The Belt and Road Initiative: Its Relevance to the Philippines

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I. Introduction

The Belt and Road Initiative (BRI) is one of President Xi Jinping's foreign legacy projects and is planned to link the Chinese economy to Asia, Europe and Africa through different transport corridors. The overland route is connected to a maritime network that spans from Shanghai to Athens. BRI is mainly an infrastructure financing program being implemented in Asia, Europe and Africa now and in the coming years, under the initiative of China.

For countries along the Belt and Road corridor and needing infrastructure, the BRI provides the opportunity to invest in new railways, power plants, roads, ports, airports, dams, telecom systems and other projects.

This paper describes the promise and opportunity that BRI offers to countries along the Belt and Road network, and its relevance to the Philippines. The rest of the paper is organized as follows. Section II analyzes the link between infrastructure and growth. Section III explains the opportunities BRI offers to countries along the belt and road network. Section IV describes BRI and its relevance to the Philippines; and Section V provides the concluding remarks.

II. Infrastructure and Growth

Infrastructure is a critical input into the production, distribution, and supply of goods and services. Economic or core infrastructure (transport, power, water supply and sanitation, and telecommunication) is positively related to growth. Empirical estimates of output elasticities of infrastructure vary from 0.15 (implying rate of return around 30%) to 0.54 (implying rates of return around 100%). See Aschauer (1989), Straub (2011), and Bom and Lighthart (2014). Countries that have made concerted efforts to provide infrastructure in rural areas like China, Indonesia, and Malaysia, have succeeded in reducing poverty dramatically. Irrigation reduces chronic poverty by improving permanent income and reducing downside expenditure risks. The best way of increasing the impact of public expenditure and pro-poor agricultural output is to improve the composition of expenditures. Badly designed and managed infrastructure is a major source of

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environmental degradation in both urban and rural areas (World Bank, 1994; and Sawada, 2015).

In countries where the efficacy of capital is low, a more desirable course of action is to raise the efficacy of capital through maintenance of existing structures before generating new investments (Pritchett, 1996). In countries undertaking massive catch-up infrastructure build up, once basic infrastructure is in place, investment in maintenance may actually have a higher rate of return than new investment (Hulten, 1996).[2] Moreover, the efficiency of infrastructure investments likewise depends on the differences in the nature and efficiency of the regulatory framework, the quality of contracts, the political economy of the process, the quality of the local bureaucracy, and the level of corruption (Straub, 2011).

The bottom line of this debate is that while a consensus exists that infrastructure positively affects economic growth, the impact is not as big as some studies reported. The impact differs across countries, regions, and sectors; and the larger the infrastructure stock and the higher its quality, the lower will be the impact of additions to this stock (Romp and Haan, 2005; Straub, 2011). There is little consensus that emerged from the literature about the magnitudes of the effects of public investments in infrastructure. But there is consensus that the effects are positive, but substantially smaller than earlier estimates, and that the magnitude of the effects tends to be substantially higher for less developed countries. While infrastructure has a positive effect on growth, the issue of financing has not been addressed: is tax-financing preferable to debt-financing; does the use of the public-private partnership (PPP) affect the outcome; and does access to official development assistance (ODA) a better financing option? It is observed that public investment affects long-term private sector performance in an unbalanced way across industries and regions, and this outcome contributes to the concentration of economic activity in the largest sectors and regions (Pereira and Andraz, 2013).

III. Opportunities Offered to Countries Along the Belt and Road Network

BRI will try to establish a reliable infrastructure network within the corridors to promote trade, investment, and regional cooperation. The New Silk Road infrastructure will improve accessibility and connectivity between economic centers. The two types of infrastructure required are energy infrastructure and transportation infrastructure. The former involves gas and oil pipelines as well as related facilities such as distribution system and loading and unloading stations. The latter refers to road, rail, port, airport, and telecommunications network that enhances the opportunity to ease the flow of goods and services along the corridors. In addition to facilitating accessibility, the new infrastructure network likewise reduces the cost of transporting goods. In particular, transporting goods by rail will cost

[2] World Bank (1994) points out that inadequate maintenance imposes large and recurrent capital costs.

approximately 10% compared to transporting goods by road or by sea. The reduction in cost, time, and risk will benefit the countries in the belt and road route.

In addition, BRI will provide the mechanism to achieve regional cooperation and integration among countries along the belt and road route, and with China. The ultimate goal of BRI is to achieve not just physical connectivity among countries in the belt and road route, but also policy coordination, project cooperation, mutual understanding, and people-to-people connectivity.

