbial drop in China’s vast ocean of foreign reserves of well over USD3 trillion.

China says its trade with BRI countries has reached 20 trillion yuan (USD2.9 trillion) from 2014 to 2016. It has also jointly set up 56 overseas economic cooperation zones in 20 Silk Road countries, covering processing and manufacturing, resource utilisation, agriculture, commercial logistics and R&D, according to *Xinhua*, the country’s official news agency.

China has also set up its state-owned Silk Road Fund to feed the money-sucking behemoth it has dreamed up; and spearheaded the multilateral Asian Infrastructure Investment Bank (AIIB) which is expected to soon pull in as many as 90 countries as subscribers. This poses a direct competition to the World Bank, IMF and the Asian Development Bank, which are all dominated by America, Europe and Japan. With this, China has levelled the playing field for global money lending.

The Chinese Dream is so audacious in its geo-economics scope that the Washington-based *Institute for the Analysis of Global Security* was quick to notice: "China's Belt and Road Initiative is the most ambitious and all-encompassing economic development project in the history of humanity."

The United States, Japan, India, South Korea and European Union (EU) countries naturally view China's new geopolitical realignment with suspicion. Under the Obama administration, the US tried to put up a great firewall against it in the form of the 12-nation Trans-Pacific Partnership (TPP) that included Japan but excluded China. US President Donald Trump, on his first day in office, immediately withdrew the US from the TPP trade wall, thus denying the US the opportunity to act as a counter-pivot to China's exponential rise as a global power.

There are some cheer leaders such as Malaysia, who see the BRI as a bullet train out of its current economic quagmire. But this is at the risk of the country floundering like a ship overladen with containers of long-term debts owing to China, some of which may have to be converted to equity.

Sri Lanka has also found itself under a mountain of debts involving its China-funded Hambantota deep sea port. This is already threatening to destabilise the ruling government there. The same goes for Pakistan.



On the other hand, China has snubbed Singapore. The Republic's Prime Minister, Lee Hsien Loong, was not invited to the BRI summit in Beijing in May 2017 even though the tiny red dot is a natural and strategic gateway for oil and gas and trade moving between the South China Sea and the Indian Ocean. The snub was all the more stinging, considering the two countries' deep cultural and ethnic bonds. Relations were strained after Singapore said in 2016 that all sides should respect a tribunal ruling dismissing most of China's claims in the South China Sea. But both have since kissed and made up.

Boon and Bane

The "Belt" snakes through the ancient Silk Road, the world's longest and oldest trade route connecting China to Central Asia, West Asia and Europe. The maritime "Road" in the south is equally long, linking China to Southeast Asia, South Asia, Africa, the Mediterranean and Europe.

The human geography of the BRI is staggering, covering some 65 countries over treacherous mountains, deserts, fertile plains and four oceans. Two out of every three persons on the planet live here. All the 57 Muslim predominant countries except one – Surinam – are situated within the Silk Route, including Indonesia, the most populous Muslim country. The majority Buddhist and Hindu blocs are likewise located here. Within this window are also the fastest growing Christian churches in the world, notably China's phenomenal "house churches."

The BRI would account for a huge chunk of global GDP, yet the BRI countries have the poorest of the poor living alongside the newly arrived middle class. There are also some of the world's hot spots from West Asia to Central Asia's five '*stans* of Turkic descent – Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan – plus the two other '*stans* – Afghanistan and Pakistan.

The silk route also poses serious regional security threats, such as the path through the restive corridor from China's Xinjiang to Pakistan's Gwadar Port. A new Pakistani army division of up to 13,000 troops has been deployed there to keep an eye on sporadic flare-ups.

Mega Dreams

The Chinese have always been dreaming big dreams while the dragon was slumbering. Since the ancient of days, great endeavours have taken off – from the old Silk Road, Great Wall of China, Long March, Mao's twin nightmares of the Great Leap Forward and the Great Proletarian Cultural Revolution to Deng Xiaoping's Four Modernisations based on the first draft set forth by Zhou Enlai in 1963. It was the Zhou-Deng dream that has put China on a trajectory to double-digit growth over three decades to become an economic superpower next only to the US.

