Opportunities in Emerging Market China: Belt & Road’ PPP

March 2016
Belt & Road (B&R) – Priorities and Roadmap

Priorities of the ‘Belt and Road’ initiatives

• Transport infrastructure building, investment and trade
• Interconnection of infrastructure along the routes
• Investment and trade facilitation
• Financial cooperation for better financing support for the construction work
• People-to-people exchanges
• Environment protection and social responsibility
• Increasing communication at multilateral, bilateral, regional and sub-regional levels

Source: Xinhua
There are 65 countries involved along the B&R routes

Middle East and Europe (16 countries)
Key countries include
• Poland
• Romania
• Czech Republic
• Bulgaria
• Lithuania
• Slovenia
• Switzerland

Commonwealth of Independent States (11 countries)
Key countries include
• Kazakhstan
• Uzbekistan
• Ukraine
• Kyrgyzstan

Russia
Mongolia
China

West Asia and North Africa (16 countries)
Key countries include
• Saudi Arabia
• United Arab Emirates
• Egypt
• Iran
• Turkey
• Israel

South Asia (8 countries)
Key countries include
• India
• Pakistan
• Bangladesh
• Nepal

Southeast Asia (11 countries)
Key countries include
• Indonesia
• Thailand
• Malaysia
• Vietnam
• Singapore
Belt and Road will stimulate a massive, trillion dollar market, much larger than China’s domestic one

**USD($) 5 trillion**
Total investment need in the covered area in transport infrastructure for the coming 5 years (excl. power, water, and other infrastructure)

**USD($) 100 billion**
Planned domestic B&R projects already announced by Chinese provinces

**USD($) 2.5 trillion**
Total infrastructure demand for Southeast Asia in the next 10 years

**Total annual investment need in infrastructure in developing countries**
- Currently: USD 0.8-0.9 trillion (3-4% of GDP)
- By 2020: USD 1.8 – 2.3 trillion (6-8% of GDP)
- Key priorities:
  - Power (Electricity)
  - Transport
  - Telecommunications
  - Water
- Prio
Such a vast project as B&R creates an enormous need for funding

Total expected financing associated with the Belt and Road initiative

**USD($) >20 trillion**

**Infrastructure financing**

With total infrastructure spending across developing countries, on average:

- **50%** comes from National budget
- **Ca. 20%** comes from National development Banks
- **25%** comes from the private sector
- **3-4%** comes from Multilateral Development Banks
- **1-2%** comes from South-South flows

*Source: Bhattacharya and Romani (2013)*
Available capital through institutions is massive, though not exclusive nor sufficient

Indicative

Belt & Road

AIIB

BRICS New Development Bank

CDB, EXIM Bank, ADBC

Silk Road Fund

USD 100 billion

USD 50 billion

<USD 100 billion

USD 40 billion

<USD 100 billion
The Philippines’ economy has grown very strongly in recent years and infrastructure spending needs to respond to the growth in the economy to support further growth. Spending in infrastructure is expected to grow at around 10% a year in the next decade, reaching a total of $27 bn a year by 2025.

Growth is expected to be focused on manufacturing, transportation and communications, and social infrastructure. The expansion in the chemicals and basic metals sectors is likely to lead to significant growth in the manufacturing sector throughout 2025.
**Example: The Philippines (2/3)**

Investment Opportunities – Projects to be rolled out by Jun 2015 (as of September 2014)

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>Sector</th>
<th>Project Cost (USD)</th>
<th>Indicative Roll-out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulacan Bulk Water Supply</td>
<td>Water</td>
<td>542.22 M</td>
<td>Advertisement published last June 20</td>
</tr>
<tr>
<td>ITS-South Terminal</td>
<td>Transport</td>
<td>115.56 M</td>
<td>Jul-14</td>
</tr>
<tr>
<td>New Centennial Water Supply Source</td>
<td>Water</td>
<td>417.33 M</td>
<td>Aug-14</td>
</tr>
<tr>
<td>O&amp;M of LRT Line 2</td>
<td>Transport</td>
<td>No CAPEX</td>
<td>Aug-14</td>
</tr>
<tr>
<td>Laguna Lakeshore Expressway Dike</td>
<td>Road network</td>
<td>2.73 B</td>
<td>Aug-14</td>
</tr>
<tr>
<td>Enhanced O&amp;M of Bohol (Panglao) Airport</td>
<td>Transport</td>
<td>52 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>O&amp;M of Laguindingan Airport</td>
<td>Transport</td>
<td>324.44 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Davao Sasa Port</td>
<td>Transport</td>
<td>388.0 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>O&amp;M of Puerto Princesa</td>
<td>Transport</td>
<td>71.11 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>O&amp;M of Davao Airport</td>
<td>Transport</td>
<td>476.44 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>O&amp;M of Bacolod Airport</td>
<td>Transport</td>
<td>208.89 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>O&amp;M of Iloilo Airport</td>
<td>Transport</td>
<td>322.44 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Regional Prison Facilities through PPP</td>
<td>Security</td>
<td>895.33 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>Motor Vehicle Inspection System</td>
<td>Transport</td>
<td>313.11 M</td>
<td>Sep-14</td>
</tr>
<tr>
<td>San Fernando Airport</td>
<td>Transport</td>
<td>TBD</td>
<td>Oct-14</td>
</tr>
<tr>
<td>LRT Line 1 Dasmaríñas Extension</td>
<td>Transport</td>
<td>TBD</td>
<td>Nov-14</td>
</tr>
<tr>
<td>North-South Commuter Railway</td>
<td>Transport</td>
<td>6.03 B</td>
<td>Nov-14</td>
</tr>
<tr>
<td>Mass Transit System Loop</td>
<td>Transport</td>
<td>3.0 B</td>
<td>Dec-14</td>
</tr>
<tr>
<td>Manila Bay-Pasig River-Laguna Lake Ferry System</td>
<td>Transport</td>
<td>TBD</td>
<td>Jan-15</td>
</tr>
<tr>
<td>Batangas-Manila Natural Gas Pipeline</td>
<td>Energy</td>
<td>TBD</td>
<td>Jan-15</td>
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## Motor Vehicle Inspection System

