

# NO SEAT AT THE TABLE

## CHINA-LED BELT AND ROAD IS THE PROJECT OF THE CENTURY.

### AUSTRALIA'S REFUSAL TO SIGN AN MoU IS ALREADY HAVING CONSEQUENCES.

**INDUSTRY-INFRASTRUCTURE** Andrew Parker shakes his head in complete frustration. While business and governments around the world are gearing up for a once-in-a-century opportunity, Australia doesn't even have a seat at the table. "We are missing in action to participate in one of the biggest infrastructure projects of our generation," he says.

He is talking about the China-led Belt and Road Initiative (BRI) that potentially involves trillions of dollars of infrastructure development across 65 countries through East and Central Asia, Africa, Europe and the sub-continent over the next 20 to 30 years. It is predicted to have an impact on 4.4 billion people and one third of the global economy and includes roads, railways, ports, waste and water management, power plants, airports and pipelines. Most provinces in China have their own Belt and Road plan and banks have announced funding plans to back the vision.

More than 60 countries have now signed a memorandum of understanding (MoU) for what President Xi Jinping described in May as the "project of the century" but Australia is refusing to sign. We are missing in action at a crucial time in history, says Parker, leader of PwC's Asia Practice.

"My colleagues overseas are in talks with business about all the opportunities. And in Australia? Almost nothing," he says. According to Parker, signing the MoU doesn't commit Australia to anything. "It's a promise to look at future opportunities to connect Australia with, and a ticket to participate in, projects along the Belt and Road," he says. "So, we should sign it and have a look at what we can do."

The opportunities don't just stop with the infrastructure. A report by PwC, *Repairing the Ancient Silk Routes*, points out that the infrastructure will be supported by an extensive ecosystem that will provide opportunities for international companies. "Enterprises from both China and Belt and Road countries will seek to partner with foreign companies which have globally recognised skills and capabilities," the report says.

Since the announcement of Belt and Road in 2013, there have already been a number of key milestone achievements, including the first China-UK transnational freight train, which last January completed its 12,450km journey through seven other countries in just 18 days. Also, the Jakarta-Bandung high speed rail project, for which the construction contract was signed in April 2017, is another flagship BRI project which fully adopts Chinese railway technological standards, the report says.

Foreign multinationals have now become established equipment suppliers to Chinese engineering, procurement and construction companies, benefiting from a boost in orders both in third party markets as well as in China. Many of these companies have previous experience in large scale projects in the complex environments that many developing countries present. This is typical of BRI projects, with foreign companies able to establish connections with local stakeholders. "Australia has so much experience at this," Parker says. "We have huge expertise in engineering, construction, project management and project financing.

We have the third largest pool of superannuation funds in the world. There is a lot we can offer." Not only that, but as the official action plan for Belt and Road points out, the initiative is open for cooperation – to all countries and international and regional organisations for engagement, including investment in projects in home countries. "Take the fast rail between Melbourne and Sydney," Parker says. "We mightn't ever get around to that ourselves but China might have a good reason for coming in with us to get it built. China also sees great potential in developing northern Australia and connecting Darwin with the maritime silk road." Yet the federal government has not taken the first step

is a positive thing," he says. "There is the great challenge of managing our way in a world where our major trading partner is not an ally or our security guarantor. We need to be more confident in making choices that suit Australian interests." As Peter Cai from the Lowy Institute says in a report called *Understanding China's Belt and Road initiative*, many foreign analysts view the initiative through a geopolitical lens as Beijing's attempt to gain political leverage over its neighbours. And, he says, there is no doubt that its part of Beijing's strategic calculations. However, the key drivers, the Lowy report notes, are largely motivated by China's pressing economic concerns. It is hoped the initia-

tion will be seen as having thumbed our noses at the Chinese and for no obvious gain." He says Australia has a great interest in seeing the BRI built. "Our neighbours will be more prosperous, good trading partners and a happy neighbourhood is a safe neighbourhood," he says.

Parker urges business to be aware of what China is doing and where the projects are located. "The business community has to educate itself about the Belt and Road and then help the government to understand its importance and the opportunities," he says.

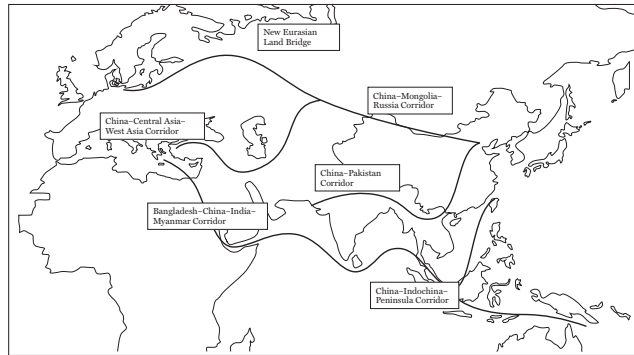
He urges businesses to read the reports and start to think about how they might participate, starting with a strategic evaluation as to which BRI projects to be involved in.

As the report notes, this can be achieved with a commercial viability assessment to establish market supply and demand and address to what extent companies are reliant on host-country incentives. Other things to consider are the maturity of the supporting ecosystem and understanding how the particular project complements the company's other similar projects.

He also urges business and industry groups to talk to government about the MoU. "If we are at the table we can better influence outcomes," Parker says. "We can insist on things like open procurement standards and that projects go through proper processes."

Parker says he is already seeing the consequences for Australia. "Our colleagues in the region are already working on projects for global engineering and construction companies seeking to understand the role they could play. But here in Australia there is not a lot of inquiry or discussion or interest," he says.

Parker acknowledges the significant risks which need to be evaluated. "But there are risks in all projects and knowing the risks is part of the process," he says.



Map from *Repairing the Ancient Silk Routes* Report by PwC Australia. View online at <http://pwc.to/2uJLjyz>

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and signed the MoU. "New Zealand signed the MoU in a heartbeat and so too has Singapore, both countries we would generally consider to be like-minded when it comes to issues of national security. Japan is also considering it," he says. Parker says it is a symptom of growing tensions as China becomes economically stronger and demands a greater say in world affairs and the US retreats under President Donald Trump. "There is deep confusion and lots of different opinions between those who think BRI is a plan for Chinese regional domination and those who think any idea that gets much needed infrastructure built in the region

will spur growth in China's underdeveloped hinterland and rustbelt and be used as a platform to address China's chronic excess capacity by migrating its factory surplus and exporting technological and engineering standards. This is a crucial part of China's ambition to become an innovation-based economy and a leader in research and development. Parker says he can't predict how China will respond to our refusal to sign. "China would like Australia to join but the Belt and Road will go ahead whether we like it or not," he says. "There are a lot of unanswered questions about the BRI but we are better off influencing outcomes

#### RISKS ASSOCIATED WITH THE BRI PROJECTS:

**Geopolitical risks:** Changes in political regimes or in bilateral relations between countries involved in BRI during a project's lifespan.

**Funding risks:** Funding gaps and host countries' varied ability to repay loans, exacerbated by higher capital and debt service ratios of BRI projects.

**Operational risks:** A lack of experience in delivering and managing complex transnational projects, leading to delays and cost overruns.

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