China's BRI coincides with the sharp downturn of its economy to single-digit growth of 6.7 percent in 2016, albeit still respect-



able by world average. This is coupled with high unemployment, a fast greying population, overcapacity of steel and cement, a rapidly deteriorating gap between the rich and poor, and an overheated property and stock market bubble.

It also coincides with the meteoric rise of Xi Jinping, who joined the Chinese Communist Party only 38 years ago. He has now become China's most powerful leader, eclipsed only by Mao Zedong, the founding father of both the Communist party and the People's Republic, and Deng Xiaoping, the Core Leader. He catapulted himself to become the all-powerful party's general secretary in 2012, which automatically makes him de-facto head of the seven-man Standing Committee of the Politburo which rules the country unchallenged. That year, Xi also assumed the post of chairman of the Central Military Commission or the Commander-in-Chief. The following year on March 14, 2013, Xi completed his ascent when he was elected president of the People's Republic of China, a ceremonial position as head of state.

Just after becoming General Secretary of the Communist Party of China, he announced his Chinese Dream – “the great rejuvenation of the Chinese nation and a better future for all Chinese” (his own words). His dream is to achieve the “Two 100s”: the economic goal of China becoming a well-off society by 2021 (the 100th anniversary of the Chinese Communist Party) and China becoming a fully-developed nation by about 2049 (the 100th anniversary of the founding of the People's Republic).

This is what the BRI is all about. It would take a man of steel nerves to awake the sleeping dragon. The late Lee Kuan Yew of Singapore once described Xi as a man with “iron in his soul”.

The Communist Party’s propaganda chief, Liu Yunshan, has directed that the concept of the Chinese dream be incorporated into school textbooks. Xi’s one-man dream is now a collective one for 1.4 billion Chinese.

Xi’s dream is like that of the humble silkworm. In addressing the World Economic Forum in Davos on 17 January 2017, he said: “For a country, opening up is like the struggle of a chrysalis breaking free from its cocoon. There will be short-term pains, but such pains will create a new life.”

He was quick to add, quoting Charles Dickens, “It was the best of times, it was the worst of times.” Indeed so. Moody’s in May 2017 downgraded China’s sovereign debt one notch from Aa3 to A1. Although this is only a slight downgrade, it is also the first time Moody’s has cut the country’s credit rating in three decades.

On the flip side of the coin, in 2010, four out of the top five economies in the world were part of the West. In 2050, according to Goldman Sachs, the US will be the only Western power to make it into the top five.



It also points out that the US will be number two in 2050 and its economy will be much smaller than China's. Goldman Sachs projects that China's GDP should match America's by 2027, and then steadily pull ahead. This is perhaps the best of times for China.

Recapturing Ancient Glory

In his opening speech at the BRI summit in May 2017 in Beijing, Xi opined, "History is our best teacher. The glory of the ancient silk routes shows that geographical distance is not insurmountable. If we take the first courageous step towards each other, we can embark on a path leading to friendship, shared development, peace, harmony and a better future."

The *Economist* is quick to recall history too. It said, "In 1793, a British envoy, Lord Macartney, arrived at the court of the Chinese emperor, hoping to open an embassy. He brought with him a selection of gifts from his newly industrialising nation. The Qianlong emperor, whose country then accounted for about a third of global GDP, swatted him away: 'Your sincere humility and obedience can clearly be seen,' he wrote to King George III, 'but we do not have the slightest need for your country's manufacturers.'" The British returned in the 1830s with gunboats to slay the Chinese dragon.

China never recovered from the humiliation. Until now.

