

Advisory

Opportunities in Emerging Market China: Belt & Road' PPP

March 2016

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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)

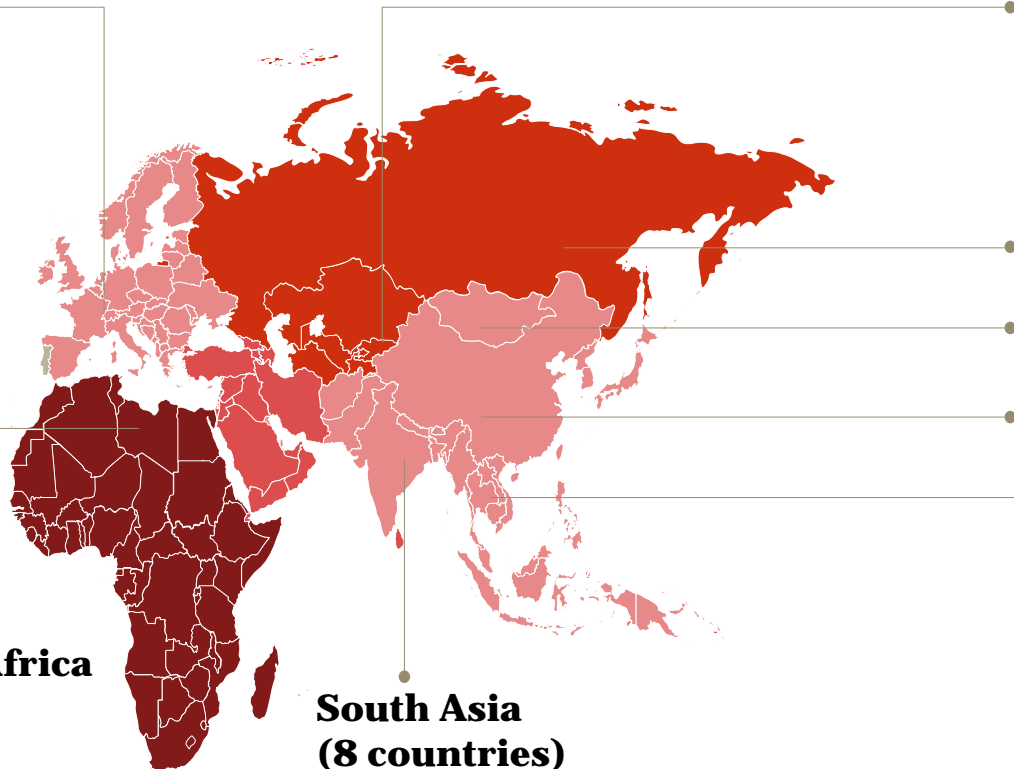
Key countries include

- 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

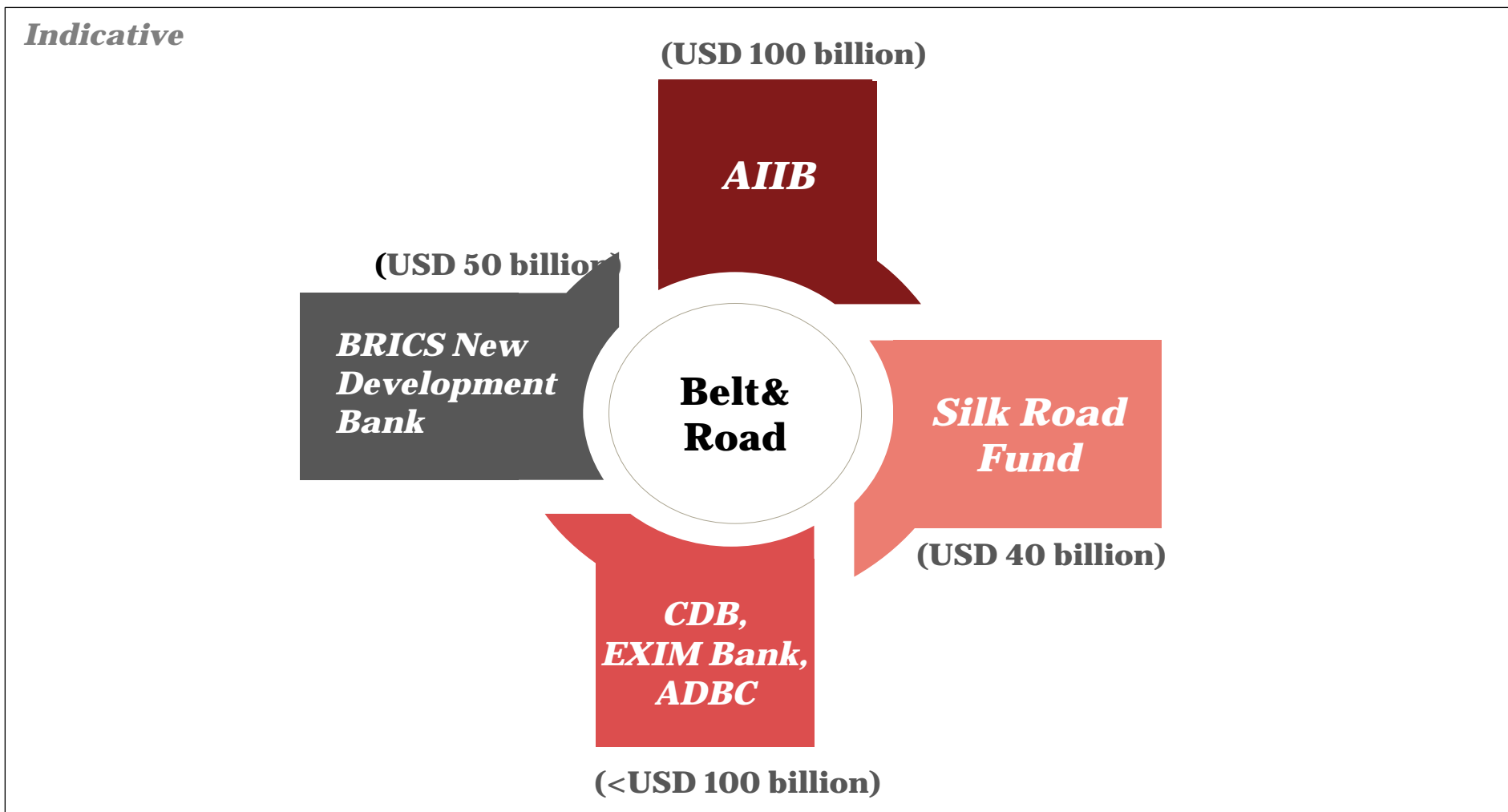
Infrastructure financing

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

