



Royal University of Law and Economics

Final Report on:

**The Belt and Road Initiative and
ASEAN Community Development**

Name of Students:

VENG RACHANA

CHOEUNG SREYNICH

Name of Academic Advisor:

Dr. KEM SAMBATH

International Program

Bachelor's Degree in International Relations

Cohort 9

Year of Submission: 2021

ACKNOWLEDGMENT

This final report on One Belt One Road: **The Belt and Road Initiative and ASEAN Community Development** could not be born properly without support from advisor, professors, staffs of university, classmates, friends, families and especially to our parents. We're really appreciated for who always supportive us during university's life.

First, we would like to express our great sincere to our advisor, **Dr. KEM Sambath** for his patient guide and tell us the suggestion during planning, and development of this report. Without his support and kindness, it could not happen and success. Our journey is a part of his scarifies. We're honored and grateful to be his students.

We also would like to thanks to his excellency **Dr. LUY Channa**, rector of the Royal University of Law and Economics for his effective contribution to the International Relation Department, and his support to lead of our university. Therefore, we also wish and acknowledge the help to provided by **Mr. KIM Kiri** for his commitment and willing to lead the IR's department. Moreover, we also would like to offer **our gratitude to all lecturers and professors** who had been lecturing us during our studying. They also shared us the lessons of life and guided us to be a better person. We're really respectful to them with such acknowledge.

Furthermore, we would like to extend our thanks to the **Research Department of Royal University of Law and Economics** for their help to tell us the process and check our work.

Finally, we wish to express our special gratitude to our **parents** for their unconditional love and care us. The love that they have given us unlimited for the whole life. They're our role model and first love for us. Without their scarifying, loving and caring which does not have us today. We're always remember and grateful to be their daughters. We're also grateful to our classmates. Three years with them was rememberable and joyed. Especially, ourselves whom could make this document happen. During, we did this report that taught us a lot of lessons.

We're joyful and stressful during writing and researching. Thanks to ourselves who is always strong and ready to face the problem and thought it together.

ABSTARCT

The “One Belt-One Road” (OBOR) strategy was launched in September 2013 by President Xi Jinping in Kazakhstan as regards the mainland area and in October 2013 in Indonesia as regards the maritime area. This is by far the largest project of interconnection between Asia, Europe and Africa that will last for decades, entail vast amounts of resources and involve a large multilateral collaboration. This initiative is potentially a good news for ASEAN which has huge infrastructure investments needs to implement its master plan for connectivity. But this will depend on the capacity of ASEAN to maintain its centrality and speak with one voice to China when investment decisions will be taken.

In this context, China’s Belt and Road initiative, which was first proposed to serve its diplomatic interests in countries at its western periphery and develop infrastructure connectivity with Southeast Asian countries, is geared towards stimulating East Asian regional economic integration, and can therefore provide extra momentum for the AEC. BRI and AEC Blueprint 2025 can potentially achieve synergy both at the national and the regional levels. China has the potential to transfer some of its high-quality production capacity to CLMV countries, while OBOR can complement and synergize with the AEC Blueprint for enhanced connectivity and sectoral cooperation. But for ASEAN, the most pressing question is how China and its initiatives can assist ASEAN member countries achieve their development priorities. In other words, to what extent can the OBOR initiative synergize with the AEC Blueprint 2025, provide new momentum for AEC and strengthen ASEAN’s central position within the new wave of regional economic integration in Asia Pacific?

In this research paper seeks to find explore the opportunities and Challenges of the BRI, and analyzes ASEAN perspective on China’s Belt and Road Initiative.

Keywords: Belt and Road Initiative, ASEAN Community, China-ASEAN Relations

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LIST OF ACRONYMS

- ADB : Asian Develop Bank
- AEC : ASEAN Economic Community
- AIIB : Asian Infrastructure Investment Bank
- ASEAN : Association of Southeast Asian Nations
- BRI : The Belt and Road Initiative
- CAEXPO : China-ASEAN Exposition
- CAF : China-ASEAN Investment Cooperation Fund
- CAREC : Central Asia Regional Economic Cooperation
- CATTC : China-ASEAN Technology Transfer Center
- CFTA : China–ASEAN Free Trade Area
- CGN : China General Nuclear Power Corporation
- CIDCA : China International Development Cooperation Agency
- CITIC : China International Trust Investment Corporation
- CLMV : Cambodia, Lao, Myanmar and Viet Nam
- CNCP : China National Petroleum Corporation’s
- CPTPP : Comprehensive and Progressive Trans-Pacific Partnership
- CSR : Corporate Social Responsibility
- CWA-CACCC : Chinese Working Committee of the China-ASEAN
Connectivity Cooperation Committee
- ERIA : Enhanced Dispute Settlement Mechanism
- EU : ASEAN and East Asia

- FDI : The European Union
- FTA : Foreign Direct Investment
- FTAs : Free Trade Area
- GMS : Free Trade Partners
- HKTDC : Greater Mekong Sub-Region
- IFFO : Hong Kong Trade and Development Council
- IP : Infrastructure Financing Facilitation Office
- ISEAS : Institute of Southeast Asian Studies
- MOFCOM : Ministry of Commerce of the People's Republic of China
- MOU : Memorandum of Understanding
- MSR : Maritime Silk Road
- MTR : Mass Transit Railway
- NSR : Northern Sea Routes
- OBOR : One Belt One Road
- PE : Private Equity
- PPP : Purchasing Power Parity
- PRC : The People's Republic of China
- RCEP : Regional Comprehensive Economic Partnership
- SAR : Special Administrative Region
- SASEC : South Asia Sub-Regional Economic Cooperation
- SOE : State-owned Enterprise
- TAR : Trans-Asian Railway
- WPC : World Pensions Council

INTRODUCTION

1. Background

China's Belt and Road project, announced in 2013, has had a major impact on the world, and the ASEAN countries are, of course, not an exception. However, there is no consensus among the Member States on how to manage China, and therefore the response to the BRI was not uniform, either. Some countries regard the project as a threat, others as an opportunity, but they agree that dependency on China should be kept to a minimum.

As the long-term goal of ASEAN development, the ASEAN Community will build three pillars, the ASEAN Economic Community (AEC), the ASEAN Political-Security Community (APSC), and the ASEAN Social-Cultural Community (ASCC) according to design at the ASEAN summits in 2003 and 2005. In 2015, ASEAN officially announced the establishment of AEC and issued the "ASEAN Economic Community Blueprint 2025", aiming to build a deeply integrated community to enhance its competitive advantage in the global value chain. However, ASEAN still faces many difficulties and challenges, including huge differences among member states' economic development and poor interconnection. According to the vision of the ASEAN Community, in order to achieve the goals envisaged in the "ASEAN Economic Community Blueprint 2025", ASEAN countries need to further promote the free flow of commodities, capital and personnel, and carry out higher-level cooperation with external partners in policy coordination and cooperation mechanism innovation, making ASEAN more dynamic and global.¹

¹ ASEAN Secretariat, "ASEAN Economic Community Blueprint 2025."

The in-depth development of AEC building has also had a positive impact on China-ASEAN relations. China holds a supportive stance on AEC building. Since proposing the BRI in 2013, China has always envisaged this development strategy docking with ASEAN to achieve common prosperity. In 2016, Chinese Vice Premier Zhang Gaoli stated, “China was willing to work with ASEAN to examine bilateral relations from a strategic and long-term perspective, expand consensus and cooperation, and jointly build the 21st Century Maritime Silk Road and a closer China-ASEAN community with a shared future.”² For ASEAN, this is indeed good news. But the key question is how can BRI help ASEAN countries achieve the AEC development goals? How can ASEAN believe that BRI can promote a win-win situation? How can BRI provide new impetus to AEC and strengthen ASEAN centrality in East Asia regional economic integration, and not weaken ASEAN countries coherence?

2. Problem Formulation

The OBOR is created by president of China Xi Jinping in 2013. Before that ASEAN also has a good relationship with China. OBOR makes ASEAN and China closely. Most countries in ASEAN are gotten investment from Chinese. Recently, China is the biggest market for ASEAN. They do trade and exchange social cultures. The fund that China invests in ASEAN countries are the big amount. “OBOR gives China privileged access to developing countries in the region and aims to reduce its industrial overcapacity. As the driving force and main investor, it contributes US\$ 125 billion in infrastructure projects along the new silk road corridor as loans

² Zhang G. L. “Zhongguo-Dongmeng Mingyun Gongtongti.”

boost trade and employment in these countries.”³ Under OBOR, ASEAN and China gain benefit with each other. Furthermore, the volume of ASEAN-China trade stood at 345 billion dollars in 2015. China has been ASEAN’s largest trading partner since 2009.⁴

3. Research Question

The purpose of this thesis is to explore and give some updating from OBOR with ASEAN. It also shows that how does China access and have trade in ASEAN. There are the questions that we’re trying to research and answer:

1. What extent can the BRI contribute to ASEAN Community’s development?
2. What is the issue for ASEAN community under the context of BRI cooperation?
3. What is the view of ASEAN member-states on China in the context of BRI?

4. Research Objective

This thesis paper seeks to fulfill the following research question:

- To discuss about BRI’s official goals.
- To discovered the opportunities that BRI contribute to ASEAN Community’s development.
- To analyze the issues in ASEAN community.
- To discuss about perspective of ASEAN member countries on BRI.

³ Source: <https://pugnatorius.com/obor/>

⁴ <https://www.reportingasean.net/asean-likes-also-fears-chinas-economic-weight/>

5. Significance of Research

The finding of this research will contribute to the society as a whole, especially university students who are in International Relations major that wish to broaden their knowledge regarding to BRI with ASEAN connectivity. This paper will help the reader to understand the general view of BRI and Chin-ASEAN Relation under Belt and Road Initiative (BRI) and spread their knowledge on the basic key concept of BRI and ASEAN. The understanding of China and ASEAN relation in terms of infrastructure development, trade transaction, investment and tourism. This report will describe the relationship between China and ASEAN member countries as well as expected areas of opportunity stemming from the BRI and to contribute ASEAN community and influence each ASEAN member country for relevance of the students, researchers and all the various bodies that come to play in international relation. The outcome of the research study will intent to help strategizing China's cooperation with ASEAN countries and also promote economic development and the connectivity of Southeast Asia. It will identify the opportunity and impact of Chinese investment to ASEAN countries.

6. Scope and Limitation

This research paper focus mainly on the relation between China and ASEAN that primary in the context of BRI cooperation. Indeed, 2013 marked the 10th anniversary of the establishment of the China–ASEAN strategic partnership, which is further highlighted by the 16th China–ASEAN summit meeting. It clearly indicates the strategic direction of China–ASEAN relations and draws a vision blueprint for bilateral relations on communication, transportation, and connectivity. Furthermore, the fundamental consideration for China–ASEAN economic development is bilateral connectivity and integration in order for win-win

solid achievement. Also this paper is only limited on the opportunities for ASEAN countries and challenges facing between China and ASEAN under BRI.

7. Research Methodology

This research paper is mainly conducted based on the secondary data, which obtained from various reliable sources that related to the topic. Those sources ranging from the reports from some organizations, government websites, the research analyzes from other experts, the journal articles from famous sources such as Research Gate and ISEAS, various books and documents from electronic sources, news and other case studies. The information from the sources have been carefully consulted with adviser and lecturers who are the experts in the subjects. Therefore, it helps in deliberating to find the effective result for our research paper.

8. Structure of Research

This research paper is divided into one introduction, three main chapters, and conclusion as following explanation:

8.1.Introduction

Introduction comprises of the background of study, research objective, research questions, scope and limitation, research methodology, significance of research and structure of research.