Exactly 244 years later, a freight train left the city of Yiwu, on China's east coast, in January 2017 and travelled 12,000km (7,500 miles), crossing seven countries, before arriving at a freight depot in Britain. The service delivered 34 containers of clothes and high street goods. China Railway already runs services between China and other European cities, including Madrid and Hamburg. The service passed through Kazakhstan, Russia, Belarus, Poland, Germany, Belgium and France before entering the United Kingdom (UK) via the Channel Tunnel. The BRI freight train now makes its way back to China, perhaps bringing back the same type of gifts that King George III had intended for the Qianlong Emperor.

China is rediscovering its history and in the process, redeeming its past. Xi quotes an ancient Chinese proverb: "A long journey can be covered only by taking one step at a time." But the man with a big dream is in a hurry. In four short years Xi has catapulted the old Silk Road into the 21st century.

THE NEW SILK ROUTE





WHO IS XI?

When Xi Jinping was lesser known and aspiring for top leadership in the Communist Party of China, the joke making the rounds along the corridors of power was:

“Who is Xi?”

“He is the husband of Peng Liyuan.”

Forbes says Madame Peng has since become China’s most public first lady since Madame Mao and has ranked her as the #51 Most Powerful Women in the World in its 2017 list. She was China’s famous soprano and folk hero before marrying Xi Jinping,

who is nine years older. She gave up her career after marriage to support his rise to power. Xi married Peng Liyuan in 1987. They have a daughter, Xi Mingze, a Harvard graduate.

Peng Liyuan, born in 1962, joined the People's Liberation Army (PLA) in 1980 when she was only 18 years old and began as an ordinary soldier. But her talents were soon put to better use. The PLA moved her quickly to the frontlines to boost troop morale during the Sino-Vietnamese border conflicts. Peng first performed nationally and came to fame during the earliest rendition of the CCTV New Year's Gala in 1982 where she achieved national acclaim as a contemporary folk singer. She later became president of the People's Liberation Army Academy of Art, with the rank of Major General. She also holds a Masters' degree in traditional music.

Peng, who speaks fluent English, performed at the Avery Fisher Hall at Lincoln Center in New York in 2005, and at the Vienna State Opera House in 2008. In 2011, the World Health Organisation selected her as a goodwill ambassador for AIDS and tuberculosis while UNESCO appointed her special envoy for the advancement of girls' and women's education.

The New York Times describes Peng as glamorous, fashionable and one of China's best-known singers, a startling contrast to her dour-looking predecessors.



So who is Xi?

He is still the husband of Peng, his second marriage. More than that, he is currently the fifth Most Powerful Men in the World according to *Forbes'* 2017 rankings, although one rank down from the previous year.

Forbes says, "Xi has become one of the most influential Chinese Rulers. He has changed the thinking of the conservative Chinese through reforms. Additionally, he is bold enough to allow the media to capture some of his daily activities. During his leadership, China has investments in almost all part of the world. His meeting with the US and UK leaders led to business deals worth USD46 billion."

Xi, who has a PhD in engineering, bypassed the traditional route to power by not climbing the long ladder. He just rode on the high speed lift to the top to become President of the People's Republic of China, General Secretary of the Communist Party of China and Commander-in-Chief of the PLA in rapid fire. The party has also bestowed on him the title of "Core Leader", an honour accorded thus far only to Mao Zedong, Deng Xiaoping and Jiang Zemin.

So who is Xi?

Robert D. Blackwill and Kurt M. Campbell in their special report

published by the New York-based Council on Foreign Relations say Xi Jinping is the most powerful Chinese leader since Deng Xiaoping, and with his sweeping actions and ambitious directives, he has fundamentally altered the process by which China's domestic and foreign policy is formulated and implemented.

They say Xi's popular anti-corruption campaign has cowed senior party and military officials and allowed him to amass dominating power in a short span of time. With this transcending authority, Xi has ended China's carefully evolved collective and consensual leadership structure, marginalised the bureaucracy, and put himself at the centre of decision-making on all consequential matters.

