CHINA’S “BELT AND ROAD” AND SOUTHEAST ASIA: CHALLENGES AND PROSPECTS

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Abstract

In October 2012, Wang Jisi, the influential dean of Peking University’s School of International Studies, published an opinion piece in China’s Global Times recommending that China rebalances its geopolitical strategy westwards towards Central Asia and Eurasia (Wang, 2012; Yun, 2013). Professor Wang’s Western strategy would be made state policy the following year when Chinese President Xi Jinping announced the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road (MSR), thereby expanding Professor Wang’s initial vision beyond the Eurasian landmass to the nations of the Indian and Pacific Oceans (Lim, 2015b). The SREB and MSR together constitute both arms of the “One Belt One Road” (OBOR) development framework. OBOR’s potential reach is enormous: China’s OBOR partners presently number over 60 nations with a combined population of 4.4 billion (“Urgent: ‘Belt and Road,’” 2015).

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“Belt and Road”

OBOR as a mode of practical win-win cooperation offers developmental benefits to China and its partners. While China’s OBOR partners will accelerate their economic development through the strategic construction of much-needed infrastructure, OBOR offers China a new engine of growth for its “new normal” of single-digit growth. The International Monetary Fund (IMF) estimates that China’s growth will reach 6.8% in 2015 and 6.3% in 2016. This new normal is the result of China’s transition from a manufacturing- to a
consumer-based economy, and new engines of growth will be needed to replace the earlier ones that powered its double-digit growth during the first decade of the 2000s. China’s transition to its new normal has driven down global commodity prices, negatively impacting its commodity suppliers, and the IMF estimates global growth will only reach 3.1% in 2015 and 3.6% in 2016. This global slowdown confirms that OBOR will be needed to stimulate future global growth (Chance, 2015; Lim, 2015d; Lim, 2015m). The construction of infrastructure projects under the OBOR framework is expected to provide an economic boost to China’s partners. The IMF has calculated that developing countries can expect to enjoy a multiplier effect from the construction of infrastructure, such that each dollar spent on infrastructure will stimulate 1.6 dollars in economic growth (Lim, 2015l). In the case of trade, OBOR is expected to increase trade for the cooperating economies by 2.5 trillion USD over the next decade (Lehmacher & Padilla-Taylor, 2015). In the case of investment, the overseas investment opportunities created by OBOR will transform China into a net exporter of capital. China is already the world’s 3rd largest exporter of capital, with 116 billion USD in outward foreign direct investment (FDI) in 2014. In the first three-quarters of 2015, Chinese outward FDI to its OBOR partners amounted to 12 billion USD. China’s outward FDI is expected to increase as more SREB, and MSR projects are signed ("Belt and Road help,” 2015).

The SREB extends across the Eurasian landmass from China to the European Union (EU). In Central Asia and Eurasia China and its partner countries are working to harmonise OBOR with local and regional initiatives like Kazakhstan’s Bright Road development plan and Russia’s Trans-Eurasian Belt. In Europe, China and the EU are similarly harmonising OBOR with the EU’s €315 billion Juncker investment plan (Lim, 2015c; Lim, 2015h). While the MSR currently includes the nations of the Indian Ocean and South Pacific, the Chinese government could include the Americas in the MSR in the future, given the extensive Chinese economic cooperation projects there, including infrastructure megaprojects like the recently announced high-speed railway line in the US between Los Angeles and Las Vegas, and the proposed Cross-Andes railway linking the Atlantic and Pacific Oceans through Brazil and Chile (Lim, 2015g; Lim, 2015n). Southeast Asia straddles both the SREB and MSR, and OBOR promises to stimulate economic development and trade in the participating nations. The Association of Southeast Asian Nations (ASEAN) is China’s 3rd largest trading partner, and China is ASEAN’s largest trading partner. Sino-ASEAN trade is projected to reach 500 billion USD by the end of 2015, and China and ASEAN seek to raise this to 1 trillion USD by 2020.
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(Kumar, 2015). To achieve this, China and ASEAN will work to harmonize OBOR with the development blueprint of the ASEAN Economic Community (AEC) which is scheduled to be launched at the end of 2015 ("Belt and Road good," 2015).