8.2.Three main bodies

Chapter I is about general view and main concepts of BRI. The overview and the aim of BRI have been described in this chapter.

Chapter II is about China-ASEAN cooperation and opportunities under the context of BRI. The cooperation that is divided into different sectors such as infrastructure development, political-security area, economic area, social cultural area, and people-to-people connectivity.

Chapter III is about ASEAN perspective on OBOR, ASEAN Economic Community 2025 Blueprint and Challenge facing the AEC 2025 vision, can OBOR synergize the ACE Blueprint 2025? And will OBOR challenge ASEAN centrality? These questions and answers will be analyzed in this chapter.

8.3.Conclusion

In this last part, the overall summarize analysis of the thesis and the result and the key finding of this research will be discussed in order to answer all the research questions

CHAPTER 1: GENERAL VIEW OF ONE BELT ONE ROAD

1.1. The Belt and Road Initiative

The Belt and Road Initiative (BRI) or One Belt One Road (OBOR) is a global infrastructure development strategy adopted in September 2013 by Chinese government, Xi Jinping, in Kazakhstan as regards the mainland area and in October 2013 in Indonesia as regards the maritime area. BRI invests in nearly 70 countries and international organizations. The term derives from the overland 'Silk Road Economic Belt' and the '21st-Century Maritime Silk Road'. "Belt" is short for the "Silk Road Economic Belt," refer overland routes for road and rail transportation through landlocked Central Asia along the famed historical trade routes of the Western Regions; whereas "road" is short for the "21st Century Maritime Silk Road", referring to the Indo-Pacific sea routes through Southeast Asia to South Asia, the Middle East and Africa.⁵ Examples of Belt and Road Initiative infrastructure investments include ports, skyscrapers, railroads, roads, airports, dams, and railroad tunnels. Its policy has two major axes along which China propose to economically link Europe to China through other countries across Eurasia and the Indian Ocean. The Belt and Road Initiative also links to Africa and Oceania. In March 2015, the PRC issued an action plan for realizing this initiative. While BRI is being

⁵ Kuo, Lily; Kommenda, Niko. ["What is China's Belt and Road Initiative?"](#). The Guardian. [Archived](#) from the original on 5 September 2018. Retrieved 5 September 2018.

coordinated by China national Development and Reform Commission, it also heavily involves the ministries of Foreign Affairs and Commerce.⁶

The stated objectives are “to construct a unified large market and make full use of both international and domestic markets, through cultural exchange and integration, to enhance mutual understanding and trust of member nations, resulting in an innovative pattern of capital inflows, talent pools, and technology databases.”⁷ The Belt and Road Initiative addresses an "infrastructure gap" and thus has the potential to accelerate economic growth across the Asia Pacific, Africa and Central and Eastern Europe. A report from the World Pensions Council (WPC) estimates that Asia, excluding China, requires up to US\$900 billion of infrastructure investments per year over the next decade, mostly in debt instruments, 50% above current infrastructure spending rates.⁸

According to the Asian Development Bank (ADB), Asia faces an infrastructure funding gap of estimated USD 26 trillion through 2030 “Developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change (climate-adjusted estimate). Without climate

⁶ Geoff Wade, Foreign Affairs, Defence and Security, *China's 'One Belt, One Road' initiative*, Parliament of Australia. Source, available at <https://www.aph.org.au> (last accessed 25 June 2021)

⁷ "[News—Zhejiang Uniview Technologies Co., Ltd.](#)". en.uniview.com. [Archived](#) from the original on 11 May 2019. Retrieved 11 May 2019.

⁸ [World Pensions Council \(WPC\)](#) Firzli, Nicolas (February 2017). "[World Pensions Council: Pension Investment in Infrastructure Debt: A New Source of Capital](#)". World Bank blog. [Archived](#) from the original on 6 June 2017. Retrieved 13 May 2017

change mitigation and adaptation costs, \$22.6 trillion will be needed, or \$1.5 trillion per year (baseline estimate).”⁹ To address this gap, various regional and sub-regional initiatives aim to develop better transport connectivity within Asia. This includes, among others, the Association of South East Asian Nation (ASEAN) Connectivity initiative, the Central Asia Regional Economic Cooperation (CAREC) Program, the Greater Mekong Sub-Region (GMS) Cooperation Program, the South Asia Sub-regional Economic Cooperation (SASEC) Program, and the Belt and Road Initiative (BRI).

1.1.1. The Aim of the Belt and Road

According to the official outline, BRI aims to “promote economic development and the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries.” BRI is a global initiative but by its nature of building on the historic Silk Road puts a major focus on countries in Asia, Eastern Africa, Eastern Europe and the Middle East, a region mainly composed of emerging markets. According to the Belt and Road Portal, currently 71 countries are taking part in the Initiative, together representing more than a third of the world’s GDP and two thirds of the world’s population.

The Belt and Road Initiative combines two initiatives, the (land based) Silk Road Economic Belt, comprising six development corridors and the 21st Century Maritime Silk Road.

⁹ Source, available at <https://www.adb.org> (last accessed February 2017).

Additionally the map shows the Polar Silk Road, referring to the Northern Sea Routes (NSR), as officially mentioned in China’s Arctic policy.

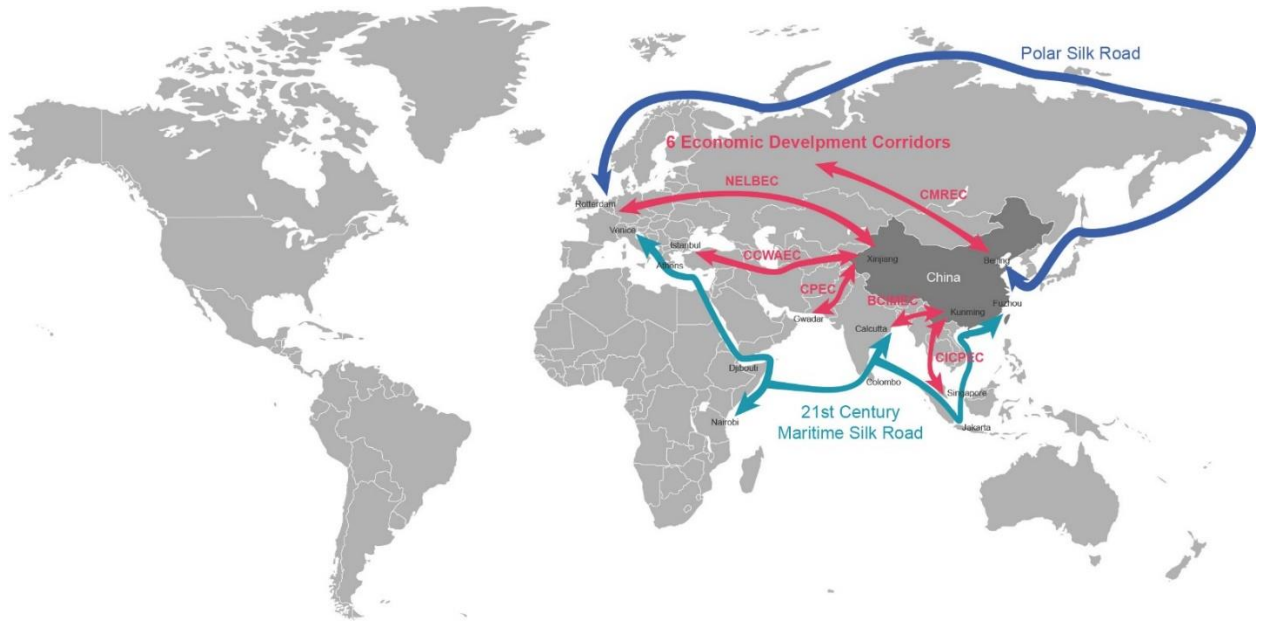


Figure 1. Map of the Belt and Road Initiative illustrating Silk Road Economic belt and 21st Maritime Silk Road. Additionally the map shows the Polar Silk Road referring to Northern Sea Routes (NSR).

The project covers two parts. The first is called the “Silk Road Economic Belt,” which is primarily land-based and is expected to connect China with Central Asia, Eastern Europe and Western Europe. The second is called the “21st Century Maritime Silk Road”, which is sea-based and is expected to will China’s southern coast to the Mediterranean, Africa, South-East Asia and Central Asia.¹⁰ The name are confusing as the “Belt” is actually a network of roads, and the “Road” is a sea route.

They contain the following six economic corridors:

¹⁰ Ibid

1. The New Eurasian Land Bridge, which connects Western China to Western Russia
 2. The China Mongolia-Russia-Corridor, which connects North China to Eastern Russia via Mongolia
 3. The China-Central Asia-West Asia Corridor, which connects Western China to Turkey via Central and West Asia
 4. The China-Indochina peninsula Corridor, which connects Southern China to Singapore via Indochina
 5. The China-Pakistan Corridor, which connects South Western China through Pakistan to Arabia sea routes
- The Bangladesh-China-India-Myanmar Corridor, which connects Southern China to India via Bangladesh and Myanmar

1.1.2. The Silk Road Economic Belt

Xi Jinping visited Nur-Sultan, Kazakhstan, and Southeast Asia in September and October 2013, and proposed jointly building a new economic area, the Silk Road Economic Belt.¹¹ The "belt" includes countries on the original Silk Road through Central Asia, West Asia, the Middle East, and Europe. The initiative would create a cohesive economic area by building both hard infrastructure such as rail and road links and soft infrastructure such as trade agreements and a common commercial legal structure with a court system to police the agreements.¹² It would

¹¹ "[Xi Jinping Calls For Regional Cooperation Via New Silk Road](#)". The Astana Times. [Archived](#) from the original on 7 November 2017. Retrieved 31 October 2017.

¹² Ibid

increase cultural exchanges and expand trade. Besides a zone largely analogous to the historical Silk Road, an expansion includes South Asia and Southeast Asia.

Many of the countries in this belt are also members of the China-led Asian Infrastructure Investment Bank (AIIB)

Figure 2. The Belt and Road Economies from its initial plan

Three belts are proposed. The North belt would go through Central Asia and Russia to Europe. The Central belt passes through Central Asia and West Asia to the Persian Gulf and the Mediterranean. The South belt runs from China through Southeast Asia and South Asia and on to the Indian Ocean through Pakistan. The



strategy will integrate China with Central Asia through Kazakhstan's Nurly Zhol infrastructure program.¹³

1.1.3. 21st Century Maritime Silk Road

The "21st Century Maritime Silk Road", or just the Maritime Silk Road, is the sea route corridor.¹⁴ It is a complementary initiative aimed at investing and fostering collaboration in

¹³ ["Integrating #Kazakhstan Nurly Zhol. China's Silk Road economic belt will benefit all, officials say".](#)

EUReporter. [Archived](#) from the original on 15 March 2017. Retrieved 14 March 2017.

¹⁴ Ibid

Southeast Asia, Oceania and Africa through several contiguous bodies of water: the South China Sea, the South Pacific Ocean, and the wider Indian Ocean area.¹⁵ It was first proposed in October 2013 by Xi Jinping in a speech to the Indonesian Parliament. As with the Silk Road Economic Belt initiative, most member countries have joined the Asian Infrastructure Investment Bank.

The maritime Silk Road runs with its links from the Chinese coast to the south via Hanoi to Jakarta, Singapore and Kuala Lumpur through the Strait of Malacca via the Sri Lankan Colombo opposite the southern tip of India via Malé, the capital of the Maldives, to the East African Mombasa, from there to Djibouti, then through the Red Sea over the Suez Canal into the Mediterranean, there via Haifa, Istanbul and Athens to the Upper Adriatic to the northern Italian junction of Trieste with its international free port and its rail connections to Central Europe and the North Sea.