Xi has been able to be continuously proactive, and he has used his power to take China's foreign policy in a new direction. He has boldly departed from Deng's injunction to keep a low profile.

Xi has demonstrated the benefits of cooperating with China as well as the economic and military costs of opposing it, especially on issues important to Beijing.

As Blackwill and Campbell point out, Xi has fundamentally changed the system of Chinese governance. Under the preceding model, previous generations of Chinese leaders since Deng Xiaoping created a structure that embedded leadership and de-



cision-making within a collective system of checks and balances that spanned a variety of bureaucratic institutions and included a substantial number of party elites.

This consensus-driven system, forged in the wake of the tragic and devastating Cultural Revolution, shunned Maoist cults of personality and embraced the studied staidness of leaders like Hu Jintao. These bureaucratic procedures and prerogatives no longer function as before.

Xi, they say, has been able to achieve this dramatic transformation by amassing power in a blink of an eye, in part through his unprecedented campaign against corruption. This has also on occasion spurred surprises among the senior ranks of the Chinese government. Xi's right-hand adviser and fellow standing committee member, Wang Qishan, has used the campaign to silence potential opponents within the party. The arrest and prosecution of Zhou Yongkang, a former standing committee member, made clear that even the highest-level party elites are not safe from the anticorruption inquiry, especially given that many have themselves taken part in financial improprieties.

They say Xi has likewise targeted the military and reversed the growing autonomy of the People's Liberation Army (PLA). His arrest of Vice Chairman of the Central Military Commission Xu

Caihou for selling promotions suggests that dozens of generals who purchased their ranks are at risk of imprisonment.

Unlike previous leaders, Xi is also the first Core Leader born after the birth of the People's Republic of China. But his ticket to the top comes with his credentials as party "princeling" with "red" DNA .

A recent commentary in the *Study Times*, a party newspaper widely read by officials, devoted its front page to a glowing profile of Xi, who is said to be blessed by his "red" upbringing with special leadership mettle. The commentary recounted his seven years working in the dirt-poor countryside during the Cultural Revolution. It highlighted his tough coming of age as the son of a veteran revolutionary who was persecuted by Mao. Yet, the family continued to pledge loyalty to the Communist cause.

While Xi's bold Silk Road initiative may take another three or four decades to complete, the 64-year-old President may not have the time. Under China's Constitution, Xi is limited to only two five-year terms in office. He has just completed the first term. However, there is no time bar to his position as the party's General Secretary.

Xi is in a hurry. Recently, he reportedly oversaw the abrupt purge of Sun Zhengcai, a one-time contender for promotion. Sun, 53, had been the party secretary of Chongqing, a city in southwest China, until his dismissal in mid-July 2017.



According to Prof. Ding Xueliang, a political scientist at the Hong Kong University of Science and Technology who studies the Chinese Communist Party, “For now, Xi appears to be seeking to ensure that his second-term line-up includes younger loyalists who will defend him and his policies for years to come. Several are poised to join the politburo. While the military does not have much direct say in politics, its support is essential for Xi’s long-term authority.”

“Xi Jinping has spent more time on the military than any other leader,” Prof. Ding said. “He knows clearly that eventually, if he wants to keep in power, if he wants to concentrate power even more, he must make sure the army is with him.”

Blackwill and Campbell, in their special report, point out that if the government’s reputation is diminished and economic growth remains stagnant, then the leadership will grow increasingly worried about social unrest.

They say past economic crises contributed to outbreaks of mass protests, including those in 1986 and 1989 that brought down two Chinese leaders, Hu Yaobang and Zhao Ziyang, and led to the violence in Tiananmen Square. Although the party weathered the stock market slumps reasonably well, there is no guarantee it will be so fortunate in a future crisis. The reputational challenges and economic obstacles Xi faces will not abate in the next few years.