Development and O&M of a national network of Motor Vehicle Inspection Centers using inspection methods that will be linked to the information system of the Land Transportation Office (LTO).

<table>
<thead>
<tr>
<th>Implementing Agency</th>
<th>DOTC-LTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Project Cost</td>
<td>USD 313.11 M</td>
</tr>
<tr>
<td>Cooperation Period</td>
<td>TBD</td>
</tr>
<tr>
<td>Status</td>
<td>Feasibility Study nearing completion</td>
</tr>
</tbody>
</table>

By 2035, the motor vehicle population in the country is estimated to reach almost 35 million.
Institutional Arrangement

• Contracting Parties/ Implementing Agencies
  • National Line Agencies
  • Government Corporations
  • Local Government Units

• Review and Approving Bodies
  • Inter-Agency Investment Coordination Committee (ICC)
  • NEDA Board

• Coordinating and Monitoring Agency
  • The Public-Private Partnership Center

• Other National Agencies Concerned
  • Policymaking Bodies
  • National and Sectoral Regulatory Bodies

The PPP Program is identified as one of the strategies to accelerate infrastructure development and achieve inclusive growth.

PREQUALIFICATION, BIDS AND AWARDS COMMITTEE (PBAC)

• Responsible for all aspects of the pre-bidding and bidding process, including the preparation of tender documents, conduct and evaluation of bids, and interpretation of the rules regarding the bidding, among others
The wider opportunity picture
Examples of second tier Asian Cities – Challenges = Opportunities

<table>
<thead>
<tr>
<th>City Mayor Papers</th>
<th>Key Issues</th>
</tr>
</thead>
</table>
| 1 **Bandung**     | Attractions: Climate, Highlands  
                            Challenges: **Water, Flood Control, Congestion**  
                            Plan: Roads, transport hub |
| South East Jakarta |
| Pop 2.4m (14k sqkm) |
| 2 **Semarang**    | Attractions: Agriculture, central market, heritage  
                            Challenges: **25% poverty, new business, funding**  
                            Plan: Redevelop central market, urban renewal, PPP |
| Central Java |
| Pop 1.6m (5.5k sqkm) |
| 3 **Bogor**       | Attractions: World Heritage Botanic Gardens. Mountains, Tourism, MICE  
                            Challenges: **Clean Water, Congestion, waste mgnt, transformation**  
                            Plan: BRT, transport hub, city cable car, township; clean water, water recreation, SWM |
| South Jakarta |
| Pop 1m+ (9k sqkm) |
| 4 **Tengarang**   | Attractions: Location near Airport; Manufacturing, Business Parks, Logistics  
                            Challenges: **Land Acquisition, Funding**  
                            Plan: Social Infra, BRT, transport hub, SWM |
| West Jakarta |
| Pop 1.8m (10k sqkm) |
| 5 **Sidoarjo**    | Attractions: Agriculture, Highlands  
                            Challenges: **Water Supply, attracting new business, funding**  
                            Plan: Umbulan water supply pipeline |
| East Java |
| Pop 1.9m (3k sqkm) |
Significant potential risks needs to be considered

**Political risk**

- Geopolitics and territorial dispute. The geopolitics of the OBOR region is complicated; some areas suffer Territorial disputes even local wars; and there’s great uncertainty in policy and implementation
- Domestic political instability. Many countries along the OBOR have unsettled political conditions with frequent political parties’ rotations, which will impact policy and project implementation
- Religious extremism and terrorist threats. Religious relations in Eurasia are complicated, and religious extremism, terrorism, separatism and other activities remain rampant, threatening safety of the projects

**Economic risk**

- Big changes in market conditions. The current world economy is still unstable, and changes in macro-economy, industry and market environment will all have impacts on investment
- Different regulatory and cultural systems. Laws and regulations in the countries along the OBOR differ from one another, and regulatory systems in many developing countries remain incomplete, which, along with custom and cultural differences, tends to result in operational frictions

**Operational risk**

- Great uncertainty in project profitability. Infrastructure projects require large scale investments and high-standard management, and have long operating cycles and huge uncertainty on profits
Thank you!