Perception of Belt and Road Initiative (BRI) from the Perspective View of Logistics Service Providers in Malaysia

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Abstract

The purpose of this research is to discover the perceived importance of BRI (Belt and Road Initiative) in worldwide and its effect towards warehousing and distributions planning in Malaysia. This study will be conducted through interviews with logistics service providers (LSP) in Malaysia. Based on the inputs collected from interviews with five managers from four LSP, most of the interviewees are aware of the importance of the BRI in the worldwide. From the interview, they believed that BRI will helps to improve transportation infrastructure, improvement in world economy, unimpeded trade and financial integration. This paper will discuss some positive and negative effects have been brought to the warehousing and distribution planning in Malaysia. This paper further suggests some opportunities that brought by BRI to Malaysia. This paper will provide some useful guidance for the government and policy makers in evaluating the effect of BRI to Malaysia.

Keywords: Belt and Road Initiatives, Logistics Service Providers, importance, Infrastructure connectivity, Warehousing, Distributions Planning, China, Malaysia

1. Introduction

An ambitious initiative was announced in September 2013 by China President Xi Jinping. This initiative was proposed as “One Belt One Road” or “Belt and Road Initiative”, comprising of the “21st century maritime Silk Road” and “New economic belt of the silk road” [1]. This multibillion dollar project has once been called a Chinese Marshall Plan by connecting Asia, Africa and Europe into a broad catchphrase [2]. It is a global economic interconnectivity project which aims to connect the countries. The “Belt” refers to the overland routes and railway transportation (The Silk Road Economic) that aims to make a connection between Europe and China through Central Asia for Chinese trade and production. While the “Road” refers to the ocean routes or knowns as “21st century maritime Silk Road” that aims to improve Chinese maritime trade through the Horn of Arica, Europe and Southeast Asia [2]. China desires to develop their economic and trade market through this initiative [3]. Hence, it is aiming at stimulating economic development in a vast region covering sub regions in Asia, Europe and Africa, which accounts for 64% of world population and 30% of world GDP [4].

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2. Literature Review

2.1 Importance of BRI in the worldwide

Unimpeded trade refers to the efforts in improving investment and trade facilitation by removing trade barriers by creating a desirable business environment among the countries participated. President Xi is promoting China as the new global champion of free trade (Cai, 2017)[5]. The efforts invested have loosen the restrictions and facilitated trade and investment in the participating countries and regions. The total volume of trade between China and the BRI countries reached RMB 6.3 trillion yuan (USD $915 billion) in 2016 [6]. The value of its oversea project contracts in countries along the BRI increased by 36 percent to USD $126 billion, and China’s direct investment in those countries accounted for 8.5 percent of its total outbound investment (CCIEE, 2017)[7]. Chinese companies have established 56 economic and trade cooperation zones in over 20 countries along the BRI, helping the participated countries create nearly USD $1.1 billion in tax revenues and 180,000 job opportunities (Xinhua, 2017)[8]. According to [8], BRI has increased trade flows among the participating countries by up to 4.1 percent. Besides, BRI can also improve the trade model innovation, such as development of e-commerce into a dynamic factor that drive the economic growth [7]. In 2018, the total value of retail goods imported and exported through the cross-border e-commerce platform of China Customs reached USD $20.3 billion, growing by 50 percent on yearly basic [6]. All these achievements could be attributed to the BRI efforts of promoting unimpeded trade and cooperation between all participating countries.

2.2 BRI in Malaysia context

The major objective of this initiative is to build a cooperative, peaceful and interdependent world to promote social prosperity and mutual economic development [3]. The project involves a building of railways, roadways, maritime ports, oil and gas pipelines, power grids, and associated infrastructure projects across 65 nations. The result of this effort is evident in the breathtaking development of China’s high-speed rail sector. Premier Li Keqiang has personally marketed Chinese-made high-speed to Thailand, India, Indonesia, and Malaysia [5]. All of these countries are considered to be key strategic partners in OBOR. Since Malaysia is also a part of BRI, China has invested in the building of facilities including East Coast Rail Link (ECRL) which has been signed on November 2016. ECRL is one of the largest BRI projects in Malaysia and it is a railway link project that carries both cargo and passengers. After a brief pause since 3th July 2018, Malaysia has just agreed to resume the ECRL project [9]. Other major projects under the BRI are including Malaysia-China Kuantan Industrial Park in Pahang, Melaka gateway and Xiamen University Malaysia [10].

2.2 Malaysian logistics service providers in review

Logistics and supply chain management are the key components in the competitiveness of a country’s trade. On top of that, warehousing and distribution planning are parts of logistics and supply chain management. The development of
these industries is significant to developing country like Malaysia because China will spur greater investment into Southern European’s transport infrastructure, logistics and warehousing through the newly built transportation infrastructure and thus increases the volume of trade. Infrastructure connectivity is an important element on BRI, as every participated country have made an effort to build a comprehensive and composite infrastructure framework centered on railways, roads, shipping, pipelines and integrated space information networks. Insufficient infrastructure has been restricting the economic development in those developing countries such as Malaysia, Myanmar and others. Therefore, transport and logistics services are essential in the growth and development of a country by facilitating international trade [11].