To help its partners finance OBOR projects, China is setting up several new international financial institutions (IFIs). The most prominent of these is the Asian Infrastructure Investment Bank (AIIB), which begins operations at the end of 2015, and which hopes to launch its first slate of projects by the second quarter of 2016. The AIIB aims to close the global development gap by offering to finance for infrastructure projects to those low-income countries which normally would have difficulty securing such financing from traditional IFIs like the World Bank and the Asian Development Bank (ADB). The AIIB will also allow the private sector to invest in AIIB-funded infrastructure projects, thereby helping state borrowers avoid increasing their public debt ("AIIB head," 2015; Lim, 2015). Apart from the AIIB, China is also involved in the establishment of the BRICS New Development Bank, the Silk Road Fund, and the proposed Shanghai Cooperation Organization (SCO) Development Bank (Lim, 2015a). In Southeast Asia, experts expect these new IFIs to eventually help fund infrastructure projects in the ASEAN Master Plan for Connectivity (AMPC) (Pitlo III, 2015; Kumar, 2015).

Mainland Southeast Asia

Sino-Myanmar relations have become frosty in recent years, and Chinese FDI has slowed following the Thein Sein regime's freezing of the Myitsone Dam megaproject in 2011, as well as the Myanmar military’s ongoing clashes with the ethnic Chinese minority of the troubled Kokang border region. Despite the recent difficulties, China remains Myanmar’s largest economic partner, both in terms of investment and trade. Some influential figures in the Myanmar government recognise the potential benefits of OBOR for their country’s development. Indeed, the Chinese government cannot afford to "lose" Myanmar, given its geopolitical importance as a land corridor linking the southern Chinese province of Yunnan with the Indian Ocean. The Shwe pipelines which connect Yunnan with Myanmar's Kyaukphyu port allow oil and gas to be delivered to China without having to go through the increasingly precarious Malacca Straits. The importance of Myanmar as a land corridor that bypasses the Malacca Straits is mirrored in the China-Pakistan Economic Corridor—SREB’s South Asian showpiece megaproject—which offers a similar overland transshipment route from the Arabian Sea to China.
from Pakistan’s Gwadar port (Lim, 2015e; Lim, 2015k; “Belt and Road’ contributes,” 2015).

Laos and Cambodia arguably have the closest and most stable relations with China in mainland Southeast Asia. In Laos, the high-speed railway between the southern Chinese city of Kunming and the Laotian capital of Vientiane will be the showpiece SREB megaproject in Southeast Asia. Involving the construction of 154 bridges, 76 tunnels, and 31 train stations, the Kunming-Vientiane line is estimated to cost 7 billion USD, which the Laotian government will finance with concessionary loans from China. While this will saddle the Laotian government with substantial debt, Laos believes the new infrastructure will generate significant long-term economic growth for the country. In the energy sector, Laos is working with Chinese hydropower firms to construct a series of dams across its stretch of the Mekong. When constructed, these dams will earn revenue for Laos from the export of hydroelectricity. Critics, however, warn that these dams could have a devastating impact on the Mekong’s ecosystems, including damage to riverine fisheries in Laos and the other Mekong nations (Lim, 2015f).

While the SREB vision for a high-speed rail network across mainland Southeast Asia includes a line running from Thailand through Cambodia and Vietnam into China, neither Cambodia nor Vietnam has yet committed to the construction of such a line. Vietnam is an unlikely partner for OBOR given its fears of economic domination by China and its maritime disputes with China over contested islands in the South China Sea (Lim, 2015i; Lim, 2015j). In the case of Cambodia, while it is agreeable to being an OBOR partner, the current state of Sino-Cambodian economic engagement does not yet include plans for advanced infrastructure projects like high-speed rail. Chinese infrastructure projects in Cambodia at the moment consist of the construction of more basic but urgently needed infrastructure like roads and bridges. To further develop Cambodia, President Xi pledged in November 2014 that China would provide Cambodia with official development assistance (ODA) worth 500-700 million USD per annum. Even though China has become Cambodia’s largest source of FDI, the Cambodian government is pursuing a greater investment from China, in particular for its Sihanoukville Special Economic Zone (“ASEAN and China,” 2015; Lim, 2015j).