They say some analysts are sceptical that the situation is quite so serious. In their more sanguine view, economies naturally slow down as they get bigger and China's economy is already twice as large as it was seven years ago. This means that even if growth slows down to half its previous pace, it will still generate income gains that are just as large in absolute terms. This fact, however, by no means guarantees political stability. Even if some Western economists believe that five percent growth is healthy, that is no guarantee or even likelihood that Chinese citizens or Chinese elites will agree.

That as it may, at the last 19th National Congress of the Communist Party of China (the country's de facto parliament) at the Great Hall of the People in Beijing in October 2017, Xi was returned unopposed as general secretary of the Communist Party after his lengthy 3.5-hour speech. Xi was also re-elected to the Standing Committee of the Central Political Bureau of the Communist Party of China, usually known as the Politburo Standing Committee (PSC). This is a seven-man committee consisting of the top leadership of the Communist Party of China. Its officially mandated purpose is to conduct policy discussions and make decisions on major issues when the Politburo, a larger decision-making body, is not in session. Xi and Premier Li Keqiang were about the youngest to be elected to this powerful inner circle in 2007 when he was 54 and Li 52.



The remaining five members of the previous PSC were all in their 70s, well over the conventional retirement age of 68, and duly replaced by Xi's handpicked choices but excluded, surprisingly, Xi's right hand man, Wang Qishan.

Within a short 10 years, Xi has made an unprecedented rise to power from being just a member of the inner circle to be the country's unchallenged leader.

More than that, according to *Reuters*, Xi Jinping's ambitious "Belt and Road" infrastructure project was unexpectedly included in the ruling Communist Party's constitution during the Congress, giving it greater policy heft and added pressure to succeed.

The report also said the party's amended charter, approved at the close of its twice-a-decade congress, pledged to "pursue the Belt and Road initiative", a further sign of Xi's expanding power and evidence that the ambitious "Silk Road"-like initiative will endure beyond Xi's tenure.

"Everyone knows that the Belt and Road is very important to Xi, it has his personal stamp and authority," Peter Cai, a non-resident fellow at Sydney-based think tank Lowy Institute, was reported as saying.

“But to have major policy, especially an external engagement policy, to be written into a party constitution, at least in recent memory, it is something quite significant,” he said.

Meanwhile, Xinhua reported that the 19th National Congress of the Communist Party of China approved an amendment to the Party Constitution, which enshrines Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. The amendment was approved during the closing session of the congress.

So who is Xi?

Xi Jinping has become China’s most powerful leader since Mao Zedong, according to a commentary by *Time* magazine, following the Party’s congress in October 2017.

“Upon having his personal philosophy etched into the national constitution – as Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era – the 64-year-old now joins Mao Zedong and Deng Xiaoping in the pantheon of modern China’s most powerful leaders,” it said.

Time said, “In the years since Mao founded the People’s Republic of China in 1949, no other leader since the Great Helms-



THE DRAGON STIRS

man himself has been honoured by name in the constitution while alive. (“Deng Xiaoping Theory” was appended only as posthumous honour to the architect of China’s economic revival.) But Xi has not only joined Mao on Mount Olympus – he does so at a time when China boasts the world’s second biggest economy and is extending its influence across the globe. (It was also, until recently, the world’s top trader.)”

“It’s the coronation of Emperor Xi,” says Prof. Nick Bisley, an Asia expert at Australia’s La Trobe University. “He is without question the paramount leader and one with a remarkably ambitious vision for China.”



CHINA'S MINSKY MOMENT

China's increasing financial fragility may lead to what some economists call its "Minsky Moment". This could severely cripple funding for China's new Silk Road initiative.

Hersh Shefrin warns that the danger signals in China's economy have been there for all to see. But many are in denial. Being in denial means ignoring the warning signs, just as rating agencies, investors, and journalists ignored the warning signs in the lead up to the global financial crisis.