According to the international Logistics Performance Index (LPI) 2018, Malaysia scored an average of 3.22 out of 5.00, 5 being the best, and ranked 41 out of 163 countries [12]. As the number may seem average, but the number have been decreasing since 2014. The LPI for Malaysia at 2014 was 3.59, but ever since then, it has been decreasing up to last year, 2018, at 3.22 [12]. The World Bank developed this LPI and serves as a benchmarking tool for measuring business performance along a country’s supply chain, in terms of its efficiency of the customs, the logistics infrastructure, the ease of the pricing of the shipments, the reliability of the logistics, the information technology system and lastly the timeliness of the logistics of a country [13]. Based on the past data posted in The World Bank in year 2016, the ranking of Malaysia was 32th place on the LPI and scoring 3.43. It showed the performance of logistics industry in Malaysia was dropping and it would certainly raise concerns. BRI was launched since 2013, and its objective is to improve infrastructure connectivity and logistics efficiency among the participated countries. The statistic results of LPI seem contradict with the objectives that set in BRI by helping its partner country to improve its logistics infrastructure. This line of thought is somehow consistent with Cheng [14] who claimed that the specific contents of BRI are still evolving and commentators differ in speculating what its real objectives are. In this connection, this study aims to examine the Malaysian logistics service providers’ perception towards BRI by interviewing them. Hence, this study aims to provide some recommendations to the government of Malaysia and China to enhance the cooperation between both countries based on the research findings.

3. Research Methodology

This research will adopt the qualitative approach using semi-structured interview method to collect data. Interviews were considered the most suitable method to provide answer to this early stage of the implementation of BRI. This study has interviewed five managers from the four well established LSP that have registered themselves as a member of FMFF (Federation of Malaysian Freight Forwarders). The FMFF which was registered in 1987 is the acclaimed National Association representing freight forwarders in the logistics industry. In 2000, the Ministry of Transport endorsed and recognized FMFF as the national association to represent the Malaysian logistics industry (http://www.fmff.net/). FMFF consists of several freight forwarding associations. Therefore, the company members of these freight forwarding associations which are members of the FMFF will be considered in the sampling frame. These company members are
listed in the Malaysia Logistics Directory 2018/2019 developed by the Marshall Cavendish (M) Sdn Bhd – Business Information. This listing will be adopted because of the nature of its recent directory information and the publication is also endorsed by the Ministry of Transport Malaysia and FMFF. Since the Malaysia Logistics Directory 2018/2019 is perceived to be the most comprehensive yet local listing of freight forwarders. The sampling frame relying on this list will contain most of the freight forwarders representing LSP companies in Malaysia.

4. Results

A semi-structured interviews with five managers from four Malaysian LSPs were conducted. The interviews involved two local, one foreign and one joint venture LSPs who operated in a range more than 3 years up to 26 years, with revenue growth varied from 7% to 20%. In each company, the person most knowledgeable about the BRI, warehousing and distributions planning have been selected in the interview. Two of the interviewed persons represented marketing and sales planning, another two were CEOs or other managers. Interviews were semi-structured which mean the questions have been set and they will be giving their comments on those questions like, what is the effect of BRI to the warehousing and distribution planning? What is the opportunity that brought by BRI to their business? Each interview lasted from 1 to 2 hours and were all tape-recorded. Table 1 summaries the interview results. Based on the inputs collected from interviews with five managers from four LSP, most of the interviewees are aware of the importance of the BRI in the worldwide. All the four LSP companies were fairly shared some positive and negative comments on the BRI.

Table 1. Summary of information from the companies interviewed

<table>
<thead>
<tr>
<th>Company</th>
<th>Interviewed persons</th>
<th>Type of Ownership</th>
<th>Years of operations</th>
<th>Perception on BRI</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>CEO</td>
<td>Local</td>
<td>3 years</td>
<td>Positive:</td>
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<tr>
<td></td>
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<td></td>
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<td>1. More job opportunity</td>
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<td>2. Better infrastructure</td>
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<td></td>
<td>3. Increase in FDI</td>
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<tr>
<td></td>
<td>General manager</td>
<td>Local</td>
<td>3 years</td>
<td>Negative:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1. Corruption</td>
</tr>
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<td></td>
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<td>2. Smuggling</td>
</tr>
<tr>
<td>A</td>
<td>Marketing manager</td>
<td>Local</td>
<td>20 years</td>
<td>Positive:</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1. Increase import and export</td>
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<td></td>
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<td>2. Improve connectivity</td>
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<td>B</td>
<td></td>
<td></td>
<td></td>
<td>Positive:</td>
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<td></td>
<td>Improve in ICT and IoT</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Negative:</td>
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<td></td>
<td>Challenge due to lacking of</td>
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</tbody>
</table>
4.1 Effects of the BRI to the warehousing and distribution planning