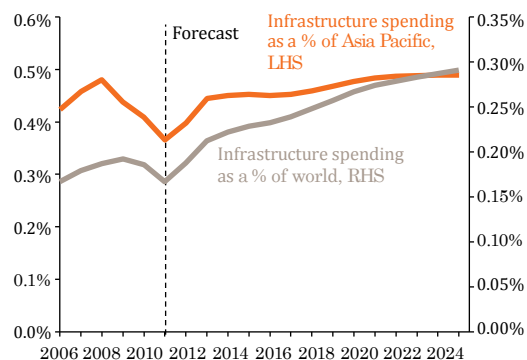
Source: *Bhattachayia and Romani (2013)*

Available capital through institutions is massive, though not exclusive nor sufficient



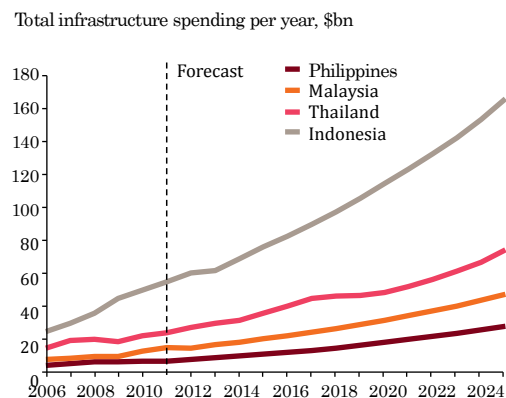
Example: The Philippines (1/3)

Infrastructure in global context



Source: Oxford Economics

Philippines versus peers

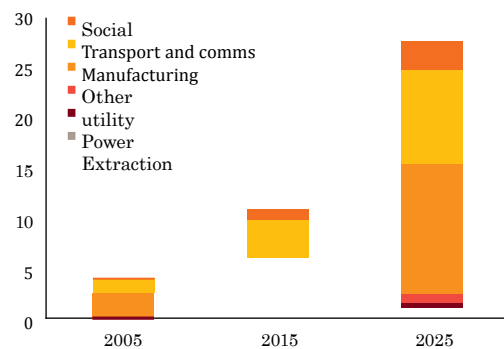


Source: Oxford Economics

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.