Thailand is an interesting case as it stands at the intersection of both the SREB and the MSR. Thailand’s largest trading partner is China, with Sino-Thai trade currently standing at 76 billion USD. The increased Sino-Thai connectivity through the SREB and MSR is expected to increase their trade volume to 100 billion USD (“Port Laem Chabang,” 2015). While China did
originally propose a high-speed railway line with Thailand, it has recently changed its proposal to a medium-speed line, to better support the transportation of cargo (Kwok, 2015). This medium-speed 840 km Sino-Thai railway will connect Kunming with the Thai cities of Nong Khai, Bangkok, and Rayong. Construction is planned to begin before the end of 2015, and the project is scheduled to be completed in 3 years (“Railway to connect China to Thailand 2015). The inclusion of cargo carriage capacity on the Sino-Thai railway will transform Thailand into a logistics hub for the cost-effective transport of goods from China to destinations in Asia, Europe, and Africa, with freight fees on the railway expected to be just a ninth of the cost of equivalent air transportation. Thailand and other Southeast Asian countries will also benefit from the expected increase in the numbers of tourists from China, as passenger fares on the Sino-Thai railway are expected to cost between a third to just half of equivalent airfare. China Railway Corporation estimates that the increased trade and economic activity from the SREB’s Southeast Asian rail lines will increase the GDPs of China and the connected Southeast Asian economies by 375 billion USD (“Railway to connect,” 2015; Guo, 2015).

Apart from the SREB, Thailand is also on the MSR, and the port of Laem Chabang is Thailand’s gateway to the MSR network. Already Thailand’s busiest port, shipping volume is expected to increase with the establishment of new shipping routes on the MSR. In particular, there is expected to be an increase in shipping volume through Laem Chabang between China and Southeast Asia (“Port Laem Chabang,” 2015). An important MSR proposal involving Thailand is the long-discussed Kra Canal project which will create a new shipping route between the Indian Ocean and the South China Sea that will bypass the Malacca Straits. Despite some confusion earlier in 2015 about the purported launch of this megaproject, it now appears that China has taken the proposal under consideration as a possible future project for the MSR (“Silk Road,” 2015; Rhoden, 2015).

Maritime Southeast Asia

In maritime Southeast Asia, prospects for OBOR in the Philippines are dim given the Aquino government’s anti-China rhetoric and insistence on pursuing the settlement of their bilateral disagreements through multilateral forums rather than bilateral discussions as China prefers. The Chinese are hence waiting to see if the upcoming 2016 elections will usher in a friendlier government (Liu, 2015). In the longer run, experts note that the Philippines is
facing a large financing gap between the cost of its significant infrastructure development needs and the financing it can expect to receive from established IFIs like the ADB and the World Bank. As such it may eventually have to seek finances from the new Chinese IFIs, in particular, the AIIB. While the Philippines, as a prospective founding member of the AIIB, has been involved in the drafting of the AIIB’s governance rules, it has not yet decided, as of this time of writing, whether to become an official founding member (Koo, 2015; Magtulis, 2015).

In contrast to the Philippines, the other nations in maritime Southeast Asia are open to involvement with MSR projects. In Indonesia, China recently won a hotly-contested bid to construct a 150 km high-speed railway line between Jakarta and Bandung, defeating a Japanese bid which had less favourable financial terms for the Indonesian government. The Japanese proposal required the Indonesian government to provide a loan guarantee as well as funding from the national budget; the Chinese proposal did not require either (Watanabe, 2015). China Railway Corporation and PT Pillar Sinergi BUMN Indonesia have since signed a joint venture to construct this 5 billion USD megaproject, with the Indonesian partner controlling 60% of the joint venture and the Chinese partner the remaining 40%. A 40-year loan from China Development Bank will provide the major financing for the project. The win-win cooperation manifest in this joint venture can also be seen in its long-term vision of constructing similar transportation projects in Southeast Asia and the Middle East. China Railway will undertake technology transfer by opening production facilities in Indonesia which will allow the joint venture to produce high-speed trains for the planned Southeast Asian and Middle Eastern markets. In addition, China Railway will help develop Indonesian human resources by hiring and training local Indonesians in the construction and operation of the line. Indeed, the practical cooperation that will be undertaken in this joint venture will allow both China and Indonesia to highlight it as an example of their respective MSR and Global Maritime Axis strategic development plans. For China’s OBOR plans, the successful Indonesian bid could prove helpful in securing a successful Chinese bid to construct the proposed high-speed railway line between Kuala Lumpur (KL) and Singapore (“China, Indonesia launch,” 2015; Pandu, 2015; Lu, 2015).

