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One Belt One Road

The Dilemma that Benefits the Nation

- **Roots in China's import and export patterns**
- **Porter's determinants of global competitiveness**
- **Strategic policy to utilize foreign capital**
- **Strategic infrastructure asset investment strengthens economic security**
- **The 'Malacca Dilemma' benefits Malaysia**

Roots in China's import and export patterns. Projects such as the East Coast Railway Line (ECRL) and Kuala Linggi International Port and Melaka Gateway Deep Sea Port have gained noticeable headlines in the news. The genesis of Malaysia's railway and port infrastructure largesse has its roots in China's export and import pattern to feed on its population as well as avoiding choke-points.

Determinants of global competitiveness. At Summer Olympic Games 2008 held in Beijing, China announced 'One World One Dream' as its theme. Then, in 2013 President Xi Jinping announced the Maritime Silk Road in Indonesia within an initiative called the 'One Belt One Road'. The success of the 2008 Summer Olympics is a preview of what will happen in its global economic competitiveness[1]. According to Michael Porter a successful framework for global competitiveness key determinants are;

1. Factor conditions; the nation's position in factors of production such as skilled labour or infrastructure necessary to compete in a given industry.
2. Demand conditions; nature of the home demand for the industry's product or service
3. Related or supporting industries; the presence or absence in the nation of supplier industries and related industries that are internally competitive
4. Firm strategy, structure and rivalry; the conditions in the nation governing how companies are created, organized, managed and the nature of domestic rivalry. [2]

Strategic policy to utilize foreign capital. China global competitiveness is manifested through (a) factor condition and (b) firm strategy and structure and related or supporting industries in our view is best illustrated with its policy to utilized its foreign capital in 3 major categories: (i) foreign loan, export credits, issuance of bonds overseas, (ii) direct foreign investment including Chinese-foreign equity joint ventures, wholly foreign-owned enterprises, Chinese-foreign owned co-operative development projects and (iii) international leasing, compensation trade, processing and assembly and issuance of stock overseas. China outward direct investment amounted to USD196.0bn in 2016 (+34.6%YoY) indicating the expansion China's interest in assets overseas. (Figure 1)

[1] Naisbitt, J. and D. China's Megatrends, The 8 Pillars of New Society (2010) Harper Business.
[2] Porter, M. The Competitive Advantage of Nations, (1990) Free Press

Strategic infrastructure asset investment strengthens economic security. The Straits of Malacca is 890km long and the United Nations Conference on Trade and Development (UNCTAD) cited that it accounts for nearly one-third global trade traffic. In 2016, USD3.37trn of global trade passes through the South China Sea (SCS) and China's export through SCS amounted to USD874bn – counting the Straits of Malacca as its main traffic artery. Additionally, close to 80.0% of China's oil import passed through SCS via the Straits. Hence, China's economic security is closely tied to SCS as over 60 percent of its trade in value travels by sea. The straits' narrowest point is 2.8km which makes it vulnerable to choke point. Consequently, it is important for China to increase the efficiency of logistics for its product and supplies and balancing the stable supply of materials from Africa, Middle East and South Asia.

The 'Malacca Dilemma' benefits Malaysia. Lastly, is the 'Malacca Dilemma' which is the over-reliance of the Straits of Malacca as main artery for shipping traffic. Notably, the cost of rerouting shipping traffic in the Straits if it is closed for a week would be USD64.5m and the cost of rerouting through other sea line of communication (SLOC) such as Lombok or Sunda Straits for one week is USD119.0m and USD64.5m respectively – worst cases is going through Australia and face a hefty USD650.9m[3] weekly cost. For example, in 1967 to 1974 Suez Canal was closed from rerouting shipments through Africa which costs USD2.8bn monthly for traders.

FIGURE 1: OTHER SEA LINE OF COMMUNICATION

Source: http://www.chinapower.csis.org

[3] http://www.chinapower.csis.org

Specific policies that bolsters infrastructure investment. Ministry of Foreign Affairs, China has disseminated an action plan (issued by the National Development and Reform Commission) in March 2015 announced out specific policy goals of the OBOR inclusive of:

a) Improving intergovernmental communication to effectively align high-level government policies such as economic development strategies and plans for regional cooperation.