Infrastructure spending by broad sector

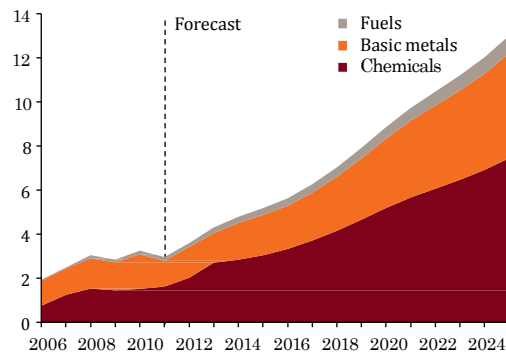
\$bn per year, current prices



Source: Oxford Economics

Manufacturing infrastructure investment

\$bn per year, current prices



Source: Oxford Economics

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)

	PROJECT	Sector	Project Cost (USD)	Indicative Roll-out
1	Bulacan Bulk Water Supply	Water	542.22 M	Advertisement published last June 20
2	ITS-South Terminal	Transport	115.56 M	Jul-14
3	New Centennial Water Supply Source	Water	417.33 M	Aug-14
4	O&M of LRT Line 2	Transport	No CAPEX	Aug-14
5	Laguna Lakeshore Expressway Dike	Road network	2.73 B	Aug-14
6	Enhanced O&M of Bohol (Panglao) Airport	Transport	52 M	Sep-14
7	O&M of Laguindingan Airport	Transport	324.44 M	Sep-14
8	Davao Sasa Port	Transport	388.0 M	Sep-14
9	O&M of Puerto Princesa	Transport	71.11 M	Sep-14
10	O&M of Davao Airport	Transport	476.44 M	Sep-14
11	O&M of Bacolod Airport	Transport	208.89 M	Sep-14
12	O&M of Iloilo Airport	Transport	322.44 M	Sep-14
13	Regional Prison Facilities through PPP	Security	895.33 M	Sep-14
14	Motor Vehicle Inspection System	Transport	313.11 M	Sep-14
15	San Fernando Airport	Transport	TBD	Oct-14
16	LRT Line 1 Dasmariñas Extension	Transport	TBD	Nov-14
17	North-South Commuter Railway	Transport	6.03 B	Nov-14
18	Mass Transit System Loop	Transport	3.0 B	Dec-14
19	Manila Bay-Pasig River-Laguna Lake Ferry System	Transport	TBD	Jan-15
20	Batangas-Manila Natural Gas Pipeline	Energy	TBD	Jan-15

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).



Implementing Agency

DOTC-LTO

Estimated Project Cost

USD 313.11 M

Cooperation Period

TBD

Status

Feasibility Study nearing completion

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

THE PHILIPPINE PPP PROGRAM

INSTITUTIONAL ARRANGEMENT

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

City Mayor Papers	Key Issues
<p>1 Bandung South East Jakarta Pop 2.4m (14k sqkm)</p>	<p>Attractions: Climate, Highlands Challenges: Water, Flood Control, Congestion Plan: Roads, transport hub</p>
<p>2 Semarang Central Java Pop 1.6m (5.5k sqkm)</p>	<p>Attractions: Agriculture, central market, heritage Challenges: 25% poverty, new business, funding Plan: Redevelop central market, urban renewal, PPP</p>
<p>3 Bogor South Jakarta Pop 1m+ (9k sqkm)</p>	<p>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</p>
<p>4 Tengarang West Jakarta Pop 1.8m (10k sqkm)</p>	<p>Attractions: Location near Airport; Manufacturing, Business Parks, Logistics Challenges: Land Acquisition, Funding Plan: Social Infra, BRT, transport hub, SWM</p>
<p>5 Sidoarjo East Java Pop 1.9m (3k sqkm)</p>	<p>Attractions: Agriculture, Highlands Challenges: Water Supply, attracting new business, funding Plan: Umbulan water supply pipeline</p>

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!