Also in the transportation sector, the Indonesian government will seek Chinese FDI and AIIB financing to develop the country’s maritime and air transportation network, including 24 ports and 15 airports, as well as the development of 18 special economic zones. In the energy sector, Indonesia is moving ahead with MSR power projects. In March 2015, the Chinese and
Indonesian governments signed an economic cooperation agreement on the construction of a coal-fired power plant in Bali, and the first stage of construction was completed in August 2015. China Huadian Corporation has invested 670 million USD in this project and had the rights to operate the power plant for 30 years. This new power plant will not be the last to join the electrical grid. The Indonesian government has indicated that it will seek AIIB financing for the construction of additional power plants to expand the country’s electrical supply (Chung, 2015; Koo, 2015).

In Malaysia and Singapore, as of this time of writing, both governments are conducting a feasibility study of those above KL-Singapore high-speed railway proposal (Ee, 2015). Even before the KL-Singapore high-speed railway was proposed, China Railway Rolling Stock Corporation (CRRC) had already established a presence in the Malaysian market, having first supplied Malaysian Railway with 38 trains in 2010, with more since, including trains for Malaysia’s light and trunk rail lines. To meet the demand of the ASEAN market, CRRC has recently set up a manufacturing plant in Batu Gajah, though which it engages in technology transfer to Malaysia and human resource development of its local employees ("Chinese Company Invests," 2015). The CRRC factory is not China’s sole industrial presence in Malaysia. A special economic zone, the East Coast Economic Region, has attracted almost 3 billion USD in Chinese FDI, primarily in heavy industry. To facilitate bilateral investment, this industrial park has been twinned with a Chinese industrial park in Qinzhou, and the Chinese and Malaysian planners seek to diversify future investment into sectors like green energy, ICT, and logistics. China’s Guangxi Beibu Gulf International Port Group has a 40% stake in Kuantan port, which is currently undergoing expansion and upgrading. This port expansion will facilitate the increase in Malaysia’s trade with China, for example, the export from Malaysia of bauxite to China ("Malaysia-China," 2015; "IJM sells," 2013).

In the case of Singapore, the Singaporean and Chinese governments are cooperating on a range of projects, including two intergovernmental megaprojects—the Suzhou Industrial Park and the Tianjin Eco-city—with a possible third megaproject in western China currently under negotiation ("Chinese vice premier," 2015). On OBOR, Singapore’s involvement will go beyond the planned KL-Singapore high-speed rail line, with experts expecting Singapore to become a key financial and logistics hub in the still unfolding OBOR network ("China, Singapore enhancing," 2015).
The remaining maritime Southeast Asian countries are Brunei and Timor-Leste. While there is currently no MSR project planned for Brunei, Chinese firms have been investing in the Bruneian economy, including an oil refinery and aromatics cracker plant by the Hengyi Corporation, and the possible redevelopment of Muara port by the Guangxi Beibu Gulf International Port Group (Kasim, 2015; "Chinese envoy tours," 2015; "Sultan sees," 2014). Finally, Timor-Leste, the poorest economy in Southeast Asia, is currently seeking accession to ASEAN. While Chinese ODA has paid for the construction of several government buildings in the capital Dili, Sino-Timorese cooperation is primarily developmental, with a focus on infrastructure construction, agriculture and food production, and human resource development. Both governments will strengthen cooperation in key economic sectors like petrochemicals, civil aviation, and tourism. As the Timorese government has offered its support for OBOR and the AIIB, future cooperation under the MSR framework may be expected (Almuttaqi, 2014; Minister of State and the Presidency of the Council of Ministers and Official Spokesperson for the Government of Timor-Leste, 2014; "Xi meets," 2015).

Conclusion

In his address to the United Nations General Assembly in late September 2015, President Xi called for a new model of international relations based on practical win-win cooperation that will lead to the creation of a global "community of common destiny" ("Chinese president advocates," 2015). Such practical cooperation is not new for China, which has a long history of offering aid to other countries in the developing world (Lim, 2015b). On this perspective, the practical win-win cooperation manifested in the OBOR megaprojects can be seen as one of the latest instances of this cooperative mode of international relations. China’s OBOR partners in Southeast Asia and elsewhere may look forward to the developmental dividend of accelerated economic growth from the successful completion of their infrastructural megaprojects.

References


