



The Belt and Road Initiative – the ASEAN Perspective

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It has been more than five years now that Chinese President Xi Jinping first referred to the *Belt and Road Initiative* (BRI), or *One Belt One Road* as it was called at the time, during his visits to Kazakhstan and Indonesia in September 2013. Since then, the project has generated extensive intellectual curiosity among academics around the world, while policy-makers have sought to come up with the best possible policy response to reap the possible benefits of China's grand strategy, which involves infrastructure development and investments to boost connectivity between Asia, Europe and Africa. The European Union (EU), for example, presented *The European Way to Connectivity – A New Strategy on How to Better Connect Europe and Asia* last September, in which the EU sets out the parameters under which it intends to engage in boosting connectivity between Europe and Asia. The strategy is by no means a rival to the BRI, but rather a reaffirmation of the EU's own approach when it comes to connectivity projects. But Europe is not the only part of the world that is closely watching the evolution of China's grand scheme. So does Southeast Asia and the Association of Southeast Asian countries (ASEAN),

which is the focus of this policy brief. If observers argue that the BRI has created dividing lines between the EU member states, this is even more so among ASEAN countries.

ASEAN occupies a central position in the strategy given its geographic proximity, infrastructure needs, and emerging markets. China has pledged to spur a radical transformation of the region by enhancing interconnectivity. And Chinese firms are now indeed involved in building new railways, roads, and ports across the region. Beijing's aspirations, nevertheless, have also provoked controversy of late, and several regional states have grown concerned over rising Chinese political clout and the potential debt burden.

At a superficial level, one may distinguish between three groups of ASEAN countries in terms of their approach to the BRI.

MOST EAGER

To begin with, the project appears to hold most appeal for ASEAN's low-income and most capital-needy members, such as Laos, Cambodia and Myanmar. Not surprisingly, China benefits from the greatest margin of manoeuvre in negotiating with these countries, often resulting in the deployment of Chinese labour and

equipment during the project implementation phase. Given the relatively small size of these three economies and the sheer value of funds China is lending to them, there are significant concerns over indebtedness. For example, many have warned that Laos, which has recently seen its debt creep above 60% of GDP, will have difficulty paying off its share (20%) of a US\$6 billion (equal to nearly half the country's GDP) rail line being built between Kunming in Southern China and the Laotian capital of Vientiane.

Myanmar also gave the green light in September last year to a batch of 24 projects worth an estimated US\$2 billion by inking the China-Myanmar Economic Corridor Agreement. These projects will form an integral part of the Y-shaped corridor that will connect Kunming to Yangon and Mandalay, Myanmar's two major commercial cities, and a Special Economic Zone in Kyaukphyu. However, despite its general openness to Chinese loans, Myanmar has already demonstrated its preparedness to pull the plug on Chinese-backed projects before. In 2011, then President Thein Sein of Myanmar suspended the \$3.6 billion Myitsone dam project due to pressure from local and national activists provoked by the planned displacement of thousands as well as the dam's potentially huge impacts on agriculture and fish downstream. Myanmar also decided, in August 2018, to scale back the initial US\$7.3 billion price tag on the Kyauk Pyu deepwater port, on the western tip of Myanmar's conflict-torn Rakhine state, due to debt fears.

NEEDY BUT ASSERTIVE

In the middle of the spectrum are countries such as Vietnam, Thailand or Singapore (though for different reasons given the level of development of the city state). These countries generally take a more assertive stance in negotiating the terms of BRI undertakings with China, but are still

welcoming the overall scheme. Vietnam is, for example, in dire need of infrastructure investments, but the country's positioning on the BRI is complicated by the political, economic, and strategic relationship between the two countries (e.g. the South China Sea dispute). As for Thailand, the country's government has been wrangling, ever since Prime Minister Prayut's military regime first took power, with their Chinese counterparts over the financial terms and land rights along the proposed track of an 873-kilometer high-speed line that is intended to connect Thailand's east coast ports and industrial zones to Kunming traveling through neighbouring Laos. Following the initial target of March 2018, the project is now expected to be completed by 2023 according to the most optimistic scenario. The slow pace and troublesome nature of negotiations were also believed to be contributing factors to premier Prayut's absence at the Belt and Road Forum staged in Beijing and attended by various global leaders in May 2017.

As for Singapore, the city state first embraced the BRI as a means of improving its rapport with China after the relationship of the two hit rock-bottom in 2016-2017, due largely to Singapore's positioning on the South China Sea territorial disputes. Prime Minister Lee Hsien Loong's absence from the above-mentioned BRI forum still provoked speculation that the city-state would, at best, have a negligible role to play in China's grand strategy. However, PM Lee's visit to China later that year, followed by his meeting with President Xi Jinping at the Boao Forum for Asia in April 2018, suggested that cooperation between the two countries was restored. Singapore has since then re-emerged as a valuable partner for China in three areas: as a financing hub, a source for third-country partnerships, and an arbitration hub for the BRI. Nonetheless, as a nation dominated by a Chinese ethnic majority, Singapore is cautious

not to present itself as too amicable towards China in order to avoid being seen by the People's Republic as a natural ally.