Figure 3. 21st Maritime Silk Road

The Maritime Silk Road initiative was first proposed by Chinese leader Xi Jinping during a speech to the Indonesian Parliament in October



¹⁵ "[Reflections on Maritime Partnership: Building the 21st Century Maritime Silk Road](#)". Archived from the original on 3 April 2015. Retrieved 16 April 2015.

2013.¹⁶ In November 2014, Chinese leader Xi Jinping announced plans to create a USD \$40B development fund, which would help finance China's plans to develop the New Silk Road and the Maritime Silk Road. China has accelerated its drive to draw Africa into the MSR by speedy construction of a modern standard-gauge rail link between Nairobi and Mombasa.¹⁷ In March 2015, the National Development and Reform Commission of the People's Republic of China publicly released a document titled Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,¹⁸ which discusses the principles and framework which form the foundation of the initiative.

1.1.3.1. Routes and Key Ports

Although the routes encompassed in the MSR will be copious if the initiative comes to fruition, to date there has not been ample official information released concerning specific ports. Between 2015 and 2017, China has leased ownership over the following ports:¹⁹

- Gwadar, Pakistan: 40 years
- Kyaukpyu, Myanmar: 50 years
- Kuantan, Malaysia: 60 years

¹⁶ "[Full text of President Xi's speech at opening of Belt and Road forum](#)". www.fmprc.gov.cn. Retrieved 2019-04-02.

¹⁷ Page, Jeremy (2014-11-08). "[China to Contribute \\$40 Billion to Silk Road Fund](#)". Wall Street Journal. Retrieved 2019-04-02.

¹⁸ "[Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road](#)". National Development and Reform Commission (NRDC) People's Republic of China. 28 March 2015. Archived from [the original](#) on 27 November 2018. Retrieved 3 April 2019.

¹⁹ "[THE 21ST CENTURY MARITIME SILK ROAD: Security implications and ways forward for the European Union](#)" (PDF). sipri.org. 30 March 2019.

- Obock, Djibouti: 10 years
- Malacca Gateway: 99 Years
- Hambantota, Sri Lanka: 99 years
- Muara, Brunei: 60 years
- Feydhoo Finolhu, Maldives: 50 years

In the 2018 Xinhua-Baltic International Shipping Centre Development Index Report,²⁰ the China Economic Information Service cites the following as major routes for the 21st Century Maritime Silk Road:

i. China-Southeast Asia route

1. China-Vietnam, Myanmar

Qinzhou – Yangpu – Zhanjiang – Gaolan Port – Yantian – Nansha – Ho Chi Minh City (Vietnam) – Singapore – Yangon (Myanmar) – Palawan (Philippines) – Singapore – Qinzhou.

2. China-Philippines

Qingdao – Shanghai – Ningbo – Manila (South) – Manila (North) – Qingdao.

3. Singapore-Malaysia

Newport – Dalian – Qingdao – Shanghai – Xiamen – Hong Kong – Singapore – Klang Port (Malaysia) – Penang (Malaysia) – Singapore – Hong Kong – Xingang.

4. Indonesia

²⁰ "[Xinhua-Baltic 2018 International Shipping Centre Development Index Report](#)" (PDF). safety4sea.com. 29 March 2019.

Shanghai – Newport – Dalian – Qingdao – Ningbo – Nansha – Jakarta (Indonesia) – Klang Port (Malaysia) – Singapore – Laem Chabang Port (Thailand) – Hong Kong – Shanghai.

5. China-Thailand, Cambodia

Ningbo – Shanghai – Shekou – Sihanoukville (Cambodia) – Bangkok – Leam Chabang (Thailand) – Ningbo.

ii. China-Asia route

1. China-Pakistan

Qingdao – Shanghai – Ningbo – Singapore – Klang Port (Malaysia) – Karachi (Pakistan) – Mundra (India) – Colombo (Sri Lanka) – Singapore – Qingdao.

2. India-Sri Lanka

Shanghai – Ningbo – Shekou – Singapore – Port Klang (Malaysia) – Kolkata (India) – Pipavav (India) – Colombo (Sri Lanka) – Port Klang – Singapore – Ho Chi Minh City (Vietnam) – Hong Kong – Shanghai.

iii. Middle East, East Africa route

1. China-Iraq, UAE

Shanghai – Ningbo – Kaohsiung – Xiamen – Shekou – Port Klang (Malaysia) – Alishan Port (UAE) – Umm Qasr (Iraq) – Port Klang – Kaohsiung – Shanghai.

2. China-Red sea

Shanghai – Ningbo – Xiamen – Chiwan – Singapore – Djibouti (East Africa) – Jeddah (Saudi Arabia) – Sudan (Sudan) – Djibouti – Port Klang – Shanghai.

iv. Europe route

The MSR route to Europe will begin in China, pass through the Malacca Strait, follow Red Sea through the Suez Canal to the Mediterranean Sea, and visit ports in Greece, Italy, France, and Spain before returning to China. The Maritime Silk Road has also an important role in the connection between East Africa and the Mediterranean region through the Suez Canal. Of particular interest to China is the port of Piraeus in Athens, Greece, which Chinese Premier Li Keqiang stated "...can become China's gateway to Europe. It is the pearl of the Mediterranean. "China is investing heavily in Athens in the port and infrastructure."²¹

The Chinese Silk Road Initiative then led Europe to consider adapting the infrastructure to changing conditions. In recent years there have been major investments from Italy, the EU, Germany and Hungary to develop Trieste with its rail connections to Central and Eastern Europe as a central European hub of the Maritime Silk Road. This also applies to the partial relocation of the flow of goods from the northern ports to the Mediterranean.²²

1.1.4. The Polar Silk Road

On January 26, 2018, the State Council Information Office of the People`s Republic of China published a white paper, titled “China`s Arctic Policy”, pledging to actively participating in Arctic affairs. The document is a blueprint for China`s Arctic strategy and its ambition to develop a “Polar Silk Road” under the “Belt and Road Initiative” by 2025 to tap natural resource.

²¹ Chaziza, Mordechai (2018). "The Chinese Maritime Silk Road Initiative". *Mediterranean Quarterly*. 29 (2): 54–69. [doi:10.1215/10474552-6898099](https://doi.org/10.1215/10474552-6898099)

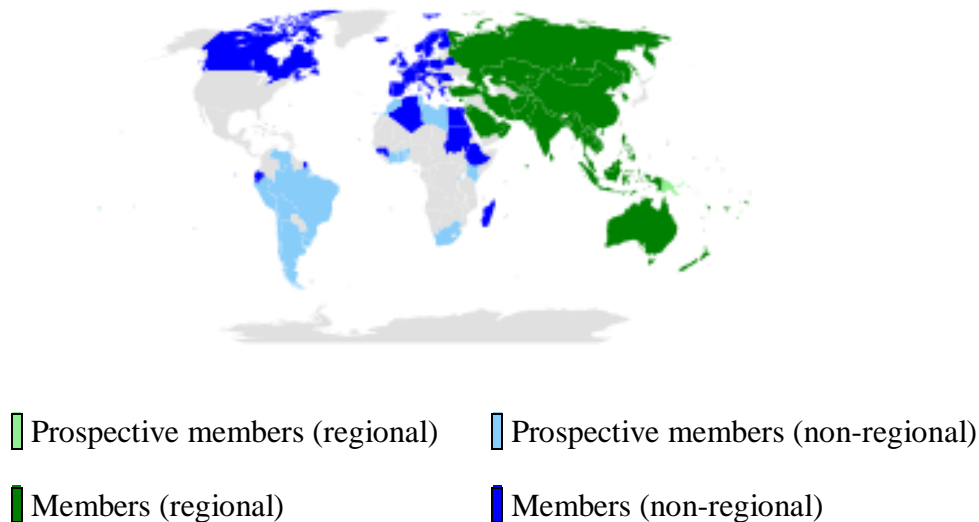
²² Bernhard Simon: Can The New Silk Road Compete With The Maritime Silk Road? in *The Maritime Executive*, 1 January 2020.

According to the plan, China intends to "participate in pragmatic cooperation in the North Pole", in a bid to "raise its ability to participate in the protection and utilization of the South Pole", Reuters reported.²³

1.2. Financing

1.2.1. Asian Infrastructure Investment Bank (AIIB)

Figure 4. Asian Infrastructure Investment Bank



The Asian Infrastructure Investment Bank, first proposed in October 2013, is a development bank dedicated to lending for infrastructure projects. As of 2015, China announced that over one trillion yuan (US\$160 billion) of infrastructure related projects were in planning or construction.²⁴

²³ Source, available at <https://www.wionews.com> (last accessed March 06, 2021)

²⁴ Wan, Ming (16 December 2015). [The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order](#). Palgrave Macmillan. p. 70. [Archived](#) from the original on 3 February 2017.

Retrieved 13 April 2016.

The primary goals of AIIB are to address the expanding infrastructure needs across Asia, enhance regional integration, promote economic development and improve public access to social services.²⁵ The Articles of Agreement (the legal framework) of AIIB were signed in Beijing on 29 June 2015. The proposed bank has an authorized capital of \$100 billion, 75% of which will come from Asia and Oceania. China will be the single largest stakeholder, holding 26.63% of voting rights. The board of governors is AIIB's highest decision-making body.²⁶ The bank began operation on 16 January 2016, and approved its first four loans in June.²⁷

1.2.2. Silk Road Fund

Silk Road Fund is a state owned investment fund of the Chinese government to foster increased investment in countries along the One Belt One Road, an economic development initiative primarily covering Eurasia. The Chinese government pledged US\$40 billion for the creation of the investment fund established on 29 December 2014.²⁸

Unlike other funds, whose organizational forms are mainly limited partnership, private equity (PE) in particular, Silk Road Fund is a limited liability company. Its 4 shareholders are: State Administration of Foreign Exchange (65%), China Investment Corporation (15%), Export-Import Bank of China (15%) and China Development Bank (5%). The Fund has a total

²⁵ "[About AIIB Overview – AIIB](#)". aiib.org. [Archived](#) from the original on 30 September 2017. Retrieved 1 October 2017.

²⁶ "[Governance Overview – AIIB](#)". aiib.org. [Archived](#) from the original on 30 September 2017. Retrieved 1 October 2017.

²⁷ "[AIIB Turns 3, Reflects on Startup Growth – News – AIIB](#)". aiib.org. [Archived](#) from the original on 17 January 2019.

Retrieved 16 January 2019.

²⁸ "[Silk Road Fund's 1st investment makes China's words into practice](#)". Xinhua News Agency. 21 April 2015.

capital of 40 billion, and the first round of capital instalment is US\$10 billion, contributed by the shareholders accordingly.²⁹

1.2.3. Debt Sustainability

According to Carmen Reinhart, the World Bank's chief economist, 60% of the lending from Chinese banks is to developing countries where sovereign loans are negotiated bilaterally, and in secret. China is the largest bilateral lender in the world.³⁰ Loans are backed by collateral such as rights to a mine, a port or money.³¹ 29 to 32 percent of China's loans use these types of resources as collateral. Critics use the term debt trap diplomacy to claim China intentionally extends excessive credit to a debtor country with the intention of extracting economic or political concessions from the debtor country when it becomes unable to honor its debt obligations (often asset-based lending, with assets including infrastructure). The conditions of the loans are often not made public and the loaned money is typically used to pay contractors from the creditor country.

For China itself, a report from Fitch Ratings doubts Chinese banks' ability to control risks, as they do not have a good record of allocating resources efficiently at home. This may lead to new asset quality problems for Chinese banks where most funding is likely to

²⁹ ["Stakeholders of SRF"](#). Silk Road Fund. Retrieved 6 December 2017.

