



ON THE ROAD

China's Belt and Road Initiative offers tremendous opportunities, even for Singapore SMEs that lack scale

BY VIVIEN SHIAO

CHINA'S Belt and Road (B&R) Initiative, its most ambitious project to date, has got both businesses and governments buzzing about its potential to reshape the global economy. Aimed at reviving the ancient Silk Road trading routes, the B&R encircles the world through two main paths – the first connects China, central Asia, the Middle East and Europe by land, while its maritime counterpart links China to South-east Asia, Africa and to Europe.

Through it, China hopes to promote integration, boost trade and stimulate growth through massive infrastructure investments across the globe.

Since the idea was mooted by Chinese President Xi Jinping in 2013, the mammoth plan has almost 70 countries and international organisations involved, with China pledging at least US\$113 billion in extra funding in May this year. The sheer amount of investments poured into the project is dazzling, and it is no surprise that everyone wants a slice of the pie, even small and medium-sized enterprises (SMEs).

The SME Magazine looks at what opportunities are available for Singapore companies that lack scale and yet still want to have a taste of what the B&R can offer.

OPPORTUNITIES

While the concept of B&R has been floated the past few years, many SMEs are still uncertain of what it entails and whether there is a place for them in the grand scheme of things.

It may be true that many of the projects are large in scale and currently concentrated in the infrastructure sector, but this not does automatically disqualify SMEs. Says Ho Meng Kit, CEO of Singapore Business Federation (SBF): "Opportunities in B&R are versatile, and applicable both to big players as well as SMEs."

The key for smaller SMEs, with their limited financial and technological resources, is not to compete head-on with larger firms. Mr Ho adds: "Instead, Singapore companies should focus on being more proactive and explore their relevance to B&R, looking at how to partner with large firms to seize opportunities."

There are many ways that SMEs can explore partnerships: collaborating with Chinese companies in Singapore, playing a role as a third-party collaborator, and forging a partnership with larger companies on projects as a sub-contractor.

Pong Chen Yih, principal, Baker MacKenzie Wong & Leow says that the collaboration of International Enterprise (IE) Singapore and Chinese banks has made a significant pool of funding available for Singapore and Chinese companies for B&R projects. This, he says, can give rise to opportunities for direct joint ventures with Chinese companies.

SMEs would also do well to realise that the B&R would provide opportunities within Asean as many of the projects would span across multiple countries in the region, says

Mr Pong. "It is likely that SMEs with a focus on specific infrastructure project expertise, or belong to part of the supply chain of any of the larger companies will stand to benefit from the massive number of infrastructure projects across the region," he says.

In addition, technology-related SMEs will also stand to benefit, especially firms that place an emphasis on the provision of information technology (IT) solutions, he adds.

Other new areas of development that China is looking at include telecommunications, e-commerce, marine and green economy, says Chong Kok Keong, CEO of Global eTrade Services (GeTS), subsidiary of CrimsonLogic. This is guided by China's vision of "innovative, coordinated, green, open and inclusive development", he adds. Companies that play to their strengths in those respective areas will certainly benefit, Mr Chong says.

PARTNERSHIP IS KEY

For companies in Singapore and China, much of what is being advocated by the B&R is already in motion, says Roland Ng, president, Singapore Chinese Chamber of Commerce & Industry (SCCCI).

"Singapore businesses are venturing overseas and gaining a wealth of experience. Chinese enterprises expanding internationally, especially in the South-east Asia region, can use Singapore as a regional headquarters for finance and investment," he says.

With the city-state's deep expertise in logistics, project development and services, it is well positioned to be a base for Chinese enterprises venturing into Asean, adds Mr Ng.

An estimated 6,500 Chinese companies are represented here, twice that of five years ago, which present plentiful partnership opportunities.

Mr Ho says: "SMEs should integrate existing resources and find common ground with their Chinese counterparts to convert them from competitors to partners. Many Chinese enterprises face obstacles in areas such as the local language and navigating the cultural and business landscape when they expand into South-east Asia."

For example, he has observed that China's e-commerce giants such as Alibaba and JD.com have focused on expanding into South-east Asia because of the region's growth potential. But Chinese enterprises need firms familiar with the region to overcome the fragmented and diverse South-east Asian markets.

Singapore companies can capitalise on this by taking the lead in navigating regional markets that they are familiar with, he advises. With their stronger business, distribution and logistics networks in the region, SMEs can play a vital role in third-party collaboration.

Aside from partnering with Chinese firms, Mr Pong adds that SMEs must be willing to innovate and be open to

working with the big local companies so as to gain exposure and traction. “It is a win-win situation where the reputation of the larger company may be tapped on the one hand, and the expertise of the SMEs may be tapped on the other.”

He points out that many SMEs are still hindered from participating in global projects as they are considered “untested” and undergo an extensive due diligence process that can be troublesome. Joint ventures or partnerships with larger local companies with a track record is one way to gain a foothold in the international market.

