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Infrastructure Projects in Southeast Asia
Some of them are under review

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In several Southeast Asian countries, review has been under way on the infrastructure projects that have been supported by the Chinese funds. Most prominent are the cases in Malaysia where the opposition coalition led by Mr. Mahathir Mohamad won the election held in May and a change of governments took place.

The new government of Prime Minister Mahathir determined immediately after its establishment to scrap at its planning phase the high-speed railway project linking (KL in) Malaysia with Singapore. After that, it disclosed that it had noticed the involved affiliated companies of the Chinese National Petroleum Corporation (CNPC) to suspend all operations on the construction of two pipelines to be built across the Malay Peninsula and in the Borneo island in eastern Malaysia. Further, in early July, it announced the discontinuation of the "East Coast Rail Link" (ECRL) project which was to connect the suburban area of Kuala Lumpur and the northern area near the border with Thailand. The ECRL project, whose construction started in August 2017, is one of the biggest projects in Malaysia with total running distance of 688 km and total cost of ¥1.5 to 2 trillion. In both cases, review was made by prioritizing fiscal consolidation and based on the profitability of the projects.

Meanwhile, the Myanmar government revealed its intention to demand a downsizing of operations to a consortium of Chinese companies which is developing the port facilities in the Kyaukpyu special economic zone located in Rakhine State in the western Myanmar. It was mainly because the government evaluated that the operations in the Kyaukpyu SEZ would not generate profits enough to compensate the business cost of an estimated ¥1 trillion as it is situated relatively away from Yangon, the largest city in Myanmar.

These reviews of infrastructure projects in both countries have partly resulted from a re-evaluation of their profitability made under severe fiscal situations. In Southeast Asia and South Asia, many countries have been experiencing fiscal deficits and a high level of public debts and Malaysia and Myanmar are no exceptions (Figures 1 and 2 below).

Also, there is a fear about their large dependence simply on Chinese fund in financing these projects. In this regard it may be the case of Hambantota Port of Sri Lanka that gave a large impact on the decisions in these countries. In Sri Lanka, the Port of Hambantota in the southern area of the country, was constructed in the time of previous administration under the financial support from the Chinese government and was opened in 2011. However, the government could not meet the repayment of the debts due to low operation ratio and low profits thereof, and it was forced to agree in December 2017 with a group of Chinese companies on a 99 year lease arrangement of the port in exchange for an exemption of the debt payments amounting more than $1 billion. The United States and India seem to be worried about the possibility that the port may be used by China for a military purpose.

Figure 1 : GDP Ratios of Fiscal Balance
(in % of Nominal GDP, 2017)

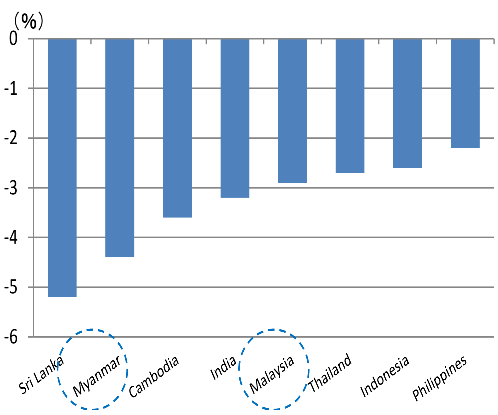
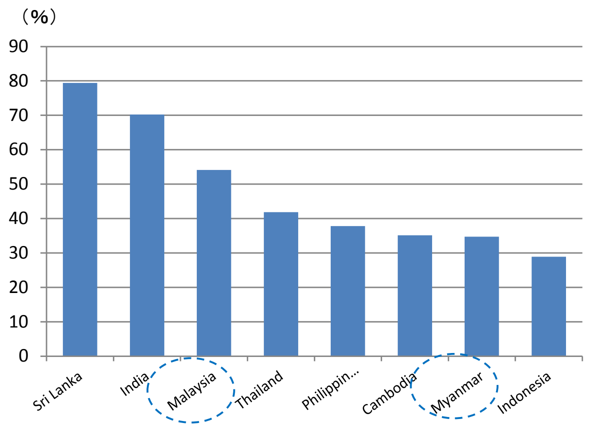


Figure 2: GDP Ratios of Public Debt Outstanding
(in % of Nominal GDP, 2017)



(Source) IMF Website, National Data

As for the infrastructure projects reviewed in Malaysia, it is reported that there was a view that another bidding would be held in a way to invite companies excluding Chinese ones. According to the estimate of ADB, there is an enormous demand for infrastructures in the Southeast Asian region amounting as much as ¥300 trillion by 2030. This indicates that there is a strong necessity for each country to improve various infrastructure operations. It may be fully conceivable that a project once scrapped will be reconsidered to revive, but in that occasion, careful reassessment should be made especially in respect of (i) scale of the operations with profitability of the project taken account of, (ii) outsourcing companies of the construction and management work of the project, and (iii) means for financing. In case these countries do not have a sufficient skill to determine on these, they should be encouraged to use the consulting functions that the multilateral development banks like the World Bank or ADB provide.