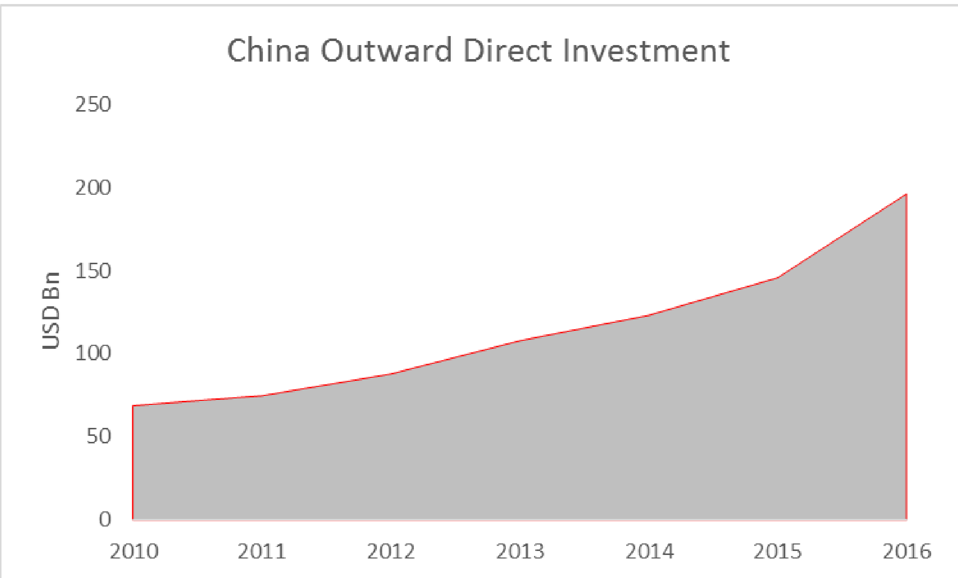
b) Enhancing the coordination of infrastructure plans to better connect hard infrastructure networks like transportation systems and power grids.

c) Promoting the development of soft infrastructure such as the signing of trade deals, aligning of regulatory standards, and improving financial integration.

d) Strengthening people-to-people connections by cultivating student, expert, and cultural exchanges and tourism.

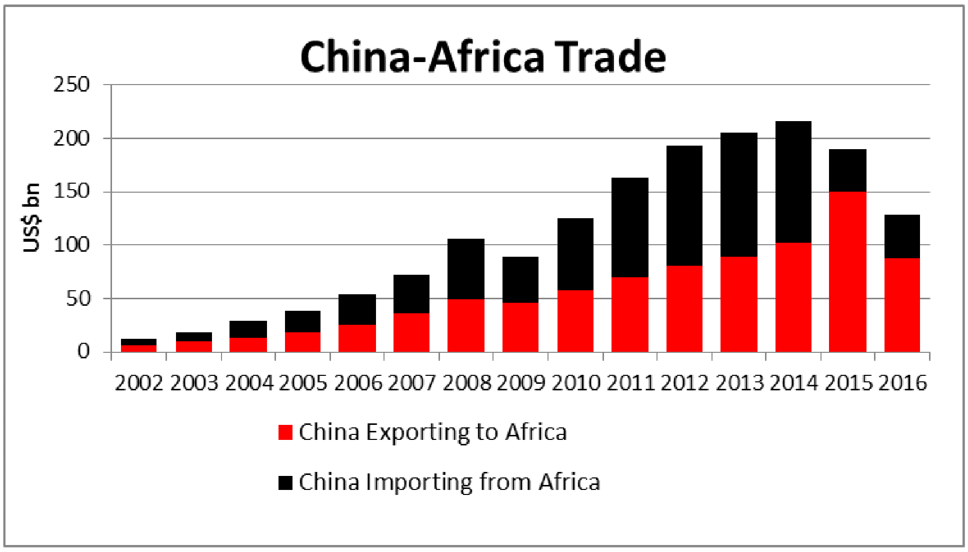
Reduction of shipping insurance cost through political stability. Pursuant to that trade impact i.e. increased export from Pakistan, India, Iran and Angola (Figure 4-8) is consistent having to supply raw materials to the China growing industrial need. Thus, connectivity is crucial especially for crude oil, crude palm oil, iron ore and other perishable good that carries a hefty insurance cost. It is estimated that premiums would increase to USD167.0m per month for goods transiting the Straits in the event of war.

FIGURE 2: CHINA ODI UPWARD TRAJECTORY



Source:CEIC.