SMEs that are uncertain of where to start can partner trade associations and chambers such as the SBF or SCCCI. The SBF organises overseas in-market workshops in key target markets including China to help SMEs gain first-hand experience of market conditions and facilitates networking with potential local business partners.

The SCCCI has also been assisting business matching between companies in Singapore and China. The IE-SCCCI Singapore Enterprise Centre based in Shanghai was launched in 2013 to help SMEs venture into China and provides a full suite of advisory services. It is a collaboration with government agency International Enterprise Singapore.

Most recently, it officially opened its Representative Office in Chongqing and led a delegation to explore local investment opportunities in July. Mr Ng explains that Chongqing is a strategic location as it bridges the “Belt” and the “Road” together. He says that by setting up the Representative Office in Chongqing, the SCCCI hopes to provide more companies in the west of China to expand overseas through the Singapore platform, while promoting the western China market to Singapore companies.

GOING FOR IT

One SME that is keen on B&R is Ademco Security Group. Group managing director Toby Koh says that a major opportunity for the company would be in the massive amount of new infrastructure and investment committed into



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the initiative, which would require “substantial physical security solutions”.

He says: “The second opportunity, which is what I am more excited about, is that B&R is a project where the very concept of what security design can be is revolutionised in line with the Chinese government’s ambitions for change and success. It is a clean slate to leapfrog current concepts and practice.”

To get a foot in B&R projects, Mr Koh says, the firm is keeping close relations with partners such as Huawei and other information and communication technology (ICT) related large Chinese local enterprises. Teaming up with large entities which have “deep connections” into the local and state political and commercial machinery is critical for SMEs, he says.

The group is also gaining interest from its client base – a majority of which are Fortune 500 companies – to serve as the security vendor to assess risk in the early project stage.

As for trade management firm GeTS, Mr Chong sees the growth of e-commerce as “especially exciting” when it comes to B&R opportunities. “It means more cargo, goods and parcels will move cross-border to other markets, and all these trade activities require adhering to trade compliance measures.”

As an SME, GeTS works with its partners to establish the necessary footprint within the market. Mr Chong explains: “For our business in trade compliance, we are focusing on accelerating cross-border trade, and it is important for us to drive the network effect of setting up local nodes. The more nodes there are, the more cities and markets a local shipper can link to.”

For example, it has recently launched a programme called “hive” – highly inter-connected and vibrant in e-trade – in collaboration with Singapore

Logistics Association. The programme will provide members of Asean Freight Forwarder Association a single platform to promote members’ collaboration, which will result in more efficient trade flows among Asean countries and with countries outside Asean, he says, adding: “Once ‘hive’ is launched, shippers in China can also leverage on ‘hive’ to have better market access to Asean.”

Homegrown logistics company Ninja Van is also actively tapping opportunities in B&R by seeking partnerships with China-based e-commerce merchants and freight forwarders that wish to access South-east Asian markets. It is in the process of building its cross-border capabilities such as local custom clearances and line hauls from China into the respective Asean countries.

It can currently provide end-to-end service for regional e-commerce marketplaces based in China that have customers in Singapore, and will soon be able to do the same for Malaysia and Indonesia. “Some of the top China courier and cross-border companies are our clients, and we assist them with Singapore customs clearance and last mile deliveries,” says a Ninja Van spokesman.

The company believes that cross-border e-commerce will continue to grow “significantly”, and consumers in the region will stand to benefit from cost savings as well as access to a larger variety of goods from other markets.

CHALLENGES AHEAD

Embarking on B&R is not expected to be a bed of roses for any non-Chinese company – big or small – and geopolitical, credit and operational risks are aplenty. SMEs which venture into such territory may encounter long pay-off periods, particularly for projects in less developed countries, says Mr Ho.

There is also the possibility of currency fluctuations and tax changes, together with uncertainty of forecast demand. And while the amount of B&R financing pumped in by the Chinese government is huge, it is not possible for companies to secure the financing that they need.

Finally, details of B&R are still rather hazy at this point, resulting in some companies still adopting a wait-and-see approach.

But while some risks lie beyond their control, Mr Ho suggests that companies adopt strategies to mitigate these potential obstacles. He points out that the government offers various incentives to support internationalisation, and SMEs can seek financing support from them through the SME Equipment and Factory Loans and the Internationalisation Finance Scheme.

Baker McKenzie Wong & Leow’s Mr Pong says that in this digital age, companies regardless of size will be able to provide their services internationally as long as they are willing to discard traditional schools of thought and engage in innovation. He adds: “SMEs should no longer view themselves as peripheral players in the market but should instead understand that they form a crucial part in ensuring the success of the B&R Initiative.” ■



GETTING CONNECTED
China hopes to use the Belt and Road initiative to promote integration, boost trade and stimulate growth through massive infrastructure investments across the globe

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