Writing in *Forbes News*, Hersh Shefrin, professor of behavioural finance at Santa Clara University, says Moody's has finally rec-

ognised the dangers of instability in China's financial system and economy. In May 2017, the ratings agency downgraded China's debt one notch from Aa3 to A1. Although that might not seem like a lot, it's Moody's first downgrade of Chinese debt in almost 30 years. That is something to take seriously.

To be sure, Shefrin says, the late economist Hyman Minsky laid out the general warning signs in a framework he called the financial instability hypothesis (FIH). However, most ignored Minsky's messages until it was too late. It was only after the global financial crisis erupted that the phrase "Minsky moment" became fashionable.

A Minsky moment is a sudden major collapse of asset values which is part of the credit cycle or business cycle. Such moments occur because long periods of prosperity and increasing value of investments lead to increasing speculation using borrowed money.

For China, the signs are clear. Its economy expanded at an official rate of 10.6 percent in 2010, but its more recent growth rate has been lower (6.7 percent in 2016). Moody's forecasts that over the next five years, the rate will continue to decline, falling to 5 percent.

Shefrin cites another worrying sign, that of excessive leverage. As a percentage of GDP, China's debt at 164 percent is high for



a developing country. (This is up from 98 percent in 2008 and more than twice the current US level of 70 percent.)

He says in the first half of the century, before the financial crisis struck in 2008, China's debt was stable. Since then, it has grown by 15 percent of GDP per year. The lion's share of that debt relates to businesses and to a lesser extent local governments, rather than to households and the central government.

The professor also cites other signs of China's financial instability. These include a surge in its shadow banking, which currently accounts for roughly half of the assets in the country's banking sector. Highlighted in Moody's rating is the use of financial innovation. In particular, shadow banks are partly funded by state-owned banks, and partly funded by selling wealth management products to customers. These products are often non-transparent in terms of risk, and indeed are used to finance highly speculative construction projects.

While the state is the lender of last resort for the four large banks, the latter serve as the lender of last resort to the shadow banks. Therefore, imprudent risk taking by shadow banks holds the potential to shock China's entire financial system, he points out.

Shefrin says that in recent years, banks in China continued to make loans to state-owned firms that are experiencing financial distress to prevent them from defaulting. Such practices increase the vulnerability of the country's financial system.

In recent years, he points out, China also experienced both a stock market bubble and a real estate bubble.

The Wall Street Journal reports that China recently initiated efforts to reduce risky investments and financing practices by raising key short-term interest rates. But Shefrin notes that over time, China's regulatory system has deteriorated significantly, especially in regard to the country's shadow banks where the increase in speculative and Ponzi finance has been concentrated. Perhaps there is hope, he says, pointing to *The Wall Street Journal* reports that regulators have increased their oversight of investment products that feature highly leveraged bets in financial markets.

Shefrin concludes that signs point to increasing financial fragility in China. Whether China has reached its "Minsky Moment" remains an open question.

At Risk

The Silk Road initiative could be the most significant coordinated development undertaking in history. But success is far from certain, according to Sara Hsu, an associate professor of economics and a visiting scholar at the IC2 Institute at the University of Texas at Austin.

Writing in the *Huffington Post*, she says Chinese President Xi Jinping's massive Silk Road project is more expansive and inclusive



than any other modern undertaking by a single country. The project may be too big to succeed. If successful, it could transform the face of the developing world. But the endeavour has many potential pitfalls.

Hsu says there appears to be insufficient due diligence in some cases that carry political and financial risks. For example, work on the Colombo port project in Sri Lanka and a high-speed rail plan in Indonesia has stalled due to local opposition. In other areas, like Gwadar in Pakistan, security is a major concern.

Projects funded by the Asian Infrastructure Investment Bank are more likely to be carefully weighed in terms of risk. By contrast, projects financed by the China Development Bank or the Export and Import Bank of China may undergo standard examination but, as part of an array of projects on the table, may be short-changed in full analysis and oversight.