³⁰ Wingo, Scott. ["How will China respond when low-income countries can't pay their debts?"](#). Washington Post. WP Company. Retrieved 4 February 2021.

³¹ ["The pandemic is hurting China's Belt and Road Initiative"](#). [The Economist](#). 4 June 2020. [Archived](#) from the original on 19 December 2020. Retrieved 14 June 2020.

originate.³² Additionally, two state-owned banks oversee China's foreign loans and development. Their motivations are to earn a profit or minimize losses, so there is no incentive for them to provide lenience on loans.

It has been suggested by some scholars that critical discussions about an evolving BRI and its financing needs transcend the "debt-trap" meme. This concerns the networked nature of financial centers and the vital role of advanced business services (e.g. law and accounting) that bring agents and sites into view (such as law firms, financial regulators, and offshore centers) that are generally less visible in geopolitical analysis, but vital in the financing of BRI.³³

The COVID-19 pandemic has stopped work on some projects, while some have been scrapped; focus has been brought on projects that were already of questionable economic viability before the pandemic. Many of the loans agreed upon are in or nearing technical default, as many debtor countries reliant on exporting commodities have seen a slump in demand for them. Some debtor countries have started to negotiate to defer payments falling due. In particular, the African continent owes an estimated \$145 billion, much of which involves BRI projects, with \$8bn falling due in 2020. Many leaders on the continent are demanding debt forgiveness, and The Economist forecasts a wave of defaults on these loans.³⁴

³² Peter Wells, Don Weinland, [Fitch warns on expected returns from One Belt, One Road Archived](#) 3 March 2017 at the [Wayback Machine](#), Financial Times, 26 January 2017

³³ Lai, Karen P. Y.; Lin, Shaun; Sidaway, James D. (3 March 2020). "Financing the Belt and Road Initiative (BRI): research agendas beyond the "debt-trap" discourse". *Eurasian Geography and Economics*. 61 (2): 109–124. [doi:10.1080/15387216.2020.1726787](https://doi.org/10.1080/15387216.2020.1726787).

³⁴ Ibid

In April 2020, in light of the pandemic, the Group of 20 decided to freeze debt payments for countries that would struggle to pay them. Interest on Chinese loans continued to accrue during the freeze. In June 2020, Chinese leader Xi Jinping decided to cancel interest-free loans for certain African countries. Since 2000, these types of loans have accounted for 2 to 3 percent of total loans China has issued to African countries. Furthermore, foreign aid is a controversial topic in China due to it having its own areas with significant poverty.³⁵ Thus, the Chinese government is under domestic pressure to profit from their loans. This disincentivizes China to be lenient with its debt collection.

1.3. Belt and Road Educational Community

Along with policy coordination, facilities connectivity, unimpeded trade and financial integration, people-to-people bonds are among the five major goals of BRI.³⁶ BRI educational component implies mutual recognition of qualifications, academic mobility and student exchanges, coordination on education policy, life-long learning, and development of joint study programmes.³⁷ To this end, Xi Jinping announced plan to allocate funds for additional 30000

³⁵ Sun, Yun (8 October 2015). "[The domestic controversy over China's foreign aid and the implications for Africa](#)". Brookings. Retrieved 8 April 2021.

³⁶ "[Vision And Actions On Jointly Building Silk Road Economic Belt And 21st-Century Maritime Silk Road](#)". Belt and Road portal. 30 March 2015. Retrieved 15 February 2021.

³⁷ Leskina, Natalia; Sabzalieva, Emma (4 January 2021). "[Constructing a Eurasian higher education region: "Points of correspondence" between Russia's Eurasian Economic Union and China's Belt and Road Initiative in Central Asia](#)". Eurasian Geography and Economics. 0: 1–29. doi:10.1080/15387216.2020.1866997.

scholarships for SCO citizens and 10000 scholarships for the students and teachers along the Road.³⁸

The University Alliance of the Silk Road centered at Xi'an Jiaotong University aims to support the Belt and Road initiative with research and engineering, and to foster understanding and academic exchange.³⁹ A French think tank, Fondation France Chine (France-China Foundation), focused on the study of the New Silk Roads, was launched in 2018. It is described as pro-Belt and Road Initiative and pro-China.

³⁸ "[Xi proposes a 'new Silk Road' with Central Asia](http://www.chinadaily.com.cn)". www.chinadaily.com.cn. Retrieved 15 February 2021.

³⁹ Yojana, Sharma (12 June 2015). "[University collaboration takes the Silk Road route](#)". University World News. [Archived](#) from the original on 19 August 2016. Retrieved 18 September 2016.

CHAPTER 2: CHINA'S ONE BELT ONE ROAD IN ASEAN

New strategic initiatives for China–Association of Southeast Asian Nations (ASEAN) relations have started to promote cooperation and also ensured peace and development since 2013.⁴⁰ Indeed, 2013 marked the 10th anniversary of the establishment of the China–ASEAN strategic partnership, which is further highlighted by the 16th China–ASEAN summit meeting. It clearly indicates the strategic direction of China–ASEAN relations and draws a vision blueprint for bilateral relations on communication, transportation, and connectivity. To build and strengthen connectivity and a more efficient infrastructure network has become a master policy and plan for China and ASEAN.

In addition, the China–ASEAN free trade area (CFTA),⁴¹ upgraded from a so-called “golden decade” (2003–2013) to a “diamond decade” (2014–2024) of economic relations, would offer a favorable environment for China to take a lead in East Asian peace, prosperity, and integration. Politically, this will somewhat defuse the political crisis after the South China Sea disputes flared up in 2010. The new diamond decade aims to further promote friendship and partnership with its neighbors as well as to ensure that China’s development will bring greater benefits to its neighbors. Economically, the fundamental consideration for China–ASEAN economic development is bilateral connectivity and integration in order for win-win solid achievement.

⁴⁰ In 2003, China-ASEAN relations were upgraded to a strategic partnership. China was the first nation to establish strategic partnership with ASEAN and also the first to sign the Treaty of Amity and Cooperation with ASEAN and the first to talk free

⁴¹ Launched in 2010, the China-ASEAN FTA has become the world’s largest free trade area among developing economies, covering a total population of 1.9 billion and total GDP around US\$6.5 trillion at that time.

2.1. The Belt and Road Initiative toward Southeast Asia

President Xi Jinping put two concepts, Silk Road Economic and 21st Maritime Silk Road, during visiting to Central Asia and Southeast Asia in 2013.⁴² This initiative is used to promote economic prosperity and regional economic cooperation, enhance exchanges, and benefit the people of more than 40 countries. Eventually, it will connect Asia to Europe and Africa through the Silk Road Economic Belt and the 21st Century Maritime Silk Road.

The Belt and Road Initiative has as top priorities infrastructure and connectivity to help promote economic cooperation and integration with ASEAN and Central Asian countries in areas. The BRI's official goals are to promote five connectivity: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. Under the initiative China has helped to finance large infrastructure projects with the support of its state-owned banks and sovereign wealth funds and encouraged mainland Chinese firm to undertake FDI projects are establishing a network of transnational economic corridors, multimodal land and maritime route, oil, gas pipelines, and electrical grids that assist mainland China and participating countries to hedge against inherent geopolitical risks of single trade routes. The ambitious scale and scope of the Initiative means multinational and domestic firms alike should have a keen interest in monitoring new business opportunities created by BRI projects. At the same time, they should recognize the challenge of making investment in specific Belt and Road countries.

⁴² Ibid

Although the BRI has a global reach and a wide scope, ASEAN has been a priority region of the Initiative since the start. Belt and Road is short for the Silk Road Economic Belt, which include multiple overland routes to Asia and Europe, and the Maritime Silk Road, which refer to overseas trading routes that connect main China to Southeast Asia, South Asia, East Africa and Europe. President Xi Jinping announced maritime silk route during an address in Indonesia Parliament in October 2013.⁴³ The development of overland rail and road links to ASEAN countries are part of China-Indochina Economic corridor is also an essential part of the BRI. All of the countries in ASEAN were included in initial list of 68 BRI countries, which later expanded to all countries willing to participate in the Initiative.⁴⁴ By 2020, over 130 countries have signed MOUs or agreement signifying their participation in the Initiative.

2.1.1. Regional Economic Integration

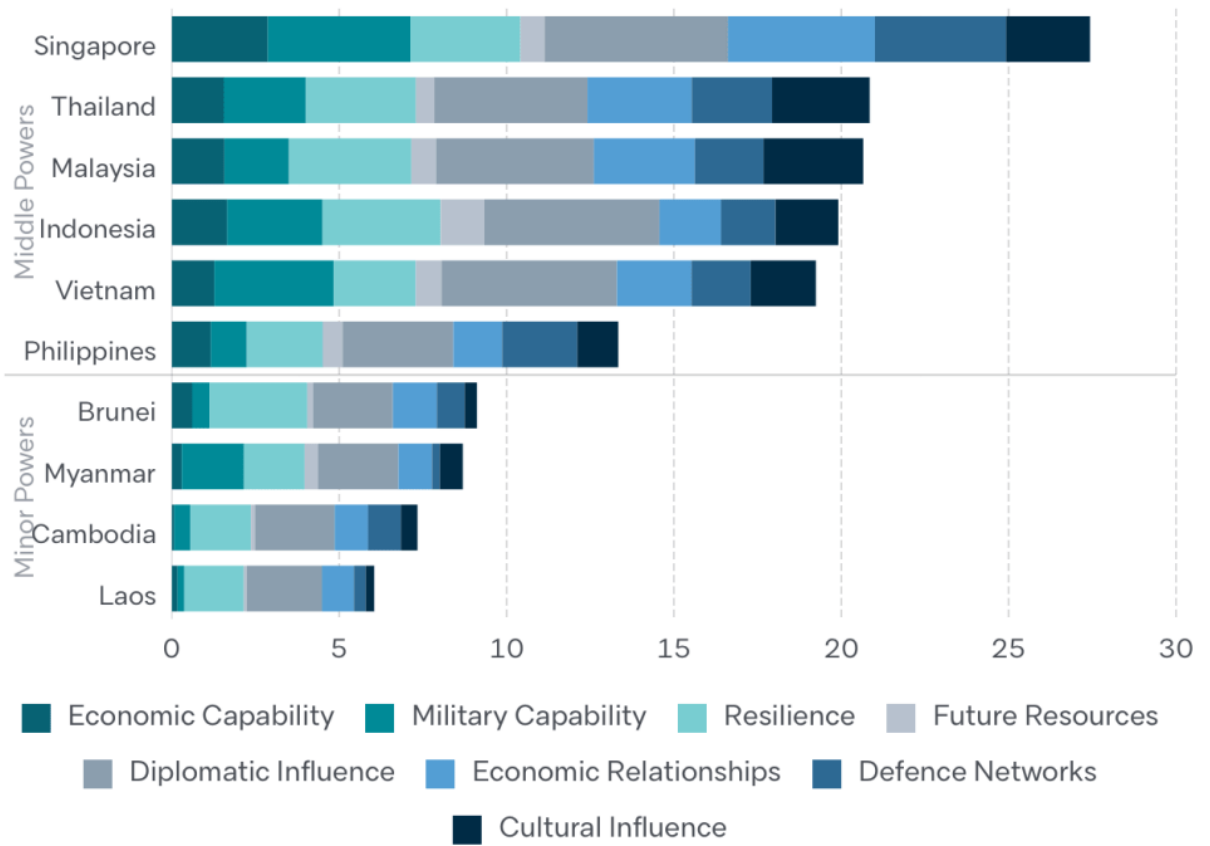
For those undertaking investment in ASEAN, It is important to be aware of the multilateral and bilateral arrangement that influence economic integration of countries in the region both with each other and with mainland China and other key countries. These arrangement has been changing rapidly in recent years, and are influencing the relative attractiveness of investing in different countries in depending on the investment source country, sector, and global value chain linkages to other countries.