According to the CEO in company A who stated that the BRI will definitely bring both positive and negative effects to the warehousing and distribution planning in Malaysia. On the positive side, BRI will help to increase demand of warehouse which needed to store finished goods. Improvement in warehouse and distribution infrastructure can attract more foreign investments. Increase in foreign direct investment (FDI) and job opportunity will therefore improve the economy of a country. With a better infrastructure connectivity, it will create more convenient for the participating countries to export or import goods through the improved transportation infrastructure that are being built in BRI project. Besides, the CEO in company A have seen a Malaysian corruption scandal as the dark side of the BRI project. His perspective is somehow consistent with Wright and Hope (2019), the senior Chinese officials have offered to help Malaysia’s ex-prime minister Najib Razak on escaping a financial scandal, if Najib Razak is willing to sign on to a huge railway and pipeline project that would be built at an unreasonable price by Chinese state companies and these projects is part of the BRI project. He is also foreseen there might be a possibility of increasing smuggling activities and corruption in custom department due to high transaction of import and export in Malaysia because of BRI. According to the general manager in company A who could see a positive side of BRI by claiming that BRI will provide the expansion needed by the Malaysian supply chain with the creation of deep seaports and new railways. BRI will be able to increase the import and export of Malaysia through the advancements of infrastructure. This is because BRI plan to connect the new railway link with all the ports in Malaysia to reduce the congestion and improve connectivity among its nation. With this new railway, more ports and hubs can be fully utilised, while improving warehousing and distributing services in Malaysia.

Marketing manager in company B see a positive side and negative side of BRI, as it is focusing on the Digital New Silk Road by integrating the ICT (information and communication technology) and IoT (internet of things) technologies. BRI
plan to develop e-commerce, digital economy smart cities and technology parks along the physical Silk Road. These ICT and IT involves in real time traffic monitoring and storing the data for a better use in the future. Introducing both physical and digital infrastructures into Malaysia will be a challenge, due to lacking of expertise and technical skills to handle such infrastructure. The local warehousing and distribution companies may need a huge amount of capital to locate new high-tech industries and research lab to connect with the high-tech logistics system.

Sales manager in Company C claimed that BRI could help to reduce transit time and distance because of ECRL that connects Pahang, Kelantan and Terengganu of East Coast to Selangor, Negeri Sembilan and Putrajaya through railway. Although this project was suspended since July 2018, it is now resumed on April 2019 [16]. Long transit time and distance is mainly due to geographical barriers such as mountain and rivers. By using ECRL, it will improve transport infrastructure and reduce geographical barriers with tunnels and bridges, the travel time from Putrajaya to Kota Bharu, Kelantan will be reduced to 4 hours from 7 hours. ECRL will be expected to reduce uncertainty and increase reliability of transit time as time of arrival of goods at the station can be known and traffic congestion will not be happened in railway. Uncertainty in transit time will increase warehouse cost as more inventory is needed to be kept as buffer stock to protect against uncertainties. Although ECRL helps to connect rural areas in the east coast, he was more concerned on the environmental issues. His view is consistent with Aswad [17] who claimed that the high speed train line (ECRL) would cut through several major rivers and dissect hundreds of hectares of protected forest in the Central Forest Spine (CFS).

Distribution manager in Company D stated that EDTP (electrified double tracking project) will increase the demand in housing in several regions. Malaysia-China Kuantan industrial Park, Gemas-Johor Bahru electrified double tracking project (EDTP) and Melaka Gateway are the projects to develop a new railway that links Gemas of Negeri Sembilan to Johor Bahru. It will be consisted of 14 stations and this project was awarded to a China company, China Railway Construction Company (CRCC) in the year 2015. Besides, the IT level will be enhanced because of greater technology knowledge transfer from China to Malaysia through BRI. For example, Malaysia will use drones in courier service industry within 5 years, but JD Logistics, a major logistics provider in China already use larger drone for cargo delivery in year 2018. Therefore, BRI can helps to enhance the speed of technological progression and bring technology advancement to warehousing and distribution planning in Malaysia. Meanwhile, she was also seeing a negative side of BRI which will increase national debt by saying that the cost of building ECRL is more than 10 percent of Malaysia’s one-year GDP (Gross Domestics Production) and the benefits that brought by BRI seem not justify the cost. Her view is somehow consistent with the news reported in The Star [17], Prasarana, Malaysia’s main public transport operator has a heavy debt burden of RM18.36 billion as a December 2015. Meanwhile, KTM Berhad which provides train service and freight transport has been accumulating losses from 2000 to 2015, totalling to RM1.87 billion. Therefore, it seems hard for public transport company to break even and need the subsidy of government to stay afloat.
5. Conclusion

The BRI is proposed by Chinese President Xi Jinping and is dubbed as the most ambitious infrastructure megaproject of all time, involving over 65 countries and USD $1.3 trillion invested. Such a big project will definitely have an impact worldwide. BRI is believed to be able to improve infrastructure and economy around the world. From the interview results, BRI may prove to have potential benefits and drawbacks for Malaysia. Therefore, it is suggested that Malaysia should come out a mutual beneficial policy by taking preventive measures to protect the sovereignty of our nation. Mutuality is an important mechanism in the relationship between Malaysia and other countries under this BRI. In general, the BRI could be considered a fantasy for the current moment since there is still a long path to walk through in order to realise the entire scale of this project.

6. Reference