“There appears to be insufficient due diligence in some cases, which carries political and financial risks,” Hsu points out.

AIIB has provided USD1.73 billion for nine Belt and Road projects. The overall figure for projects in the planning or implementation stages is USD900 billion. The vast majority of funding for Silk Road projects comes from the Export and Import Bank of China, China Development Bank and China’s commercial banks.

China's policy banks are overbooked, Hsu says. In 2015 alone, China Development Bank said it had reserved USD890 billion for over 900 projects. What is more, the Export-Import Bank of China stated at the beginning of 2016 that it had funded over 1,000 projects.

"How can these large development banks plan and oversee that many projects?" she asks. She also cites political risk as a major concern. Seventy-one percent of Chinese firms view political risk as a major threat to investing abroad. The China-Pakistan Economic Corridor, where China has planned to build an international port, is a prominent example. There is an ongoing separatist insurgency that is likely to threaten security in the region. Political risk can destroy the value of industry and infrastructure in a short period of time and needs to be a major factor in planning before projects get off the ground.

Many Pakistanis are no more enthusiastic about the economic corridor project, which has employed Chinese workers rather than local labour. These conflicts could result in project disruptions and large losses, she warns.

However, she says, the presence of risks does not mean that planned projects should be abandoned. Investment could be more beneficial if the pace of implementation is slowed down and carefully overseen. Using a more cautious approach to polit-



ical and financial risks during the planning stage can help ensure that BRI projects come to fruition, Hsu concludes.

Silver Lining

Despite the stark prognosis, it looks like there is still a silver lining in the Chinese cloud. For instance, Stuart Gulliver, Group Chief Executive for HSBC Holdings Plc, points out that in the decade that follows, it is anticipated that 66 percent of the world's middle class will live in Asia – many along the new Silk Road. As a result, there will be an increasing demand for a wide range of goods and services as more people become major consumers with a growing disposable income for the first time.

“The American dream of the 20th century is becoming the Asian dream of the 21st. A house, a car, a smartphone, travel, banking services, healthcare – the prospect of unfettered upward social mobility for many more families,” says Gulliver.

The impact is already being seen. In the first eight months of 2016, trade between China and BRI countries exceeded USD600 billion dollars or 26 percent of China's total foreign trade volume. Based on this, the annual trade volume between China and countries along the Belt and Road routes is expected to exceed USD2.5 trillion in the next 10 years.

Still the risks need to be addressed. According to PwC's Growth Market Centre, there are geopolitical risks associated with the new Silk Road, such as changes in political regimes or in bilateral relations between countries involved in BRI during a project's lifespan.

There are also funding risks such as funding gaps and the host countries' varied ability to repay loans, exacerbated by higher capital and debt service ratios of BRI projects.