⁴³ Ibid

⁴⁴ HK TDC Research, *The ASEAN Link in China's Belt and Road Initiative*, 30 Sep 2015.

<https://beltandroad.hktdc.com/en/insights/asean-link-chinas-belt-and-road-initiative>

ASEAN Power



Source: [Lowy Institute Asia Power Index](#)

Figure 5. ASEAN Power

Source: Lowy Institute Asia Power Index

Of the ASEAN Countries, the Lowy Institute says that although they hold the different levels of influence in Indo-Pacific, the foundations of their power share some common characteristics.⁴⁵

Southeast Asian countries derive more of their power from diplomatic influence than anything else, suggesting that active participation in ASEAN and teaming up in other multilateral forums, including the United Nation, has paid dividends. Economic relationships mean more for their power than their own domestic economic capabilities, according with their relatively small economic size. But perhaps surprisingly for these fast-growing developing economies, perception of their power resources don't mean much more for power today.

The similarities between Thailand, Malaysia, Indonesia and Vietnam are also striking. Despite extremely varied political systems, populations and economic structures, these countries project highly similar levels of power derived from virtually identical bases.⁴⁶

The six countries that focus on the report are all ASEAN members, established in 1967. ASEAN's role in promoting regional integration has grown significantly overtime. The main events were the establishment of the ASEAN Free Trade Area (FTA) in 1992 and the establishment of the ASEAN Economic Community (AEC) in 2015, which codified significant progress and established an agenda for a common market with Annual GDP of \$2.6 trillion and a population of 622 million. ASEAN acts as a forum for member states to negotiate free trade and investment agreements with other countries, to reduce trade barriers with partner economies

⁴⁵ The Lowy Institute, *Power in Asian in five charts*, <https://www.lowyinstitute.org/the-interpretor/power-asia-five-charts>

⁴⁶ Chris Devonshire-Ellis, (Oct 192020), "The Most Influential Countries Across The Asian Belt and Road Initiative 2020", Silk Road Briefing.

and ensure better protection for foreign investors.⁴⁷ Since the late 2000s, ASEAN has negotiated FTAs to regulate trade in goods, services and investment with Japan, South Korea, Australia and New Zealand and India. The FTAs between ASEAN and mainland China entered into force in 2005 for trade in goods, in 2008 for trade in services and in 2010 for investment.⁴⁸ In 2017, ASEAN countries and Hong Kong SAR signed Free Trade Agreement (FTA) and Investment Agreement that gradually entered into force.⁴⁹ The Hong Kong-based investor's investment agreement protects the rights of investors, including protection against embezzlement and the right to fair compensation, physical security and investment security, fair and equitable treatment, and free transfer investment and return. Hong Kong SAR-based investor has right to resolve complaints using the investor-state arbitration mechanism. Regional Comprehensive Economic Partnership (RCEP) is an ASEAN-led free trade agreement between ASEAN Member States and Australia China, Japan, South Korea and New Zealand. Negotiations for the RCEP began in 2013 with the aim of expanding and deepening ASEAN economic engagement with free trade partners (FTAs). The agreement was signed in November 2020.⁵⁰

ASEAN member countries remain free to renew trade or other investment agreements to increase their competitiveness. Malaysia, Vietnam, Singapore and Brunei are set to join the Trans-Pacific Partnership with Australia, Canada, Chile, Japan, Mexico, New Zealand, Peru and the United States. However, the Trump administration withdrew from the agreement that

⁴⁷ Source, available at <https://asean.org/asean-economic-community/>

⁴⁸ Source, available at <https://asean.org/asean-economic-community/free-trade-agreements-with-dialogue-partners/>

⁴⁹ Source, available at <https://asean.org/asean-hong-kong-china-free-trade-agreement-enters-force/>

⁵⁰ Source, available at <https://asean.org/asean-hong-kong-china-free-trade-agreement-enters-force/>

led the remaining 11 countries to renegotiate the agreement and renamed it the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).⁵¹ The CPTPP is a comprehensive and complex trade and investment agreement that influences the global value chain by eliminating tariff and providing broader market access in specific areas such as telecommunications, services and public procurement.⁵² CPTPP provides greater protection of intellectual property right improves the regulation of trade and investment in the digital economy.⁵³ It also required some signatories to implement reforms to meet treaty requirement in the areas of SOES, IP rights and competition. Thailand, the Philippines, Indonesia and main land China have expressed interest in joining the agreement.⁵⁴

The combination of agreements may provide specific advantages to the signatory countries. Vietnam, for example, is the only country considered in the report that has signed bilateral agreements with the European Union, as well as with Israel and Eurasian Economic Union, giving it advantage in attracting investors intending to export to those regions.

2.1.2. Six Key Emerging Markets in Southeast Asia

Many of countries of ASEAN share geographic and cultural similarities. At the same time, the countries have unique political, social, and cultural institutions as well as recent histories and leadership changes that shape their development trajectories. The region has high-, middle-, and low-income countries, all growing at different rates and with different success

⁵¹ Source, at <https://www.brookings.edu> (last March 24, 2017)

⁵² Source, <https://www.dfat.gov.au>

⁵³ Ibid

⁵⁴ Ibid

rates in attracting foreign investment. Here, we highlight some of the key economic, governance, and cultural differences in the six key emerging markets in the region that are likely to influence the location choices of investors.

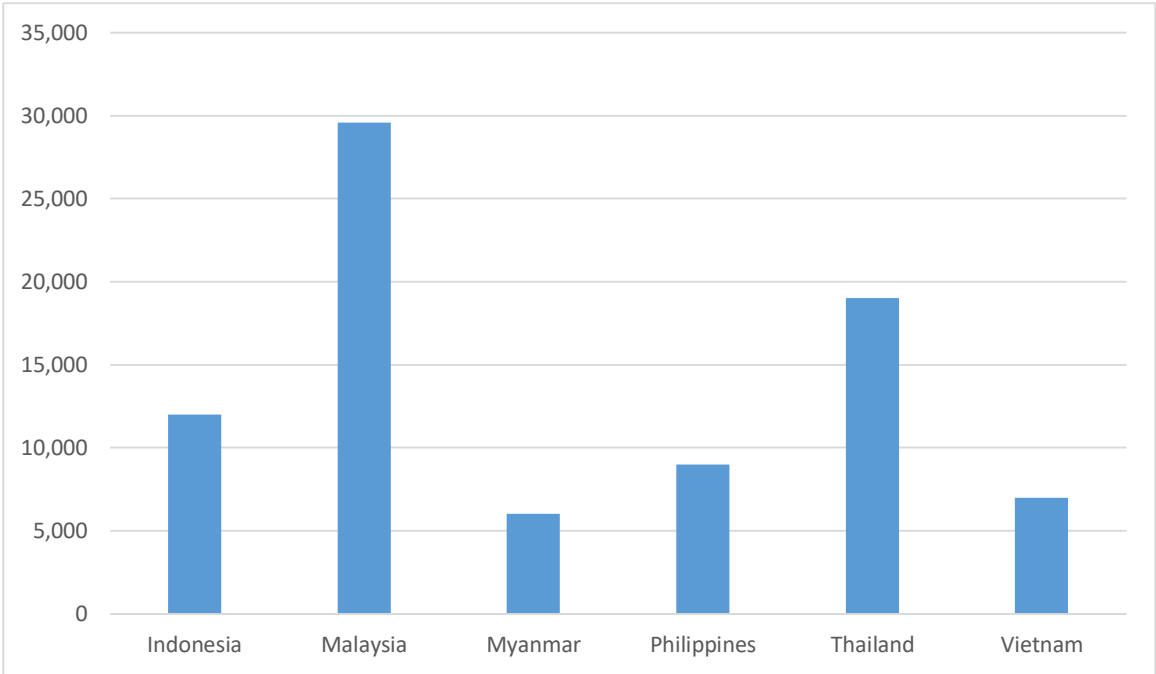


Figure 6. GDP Per Capita in Six Southeast Asian Countries, 2019. Source: World Bank, in US\$ Using Purchasing Power Parity Exchange Rates.

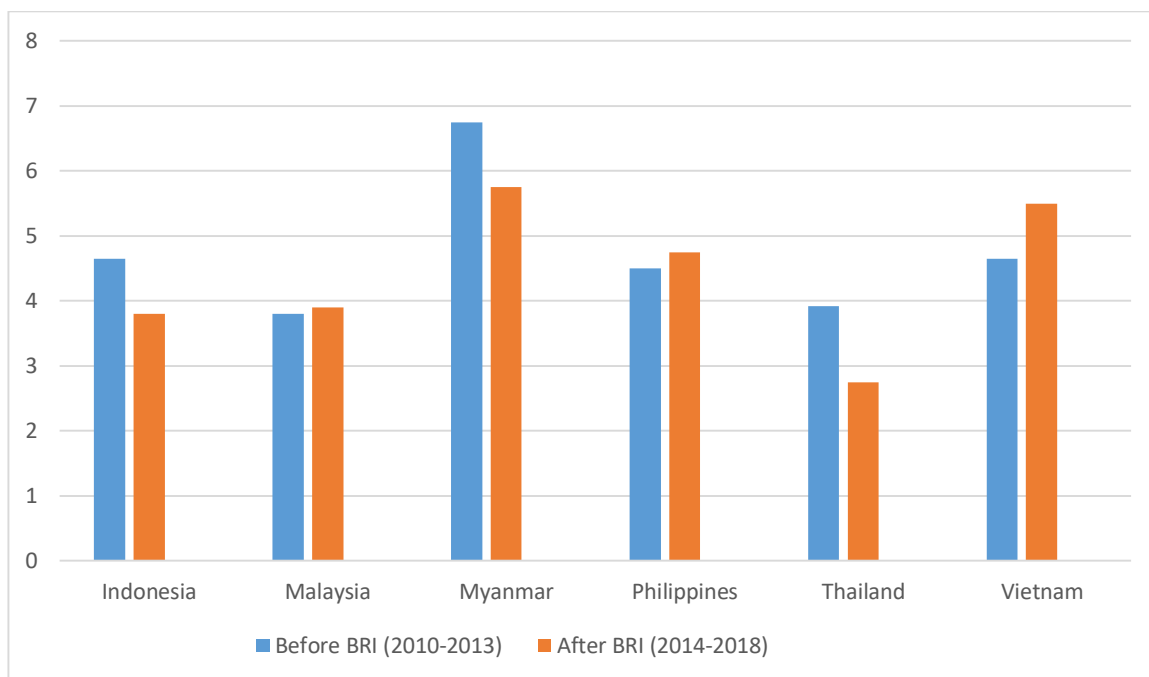


Figure 7. Growth Rates of Real GDP Per Capita in Six Southeast Asian countries

Note: The Real GDP Per Capita Growth (%) for Each Country is the Average Value in Each Period.