FIGURE 4: CHINA-AFRICA TRADE

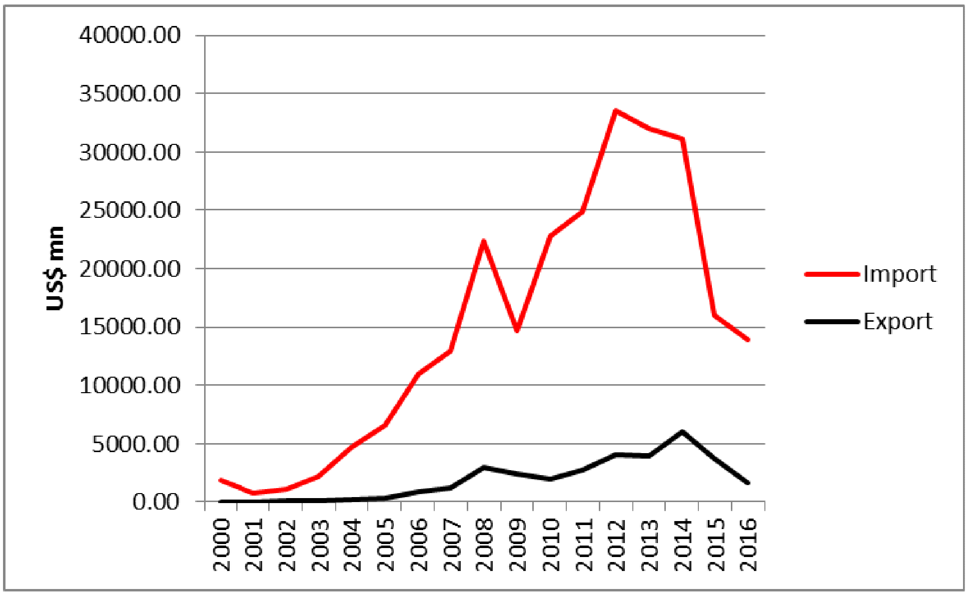


Source: CEIC

FIGURE 5: ANGOLA EXPORT TO CHINA (USD)

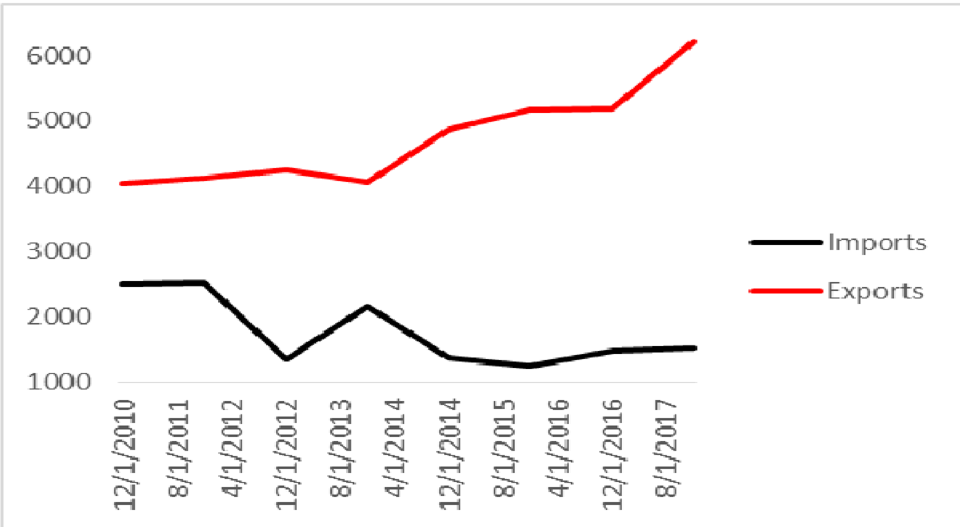
Source: CEIC

FIGURE 6: IRAN EXPORT TO CHINA (USD)



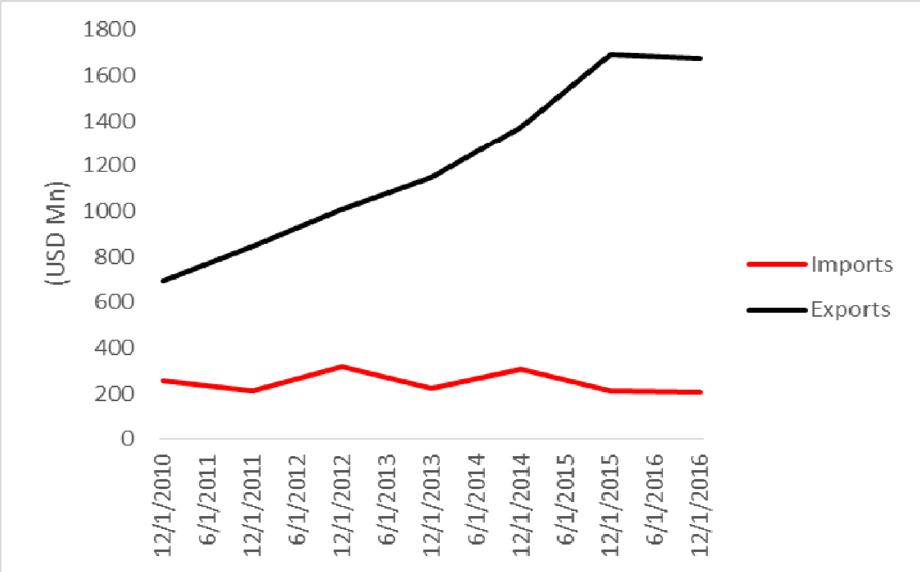
Source: CEIC

FIGURE 7: INDIA EXPORT TO CHINA (USD)



Source: CEIC

FIGURE 8: PAKISTAN EXPORT TO CHINA (USD)



Source: CEIC

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
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POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.