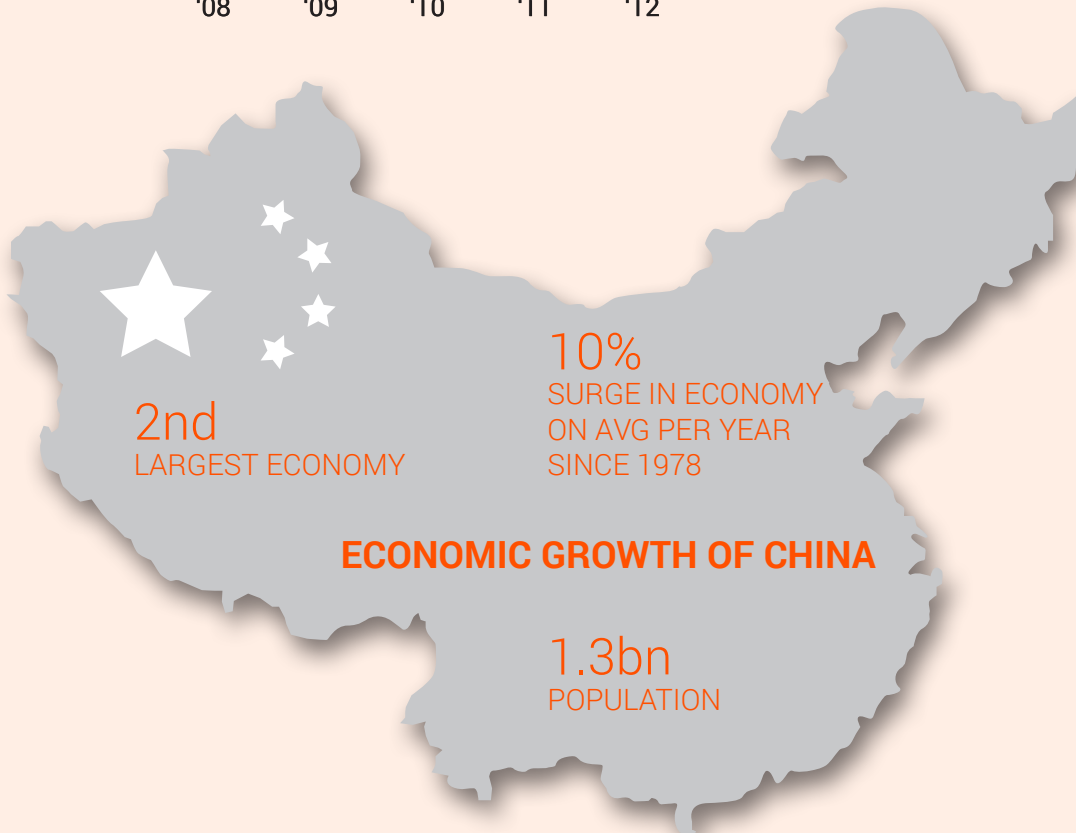
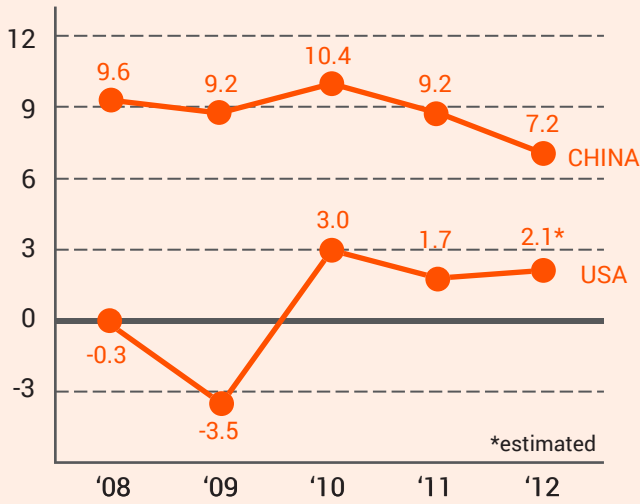
Operational risks surface where there is a lack of experience in delivering and managing complex transnational projects, leading to delays and cost overruns.

This calls for commercial viability assessment, among other things. PwC suggests players conduct realistic economic modelling to establish the business case viability of any Silk Road project as well as review the maturity of the infrastructure ecosystem.

It is also necessary to assess the maturity and future plans of the surrounding infrastructure, establish a portfolio fit and evaluate how a proposed BRI project complements the company's existing infrastructure portfolio and overall growth objectives.

Just as there are many potholes along the long and winding Silk Road, there are also ways to get around it. But there are no short cuts.

GDP GROWTH RATES OF CHINA vs USA



CHINA ECONOMIC GROWTH TIMELINE

1978

Reformist leader Deng Xiaoping announces open door policy.



1984

Opens up 14 cities and 3 regions to foreign investment, including Shanghai



1989

Tiananmen Square massacre.



1990

Stock markets open in Shanghai & Shenzhen.



2005

600 million lifted out of poverty since 1981, according to World Bank.



2010

China overtakes Japan as second largest economy.