In addition to overall market size, the level of development measured by GDP per capita and GDP growth rate per capita is a positive predictor of future market demand that drive those markets attract investors interested in selling local goods or services. At the same time, one of the benefits of less developed countries is lower wages, which can reduce export-oriented and labor-intensive production costs. Figures 6 and 7 show that GDP growth rates and growth rates differ significantly across the six countries. Malaysia is the most developed country with a capita GDP in 2019 of nearly 30,000 US dollars, measured using the Purchasing Power Parity (PPP). Thailand and Indonesia are the richest with a capita GDP of between \$1,000 and \$20,000, and the rest of the world have a per capita GDP of less than \$ 10,000, in order, the Philippines, Vietnam and Myanmar. In general, countries with low per capita GDP tend to grow faster than countries with high per capita GDP in line with greater catch potential. For instance,

Myanmar and Vietnam have the highest annual growth rates, both above 5% in recent years. However, the correspondence is not perfect. Malaysia, the country with the highest GDP per capita by PPP, grew slightly faster than Indonesia and Thailand in recent years.⁵⁵

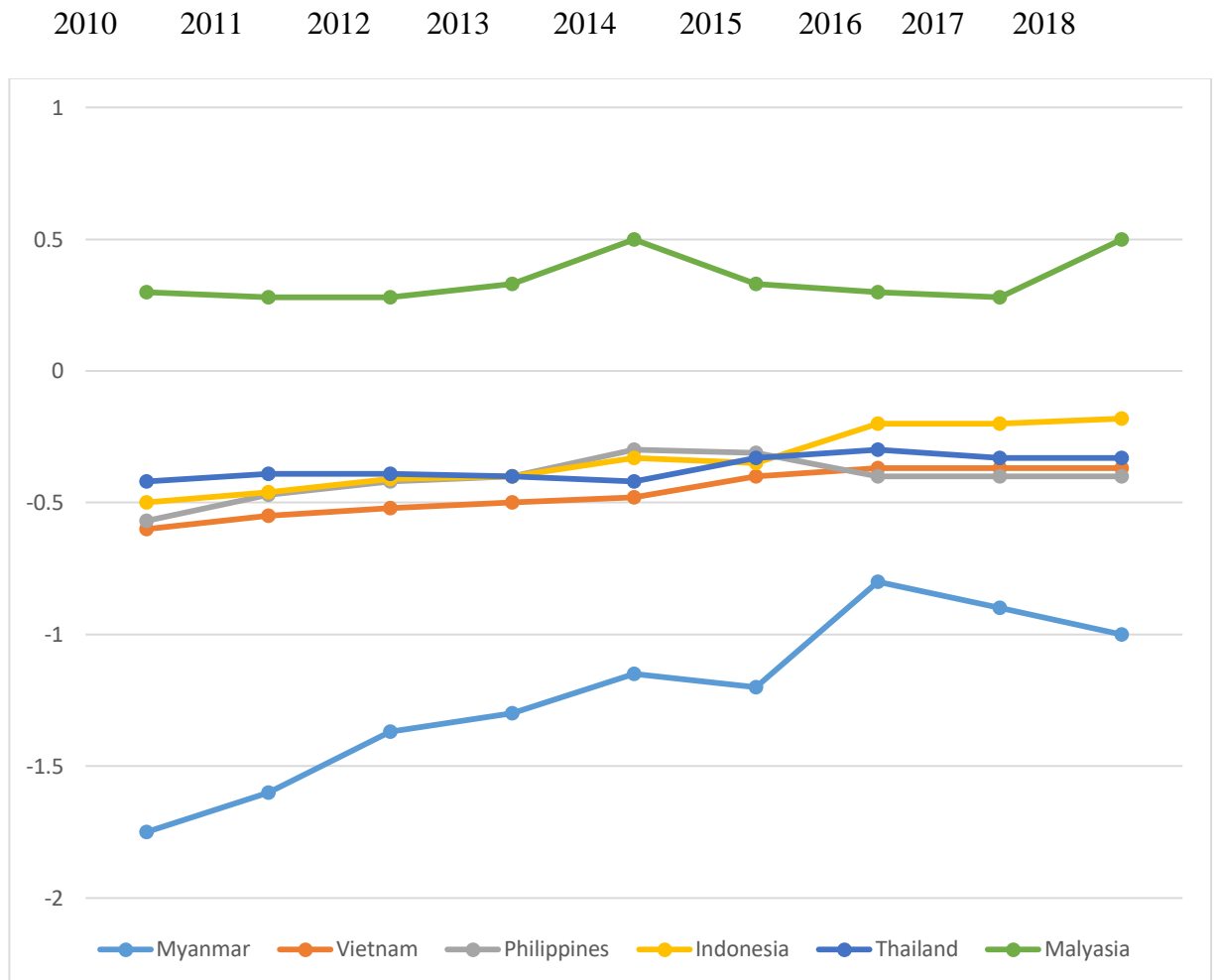


Figure 8. Governance Indicator for six Southeast Asian Countries, 2010-2018

Measurements of the quality of institutions in different countries are highly correlated with the level of economic development. Figure 8 presents an overall governance indicator for each country compiled by the World Bank over the period 2010 to 2018. The governance

⁵⁵ Source, at <https://www.worldometers.info/gdp/gdp-per-capita/>

indicator combines scores for voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. Among the six countries, Malaysia's governance quality was significantly better than any of the others. Indonesia and Thailand had the next highest governance scores, but were just slightly better than the Philippines and Vietnam. Myanmar had the lowest governance scores, but the country's governance has improved rapidly over time. Indonesia also made steady progress relative to other countries, passing the Philippines and Thailand compared to when the BRI began in 2013.⁵⁶

With respect to the well-known Ease of Doing Business rankings also calculated by the World Bank (Figure 9), again more developed countries tend to score higher. The top scores were for Malaysia and Thailand, which were very close to each other. A bit behind were Indonesia and Vietnam, followed by the Philippines and Myanmar.⁵⁷

⁵⁶ Source, <https://info.worldbank.org>

⁵⁷ Ibid

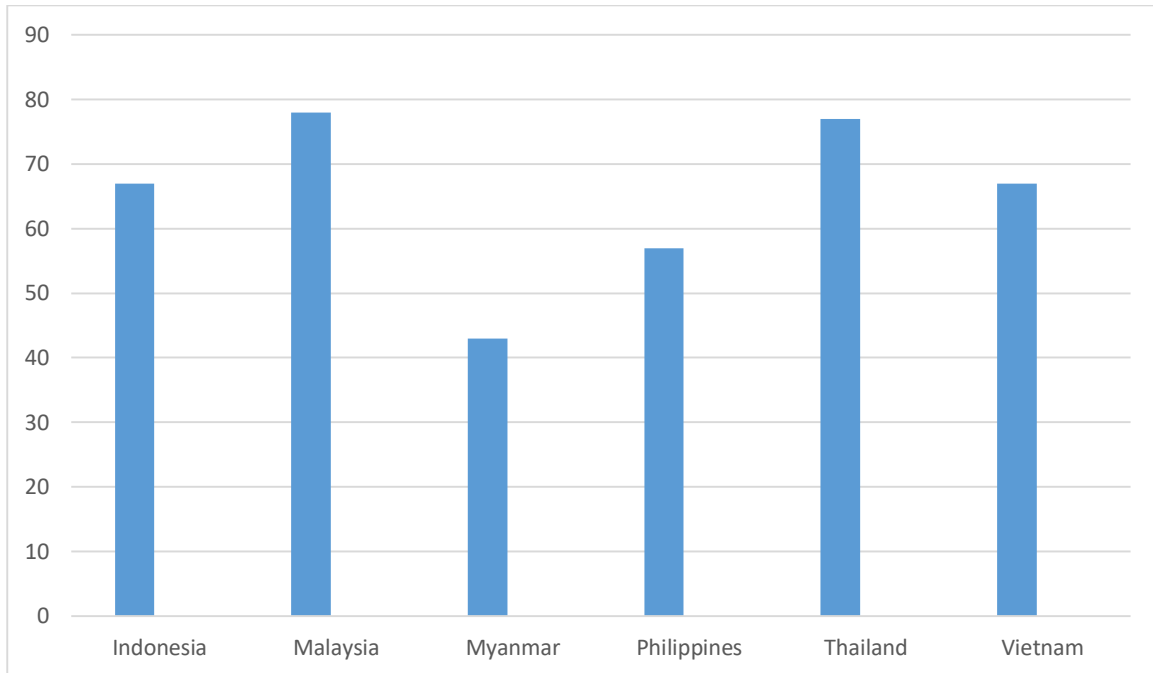


Figure 9. Ease of Doing Business in Six Southeast Asian Countries, 2018

Cultural factors also play a role in determining the attractiveness of different investment locations. Mainland Chinese firms may find it easier to operate in countries with larger Chinese populations. Among the Southeast Asian countries, only Malaysia (24%) and Thailand (14%) have Chinese-speaking populations greater than 5%. Myanmar has 3% Chinese speakers, and the remaining countries have about 1% Chinese speakers.⁵⁸ Religious beliefs also vary across countries with Indonesia and Malaysia having Muslim population shares of 87% and 61%, respectively, and the Philippines having a 93% Christian population share.⁵⁹

⁵⁸ Hooker, Michael Barry (2002). *Law and the Chinese in Southeast Asia*. Institute of Southeast Asian Studies.

⁵⁹ [Philippines in Figures : 2014 Archived](#) 2014-07-28 at the [Wayback Machine](#), [Philippine Statistics Authority](#).

2.1.3. Covid-19

Most of the countries we study have done an outstanding job controlling the spread of COVID-19 in their countries. However, two countries – Indonesia and the Philippines – have struggled somewhat, with thousands of new cases still being reported daily in October 2020. As of 20 October 2020, total COVID-19 cases and deaths were over 350,000 in both Indonesia and the Philippines. Still, to put these numbers in perspective, it is worth noting that deaths per capita in these countries are only one tenth of the United States and other hard-hit countries in Europe and Latin America. Each of the other countries had fewer than 40,000 total cases, with less than 4,000 cases in Thailand and Vietnam.⁶⁰

Successful control of COVID-19 doesn't mean countries in the region were able to avoid significant negative shocks to their economies. Lockdown policies created severe contractions in both supply (business closure) and demand (due to unemployment and lower incomes). The pandemic's impact on countries throughout the world sharply reduced demand for many goods exported by countries in ASEAN. Travel restrictions have crippled international tourism. Overall, the Asian Development Bank projects that growth in ASEAN will be -3.8% in 2020, compared to 4.4% in 2019, with growth in the region expected to rebound to 5.5% in 2021.⁶¹ Unemployment rates in many countries reached levels not seen in decades. The pandemic had

⁶⁰ Risk Assessment for International Dissemination of COVID-19 to the ASEAN Region:

[:https://asean.org/storage/2020/02/COVID-19_Report-of-ASEAN-BioDiaspora-Regional-Virtual-Center_21October2020.pdf](https://asean.org/storage/2020/02/COVID-19_Report-of-ASEAN-BioDiaspora-Regional-Virtual-Center_21October2020.pdf)

. Page 9.

⁶¹ The impact of Covid-19 on ASEAN:

<https://www.tandfonline.com/doi/pdf/10.1080/20954816.2020.1839166?needAccess=true>. *ECONOMIC AND POLITICAL STUDIES* 2021, VOL. 9, NO. 2, 166–185

the most negative impact on economies of countries such as Thailand that rely more on exports and tourism, even though the country had relatively few COVID-19 cases. Thailand's GDP is expected to contract the most (by 8% in 2020) among all Southeast Asian countries. The next worse performing economy is the Philippines (projected -7.3% growth in 2020), which had the most COVID-19 deaths per capita among countries in the region. Only two countries – Vietnam and Myanmar – are expected to enjoy positive growth in 2020, thanks to their low COVID-19 exposure, lower reliance on exports, and for Vietnam the greater resilience of the demand for the country's labor intensive export products.⁶²

2.2. BRI Projects in ASEAN

As a key strategic partner of China, ASEAN is an important participant in the development of the Belt and Road Initiative (BRI). ASEAN has made a commitment to link its Master Plan on ASEAN Connectivity 2025 with the BRI and accelerate its infrastructure development on the great momentum brought about by the BRI.⁶³ At present, the BRI has achieved general strategic alignment with ASEAN countries.