RETICENT

In the past two years, Malaysia, and to a lesser extent the Philippines and Indonesia, have demonstrated the most cautious attitude towards the BRI. Once the foremost proponent of BRI projects in the region, Malaysia is now leading the regional charge against BRI-related investments. The new administration led by Mahathir Mohamad has deferred two gas pipeline projects worth US\$2.3 billion and the US\$20 billion East Coast Rail Line amid concerns over Malaysia's finances.

In October 2016, China pledged to invest 24 billion US\$ in the Philippines, including 9 billion in loans and 15 billion in direct investment. These investments have, however, barely materialised. While some have argued that this was due to the Philippines' previous position on the Hague tribunal verdict that rejected Chinese claims based on its 'nine-dash line', most cancellations and delays occurred primarily due to factors in the host state. For example, a hydropower project by Power China Guizhou and Philippines Greenery Development Corp ran into problems obtaining funds from shareholders given the uncertainty regarding the recently signed Bangsamoro Basic Law that grants a high level of autonomy, including some aspects of sharia law, to the Muslim areas of the southern Philippines. Nonetheless, since his election in 2016, President Duterte has sought to intensify bilateral relations with China. A practical manifestation thereof was the inking of 29 agreements (concerning mainly infrastructure projects) during the official visit of President Xi Jinping to Manila in November 2018, which may very well inject more dynamism into the bilateral relationship.

Finally, despite it being the largest ASEAN economy, Indonesia has not been among the major beneficiaries of China's BRI. Its flagship project is a joint venture to build and operate the Jakarta-Bandung high-speed railway. Announced in October 2015, the project was, however, bogged down until recently, owing to issues ranging from funding to land acquisition. In general, Indonesia favours a business-to-business structure for its BRI deals, seeking to avoid government-to-government loans. Jakarta is also keen on ensuring that Chinese-backed projects employ Indonesian workers and rely on the most advanced environmentally friendly technology.

ALTERNATIVE SOURCES

As ASEAN states grow increasingly wary of BRI projects, alternative donors step forward to boost their investment and trade with the region, to the detriment of Beijing. Malaysian Prime Minister Mahatir has, for example, paid three visits to Japan in just seven months since his election, repeatedly courting Japanese investors in an attempt to move away from China. Tokyo has also recently vowed to increase its presence in the Mekong sub-region by expanding development aid and technical programmes. The Indonesian government has also sought to avoid being overly exposed to Chinese loans and, building on a long tradition of Japanese investment in the country, has invited Japan to work on the 600 km medium-high speed railway between Jakarta and Surabaya.

Though to a lesser extent, India has also come forward with its own offers for the region. During Prime Minister Narendra Modi's tour to Southeast Asia in May 2018, he pledged to intensify trade and investment with the region. An agreement was reached with Indonesia over the development of a port on the island of Sabang which has a strategic location near the

maritime corridor of the Strait of Malacca. In addition, New Delhi has also committed to intensifying its ties with the Mekong sub-region, pledging involvement in the development of the healthcare sector in Myanmar, Cambodia and Vietnam during a business conclave in Phnom Penh in May last year.

In a broader sense, Chinese expansion through the BRI has also provoked discussions between Japan, India, the US and Australia on the possible establishment of a rival joint regional infrastructure scheme. These discussions, in turn, have given rise to Chinese anxiety about the birth, or rebirth, of the 'Quad' as a polarising alliance dedicated to China's containment¹. The Quad has also come to be seen as the main proponent of the Indo-Pacific concept – a geographic concept that spans the two regions of the Indian Ocean and the Pacific Ocean.

China has thus far been reluctant to embrace the concept: already frustrated with the US's inclusion in the Asia-Pacific concept, India's emergence in the equation risks to further diminish China's own centrality.

The BRI is therefore not the only game in town. And the challenge for ASEAN in dealing with the strategy does not only lie in avoiding debt trap scenarios, but also in finding ways of navigating the waters of what seems to be an unfolding contest between the 'Big Neighbour' and the United States in the Indo-Pacific.

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ENDNOTES

¹ The idea of close military cooperation between these four countries dates back to the aftermath of the 2004 Indian Ocean tsunami. While the concept eventually failed to gain traction, some now argue that it is being reborn as a more overtly strategic response to China's new assertiveness in the Indo-Pacific, and in particular the South China Sea.



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