IV. BRI and Its Relevance to the Philippines

BRI was proposed by President Xi Jinping in 2013 presumably to increase China's trade and infrastructure investment with nearly 70 countries along the ancient Silk Road routes in Asia, Europe, and Africa. The value of China's trade (imports and exports) to the Belt and Road countries is estimated at US$296 billion in the first three months of 2018. During the first five years of the BRI, China's trade with Belt and Road countries reached US$5.29 trillion, growing at an average annual rate of 4 percent. As of December 2017, 86 countries and international organizations signed 100 cooperation agreements with China under the Belt and Road Initiative (China Embassy, Manila).

BRI projects are unfolding in several Asian countries, such as Indonesia, Sri Lanka, Bangladesh, Kazakhstan, India, Cambodia, Laos, Pakistan, Malaysia, Kyrgyztan, Maldives, North Korea, Mongolia, Thailand, Singapore, Nepal, and Tajikistan.

BRI's effort to deepen economic links with economies in Asia is demonstrated by the establishment of two of the six corridors envisioned in the BRI plan.[3] These two corridors are the China-Pakistan Economic Corridor (CPEC) and the China-Indochina Peninsula Economic Corridor (CICPEC). The former is intended to deepen China's economic links with countries of South Asia, and the latter is intended to deepen China's economic relations with countries of Southeast Asia. CICPEC projects include, among others, the Kunming-Singapore High Speed Rail Network, Jakarta-Bandung High Speed Railway, Stung Treng-Mekong River Bridge (Cambodia), China-Laos Railway, and Bangkok-Nakhon Ratchasima Railway.

ADB (2017) has provided a comprehensive picture of infrastructure investment in Asia. Total infrastructure investment in Asia was US$704 billion (in 2005 prices) in 2011. East Asia (People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei,

[3] The other corridors are: (1) New Eurasia Land Bridge Economic Corridor, which runs from China to Kazakhstan, Russia, Belarus, Poland, Germany, and the Netherlands; (2) China-Mongolia-Russia Economic Corridor; (3) China-Central Asia-West Asia Economic Corridor, which starts in China to Kyrgyztan, Tajikistan, Turkmenistan, Iran, Uzbekistan, Kazakhstan, Turkey, and ends in the Mediterranean Sea; and (4) China-Myanmar-Bangladesh-India Economic Corridor.

China) accounted for 80% of the total (US$563 billion) while the Southeast Asian countries accounted only for US$40 billion of the total (which is 5.8% of total). In addition, in terms of investment to GDP ratio, Southeast Asia recorded the lowest at 2.1%.

In terms of sources of financing, China and Philippines rely heavily on the public sector to finance infrastructure. China invests significantly more than other countries in Asia. It spent an annual average of US$700 billion (in 2015 prices) during the 2010-2014 period. On the other hand, Philippines had a low to medium infrastructure investment to GDP ratio of below 5% during the same period (ADB, 2017).

Projections of infrastructure investment needs for Asian developing countries for 2016-2030 are US$1.5 trillion per year without climate change adjustment, and US$1.7 trillion per year with climate change adjustment. Southeast Asia alone needs from US$184 billion to US$210 billion per year (ADB, 2017). This estimate is approximately the same infrastructure investment requirement needed by the Philippines for 2017-2022 to fund its scaling up program.

The Philippines is embarking on a Build Build Build (BBB) infrastructure program for the 2017-2022 period. This program requires a total infrastructure financing requirement of US$200 billion The projects envisioned to be implemented in the BBB program are similar to the projects undertaken by the Belt and Road countries. Some of the BBB projects are funded by China official development assistance (ODA) via low-interest loans administered by the Asian Infrastructure Investment Bank (AIIB). However, the Philippines has not yet formally joined the BRI but ongoing meetings and negotiations between China and the Philippines are made with the aim of arriving at a common understanding of what infrastructure projects can be undertaken by the Philippines as part of the Maritime Silk Road. Definitely, the BRI is relevant to the Philippines as an alternative source of financing its scaling-up infrastructure program that is now being pushed and implemented by President Rodrigo Duterte. Just like the CPEC, the Philippines needs to invest in deep sea port in the North to connect to the Maritime Silk Road. In turn, roads, railways, bridges and power plants are needed to connect the port to the rest of the country where producers of goods and shippers are provided with the logistical support and physical connectivity to access and utilize the port. This in essence makes BRI important to the Philippine economy. It enhances trade and infrastructure link with China and the rest of the global market.

V. Conclusion

As a consensus is building up in the empirical literature on the positive effect of infrastructure on economic growth, Belt and Road countries are provided the opportunity to increase the quantity and improve the quality of their infrastructure stocks via the Belt and Road Initiative of China. Since the Philippines is embarking on an infrastructure build up, and

since it is likewise one of the countries along the Belt and Road routes, the Belt and Road Initiative (BRI) is relevant to the Philippines, and is consistent with its development plan to deepen trade and investment relations with China and with the rest of the Belt and Road countries.

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