2.2.1. Implementation of BRI Project in ASEAN

China and ASEAN countries have launched a number of cooperation projects ranging from trade and investment, energy, infrastructure and industrial parks.

⁶² Source, available at https://asean.org/storage/2020/04/ASEAN-Policy-Brief-April-2020_FINAL.pdf (last access April 2020)

⁶³ ASSOCIATION OF SOUTHEAST ASIAN NATIONS, *ASEAN-China Joint Statement on Synergising the Master Plan on ASEAN Connectivity (MPAC) 2025 and the Belt and Road Initiative (BRI)*, <https://asean.org/asean-china-joint-statement-synergising-master-plan-asean-connectivity-mpac-2025-belt-road-initiative-bri/>

2.2.1.1 Cooperation on trade and investment

The trade volume between China and ASEAN was USD 587.87 billion in 2018, up by 14.1% year-on-year, reaching a historical high. China has been ASEAN's largest trading partner for 10 consecutive years, while ASEAN has been China's third largest trading partner for 8 consecutive years.⁶⁴

By the end of 2018, the accumulated investment by China to ASEAN reached USD 89.01 billion, and that by ASEAN to China reached USD 116.7 billion. By far, China has established over 4,000 enterprises in ASEAN countries through direct investment with investment areas expanding from manufacturing, mining, retailing to electric power, water supply, and telecommunications etc.⁶⁵

2.2.1.2. Cooperation on energy

In the power sector, China has gained a foothold in the ASEAN market by capitalizing on large state-owned enterprises and striving to meet emerging needs for power development in the region. State Power Investment Corporation Limited (SPIC) has business in Malaysia, Indonesia, Myanmar, Laos, Cambodia, Vietnam and the Philippines. China has successfully transmitted power from China's Yunnan province to Vietnam and Laos, while incorporating a portion of Myanmar's hydroelectric power into Yunnan's grid.

In the field of renewable energy, China and Vietnam, Myanmar and Laos have signed multiple agreements on technology transfer in solar power through the China-ASEAN

⁶⁴ China Development Institute, *BRI Projects in ASEAN: Implementation, Mechanism and Suggestions*, June 26, 2019. 2.

⁶⁵ Ibid

Technology Transfer Center (CATTC).⁶⁶ China General Nuclear Power Corporation (CGN) has also signed cooperation agreement with ASEAN Centre for Energy.⁶⁷

2.2.1.3. Cooperation on infrastructure

First, the establishment of financing platforms has helped infrastructure connectivity. The Asian Infrastructure Investment Bank and the Silk Road Fund, with an initial capital of USD 50 billion and USD 40 billion respectively, provide long-term and low-cost funding for connectivity of road, rail, shipping, oil and gas pipelines between China and ASEAN.⁶⁸

Second, connectivity of transport infrastructure has made initial progress. The joint venture consortia of China and ASEAN have undertaken a number of major infrastructure projects, such as Indonesia's Jakarta-Bandung High-speed Railway, the China-Laos Railway, and China-Thailand Railway, etc. The Trans-Asian Railway (TAR) going through Vietnam, Laos, Myanmar and Singapore is also expected to go operational before 2020.

Third, the first phase of the China-ASEAN Investment Cooperation Fund (CAF), with a total investment of USD 10 billion, has been launched. In Cambodia, CAF helps companies with Chinese background adopt Chinese technologies, equipment and management personnel to build optical fiber backbone network and digital television networks for the region. In

⁶⁶ Jorge SOUTULLO, The Mekong River: geopolitics over development and hydropower and the environment, European Parliament, November 2019. 37-43.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2019/639313/EXPO_STU\(2019\)639313_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/639313/EXPO_STU(2019)639313_EN.pdf)

⁶⁷ Ibid

⁶⁸ Inclusive Development International), *Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond*, 2016. <https://www.inclusivedevelopment.net/wp-content/uploads/2020/01/making-inroads-china-infrastructure-finance-march-2017.pdf>

addition, CAF also partners with domestic enterprises and Cambodian state television to invest in Cambodia's smart TV project.⁶⁹

2.2.1.4. Cooperation on industrial parks

By far, China has set up overseas industrial parks in ASEAN countries, which represents a new model of cooperation between China and ASEAN. A total of 8 overseas parks have been established in ASEAN, as confirmed by China's Ministry of Commerce (MOFCOM), including Qinzhou Industrial Park in Guangxi, China and the Kuantan Industrial Park in Malaysia (Two Countries, Twin Parks), Sinothaizone, Sihanoukville Special Economic Zone (SSEZ), Vientiane Saysettha Development Zone (SCDZ), China-Indonesia Economic and Trade Cooperation Zone, Long Jiang Industrial Park in Vietnam, China-Indonesia Morowali Industrial Park, and the China-Indonesia JuLong Agricultural Industry Cooperation Zone.⁷⁰

Established in 2006, Sinothaizone is a modern industrial park developed by Holley Group Co., Ltd. of China and Amata Corp. PCL of Thailand. By the end of 2016, more than 60 companies from China operating in sectors including electronics, machinery, auto parts and home appliances, had settled in, with an output value of USD 3.75 billion and a cumulative tax payment of over USD 70 million to the local government. While Chinese companies have successfully leveraged the advantages of Sinothaizone in transport, policy preferences and

⁶⁹ Ibid

⁷⁰ Shihong Bi (2021) Cooperation between China and ASEAN under the building of ASEAN Economic Community, *Journal of Contemporary East Asia Studies*, 10:1, 83-107, DOI: 10.1080/24761028.2021.1888410, <https://www.tandfonline.com/doi/full/10.1080/24761028.2021.1888410>

infrastructure, Thailand has benefited from job creation, talent cultivation and technology transfer.⁷¹

2.3. Mechanism of BRI in ASEAN

Chinese governments, state-owned enterprises and private sectors are involved in BRI projects.

2.3.1. Participation of Chinese government in BRI projects in ASEAN

The Chinese government's participation in the BRI in ASEAN mainly aims to build a China-ASEAN regional international cooperation mechanism, provide regional "public goods", and facilitate partnership on overseas projects.

China is one of ASEAN's partners that have established some cooperation mechanisms with ASEAN, including the leaders' meeting, 12 ministerial meetings, and 5 working-level dialogues. These arrangements, along with the China-ASEAN Exposition (CAEXPO) and the China-ASEAN Center, fully demonstrate a comprehensive and multi-level strategic partnership.

The Chinese government has established the China International Development Cooperation Agency (CIDCA) as a direct agency under the State Council, integrating functions related to foreign assistance projects. On the one hand, the new top design is conducive to the funding of overseas projects in line with the implementation of projects under the BRI; on the

⁷¹ Ibid

other, it can facilitate understanding of the development bottlenecks and needs of ASEAN countries, thus creating customized development plans for each of them.⁷²

The Chinese government has advocated the Indo-China Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor and constructed cross-border economic cooperation zones with Vietnam, Laos, and Myanmar to explore a new model of integrated development of border economy. The Chinese government has also transplanted its own experience of establishing special economic zones and international trade and economic cooperation parks to ASEAN countries. At the same time, the Chinese government proposed to set up the “China-ASEAN special loan for infrastructure development” with a total sum of USD 10 billion.⁷³ In 2015, the Chinese government proposed to add another USD 10 billion to the “China-ASEAN special loan for infrastructure development” in its second phase at the “China-ASEAN (10+1) Leaders’ Meeting”.⁷⁴

2.3.2. Participation of state-owned enterprises in BRI projects in ASEAN

State-owned enterprises, particularly central enterprises, are the main force of BRI projects in ASEAN countries. Many competitive central enterprises have engaged in the projects in the form of engineering contracting, equity investment and joint ventures.

First, many Chinese central enterprises started contracting overseas engineering projects many years ago and have rather mature cooperation model. Construction is usually carried out

⁷² Denghua Zhang, Hongbo Ji. *The New Chinese aid agency after its first two years*. 22 April 2020.

<https://reliefweb.int/report/china/new-chinese-aid-agency-after-its-first-two-years>

⁷³ Zhang guoping, *BRI Projects in ASEAN: Implementation, Mechanism and Suggestions*, 5.

⁷⁴ Ibid

by a single enterprise and its subsidiaries at home or abroad, or by a consortium formed by several domestic central enterprises, or jointly contracted by domestic and foreign enterprises. Usually, the central enterprises that have won the bid will be responsible for project financing, deliver the project and get return on investment. The Sumsel-1 2 × 350 MW Coal-fired Power Generation Project in Indonesia is an exemplary project of the BRI, with SPIC in charge of general EPC contracting and construction.⁷⁵

Second, in the equity investment mode, central enterprises and their subsidiaries will usually invest in relevant businesses and projects in ASEAN countries through equity investment. Generally, the central enterprises buy the shares of relevant projects or businesses through their head offices, domestic and foreign subsidiaries or equity investment funds. The projects are mostly financed by the main investors themselves, and the income will be distributed according to the proportion of shares held. The China-ASEAN Investment Cooperation Fund is a large equity investment fund and is funded by central enterprises including the Export-Import Bank of China, China Investment Corporation, Bank of China, International Finance Corporation, and China Communications Construction Company Ltd.⁷⁶

Third, single central enterprises or a consortium formed by a number of central enterprises may establish joint ventures with ASEAN countries to carry out investment and cooperation. The advantage of setting up a joint venture is that it can improve adaptability and reduce

⁷⁵ bri projects in Indonesia, 2021. <https://twoach.com/boxer-white-zqij/bri-projects-in-indonesia>

⁷⁶ Jin Shi, Xiaohui Hu, Yunxiong Li and Tao Feng, *Does the Belt and Road Initiative Reshape China's Outward Foreign Direct Investment in ASEAN? Shifting Motives of State-owned and Private-owned Enterprise*, ResearchGate, Aug 2019. <https://www.researchgate.net/publication/335233276>

transaction costs operating in foreign countries. The Chinese consortium led by China Railway Corp. established a Sino-Indonesian Joint Venture with Indonesia's SOE Consortium to undertake the construction and operation of the Jakarta-Bandung High-speed Railway Project, with 60% of shares held by Indonesia and 40% by China.⁷⁷

2.3.3. Participation of private enterprises in BRI projects in ASEAN

The operation mode of private enterprises participating in BRI projects in ASEAN countries mainly includes project contracting, labor cooperation and collective investment in overseas projects through establishing industrial parks.

Private enterprises may cooperate with domestic enterprises to carry out equity investment in projects, set up overseas engineering companies through consortium, or establish joint ventures with overseas enterprises. One of the most popular ways for private enterprises to participate in BRI projects in ASEAN countries is to set up industrial parks, so as to support their collective “going out” efforts. By 2017, Chinese companies had built 23 overseas cooperation parks in ASEAN countries, attracting 421 Chinese enterprises to settle in, with a total investment of about USD 21.3 billion.⁷⁸

2.4. Challenges for BRI projects

The major challenges for BRI projects in ASEAN countries mainly include political concerns, inconsistent standards and difference in business environment.

⁷⁷ Ibid

⁷⁸ Plan of Action to Implementation the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity (2016-2020), <https://www.asean.org/storage/images/2015/November/27th-summit/ASEAN-China%20POA%20%202016-2020.pdf>

2.4.1. Political concerns

Some ASEAN countries are ambivalent about the BRI and China's opening-up in general. On the one hand, they look forward to China's continued effort in opening-up, affirming its positive impact and hoping to obtain more funding and technology from China and export their domestic products to huge Chinese market. On the other hand, they worry that the purpose of China's BRI is to export domestic excess capacity and to translate economic clout into political dominance, thus harming their own interests.⁷⁹

2.4.2. Inconsistent standards

Current inconsistencies in technical standards and norms in infrastructure construction under the framework of the BRI in ASEAN countries can obstruct infrastructure connectivity among ASEAN countries. Therefore, technical standards and norms to some extent are even more important than physical connectivity.

China and many ASEAN countries have adopted markedly different transport technology standards and management systems, which constitutes a major issue in fostering infrastructure connectivity. This has increased the technical difficulty and construction cost of the Trans-Asian Railway in Southeast Asia. At the same time, freight transportation across areas with different gauge standards must go through track adjustment, considerably increasing the time cost.⁸⁰

⁷⁹ Phidel Vineles, RSIS, *ASEAN and China struggle to buckle the belt and road*, EastAsiaForum, 26 January 2019.

<https://www.eastasiaforum.org/2019/01/26/asean-and-china-struggle-to-buckle-the-belt-and-road/>

⁸⁰ Ibid

2.5. Differences in business environment

Currently, there are great disparities among ASEAN countries in economic development and industrial structure, as well as in investment environment and management system. There are also large and various inconsistencies among countries in legislation, market access rules and standards. Certain countries do not have a sound and stable legal system and have relatively high logistics cost, all of which have led to relative unstable business environment and high risks for project development. The situation is further complicated by different languages, customs and religions in ASEAN member states, all presenting difficulties for the investment and operation Chinese businesses.

2.6. Suggestion

To promote the BRI cooperation between China and ASEAN countries, here are some suggestions:

2.6.1. To maintain mutual trust

China and ASEAN countries should improve policy communication and strategic alignment, enhance bilateral mutual trust, and bring together main stakeholders to move these projects forward.

In response to the concerns of some ASEAN countries about the BRI, we shall promote in-depth alignment between the BRI and the development strategies of ASEAN countries, such

as Vietnam's "Two Corridors and One Ring",⁸¹ Cambodia's "Quadrangle-Development Strategy",⁸² Indonesia's vision for "Global Maritime Fulcrum",⁸³ among others.

At the same time, the role of dialogues between think tanks should be leveraged as an important complement to official diplomacy. Research outputs of think tanks tend to be more convincing in objectivity and accuracy, and can help make policy communication more effective. Thus, dialogue mechanisms of think tanks can help both sides understand each other better, conducive to building mutual trust between China and ASEAN countries regarding the implementation of BRI projects.

2.6.2. To align technological standards for infrastructure projects

Regarding the differences in technological standards for infrastructure projects between China and ASEAN countries, both sides should sign bilateral agreements in the fields of rail, road and aviation, etc., and create key demonstration projects towards achieving "connectivity". China should vigorously advocate the adoption of international standards.

China's rich experience in and strong record of delivering construction projects of railways, airports and ports prove the feasibility of China's technological standards. The technological planning and standards for infrastructure construction under the BRI, such as

⁸¹ Seetao, *One Belt One Road, Two Corridors and One Circle Shaking Hands*, 1 April 2021.

<https://www.seetao.com/details/73580.html>

⁸² Tian Xinqing, *Trade Investment Facilitation Under the Lancang-Mekong Cooperation Framework*, 2018.

<https://heinonline.org/HOL/LandingPage?handle=hein.journals/chintersd71&div=8&id=&page=>

⁸³ Safril Mubah, *Indonesia's Double Heaving Strategy toward the United States-China Competition: Shaping Regional Order in the Indo-Pacific*, 2019. World Scientific Connecting Great Minds.

<https://www.worldscientific.com/doi/abs/10.1142/S1013251119400071>

railways and roads, should be jointly discussed and formulated by the governments of ASEAN countries and China, and enterprises before the signature of bilateral agreements. It is recommended that the two sides establish a BRI railway or aviation company to serve multinationals operating under the BRI and to jointly plan and coordinate the operation of railways, roads, air routes and other infrastructures.⁸⁴

2.6.3. To respect national condition of host countries

The disparities among ASEAN countries in economic development, industrial structure, investment environment, culture and religions have led to different types of risks for doing business in the region. China needs to be aware of the different endowments of ASEAN countries, and optimize project cooperation and “going out” strategies for its enterprises by taking account of industrial complementarities and the development needs of the host country. At the same time, full respect shall be given to the national culture and religious beliefs of the host country in specific projects.

The focus of cooperation with ASEAN countries in the early stage of industrialization is to ensure that China’s technological advantages synergize with local production factors, such as cheap labor and land, and to help ASEAN countries industrialize; China can import from these countries much-needed energies and primary products. In contrast, cooperation with

⁸⁴ Atif Saleem Butt, Syed Hamad Hassan Shah, *Exploring potential implications of Belt and Road Initiative for supply chain resilience: a comparative study of five South Asian countries*, 1 Dec 2020.

<https://www.emerald.com/insight/content/doi/10.1108/BIJ-07-2020-0379/full/html>

countries in their late stage of industrialization, such as Singapore, should focus on research and development, design and management of high-tech products.⁸⁵

2.7. Mainland Chinese FDI and Construction Projects in Southeast Asia

	2019	2020	2021
Indonesia	5.0	-1.0	5.3
Malaysia	4.3	-5.0	6.5
Myanmar	6.8	1.8	6.0
Philippines	6.0	-7.3	6.5
Thailand	2.4	-8.0	4.5
Vietnam	3.4	1.8	6.3

Table 1. GDP Growth Rates in Six Southeast Asian Countries. Source: Asian Development Bank, Asian Development Outlook September 2020⁸⁶

Government in the region responded aggressively to the COVID-19 challenge by passing fiscal stimulus packages that provided assistance to vulnerable households and businesses, and by making credit more widely available, often by lowering policy interest rates. Sound macroeconomic management prior to the crisis in most countries provide sufficient policy space for governments to respond to the pandemic challenge proactively without creating excessive imbalance. The policy response varied across countries in term of magnitude and the specific

⁸⁵ Faizal Yahya, Zhi Yang Chang, Yan Hao Ng, *Developing high-tech companies in Singapore*, April 21, 2017.

<https://journals.sagepub.com/doi/abs/10.1177/030630701604200102>

⁸⁶ ADB BRIEFS, *The Impact of COVID-19 on Developing Asia: The Pandemic Extends into 2021*, No. 159, Dec 2020.

<https://www.adb.org/sites/default/files/publication/656521/impact-covid-19-developing-asia-extends-2021.pdf>

programs depending on local economic conditions, budgetary resources, and the choices of leaders.

How were major Belt and Road infrastructure and investment projects affected by the pandemic? Undoubtedly, most ongoing projects were delayed by at least three or six months due simply to the disruptions caused by lockdowns, travel bans, and the preoccupation of government leaders and firm managers with responding to urgent concern caused by the pandemic. Governments that priorities increased spending of available resources on direct assistance and healthcare programs may decide to postpone infrastructure spending which could further delay some projects. On the other hand, some government with sufficient resources, such as the Philippines, plan to increase infrastructure spending as a way to stimulate their economies. Generally speaking, both mainland Chinese and country leaders have reaffirmed their commitment to completing major Belt and Road projects even if they are delayed.

How has the BRI affected the amount of mainland Chinese FDI and construction projects in Southeast Asia? To address this question we analyze a dataset to all mainland Chinese outbound FDI (OFDI) and infrastructure projects globally from 2010 to 2018. The project-level data comes from two independent sources that verify information on mainland Chinese projects at final destination from government, company, and media websites: the Financial Times' FDI Maker (6FM) dataset on greenfield FDI projects, and the mainland China Global Investment Tracker (CGIT) of the American Enterprise Institute, which records large (above US\$ 100 million) construction and FDI projects (including greenfield and brownfield investments, and mergers and acquisitions). Information on final destinations enable us to overcome a major limitation of official FDI statistics, which that most of mainland China's FDI go to Hong Kong SAR or tax have countries which are intermediate destination.

As seen in Figure 10, comparing the four-year period before the BRI (from 2010 to 2013) with a five-year period after the BRI, we find that the value of annual FDI investments by mainland Chinese companies in Southeast Asian countries increased by 85% after the BRI, and the value of the construction projects increased by 33%. Most of the FDI is in the form of greenfield or new factory investments. The value of other types of FDI (brownfield, mergers and acquisitions) was comparatively less at the beginning but increased by nearly four times after the BRI.

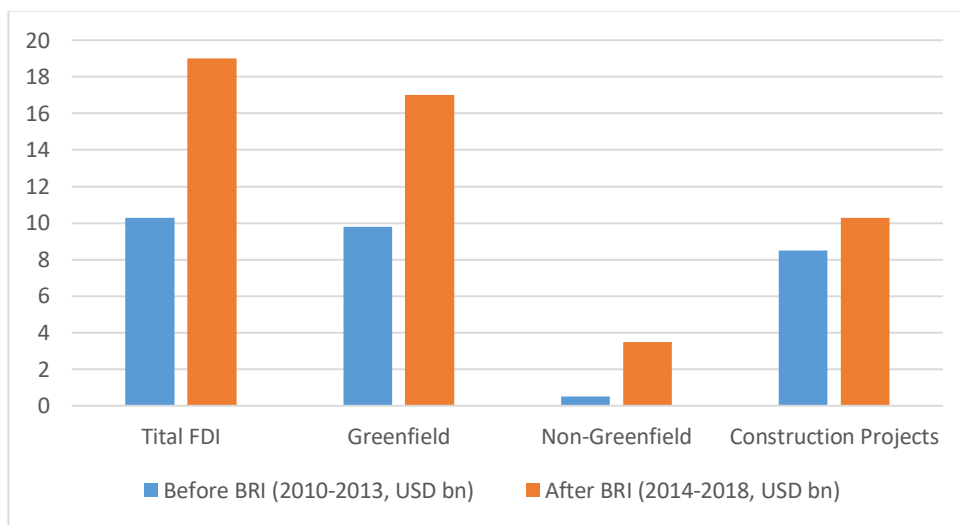


Figure 10. Mainland Chinese FDI and Construction Projects in Southeast Asia Before and After the BRI⁸⁷

Note: The Numbers are Average Annual Values for Each Period

Since most investors are interested in Greenfield investments, we next present the amount of mainland Chinese Greenfield FDI that has flowed to the six countries of interest (figure 11). Indonesia received the most mainland Chinese FDI both before and after

⁸⁷ Stephen Frost, *Chinese outward direct investment in Southeast Asia: How big are the flows and what does it mean for the region?*, 11 Aug 2006. <https://www.tandfonline.com/doi/abs/10.1080/0551274042000261489>

the start of the BRI, which perhaps is not surprising given the size of its economy. The next largest recipient of mainland Chinese FDI is Malaysia, which is the most developed country and has the highest governance quality and ease of doing business scores. The Philippines and Vietnam are the next largest recipients under the BRI, while Thailand and Myanmar lag behind. The Philippines and Vietnam are relatively large markets that growing quickly with decent governance.

The most surprising results is the relative low level of FDI in Thailand, Which is the region's second largest market and second most developed countries. This could be a result of the large flows of FDI into Thailand from Japan and South Korea to support the country's shift to higher technology production, which may have in turn crowded out the demand for FDI from mainland China.

Also worth nothing from Figure 11 is that among the six countries the increase of FDI after the BRI began is greater in the larger economies (with the exception of Thailand), especially Indonesia which accounts for the lion's share of increased investment. In term of the amount of increased investment, the countries receiving the next largest increases are Myanmar, the Philippines and Vietnam, which corresponds to their GDP rankings. Thailand and Myanmar have seen no significant change in greenfield FDI under the BRI. Worth nothing is that in terms of the rate of increase in FDI. Vietnam stands out with a tripling of greenfield FDI after the BRI began, compared to a doubling of FDI in Indonesia and the Philippines, and a 62% increase in Malaysia.

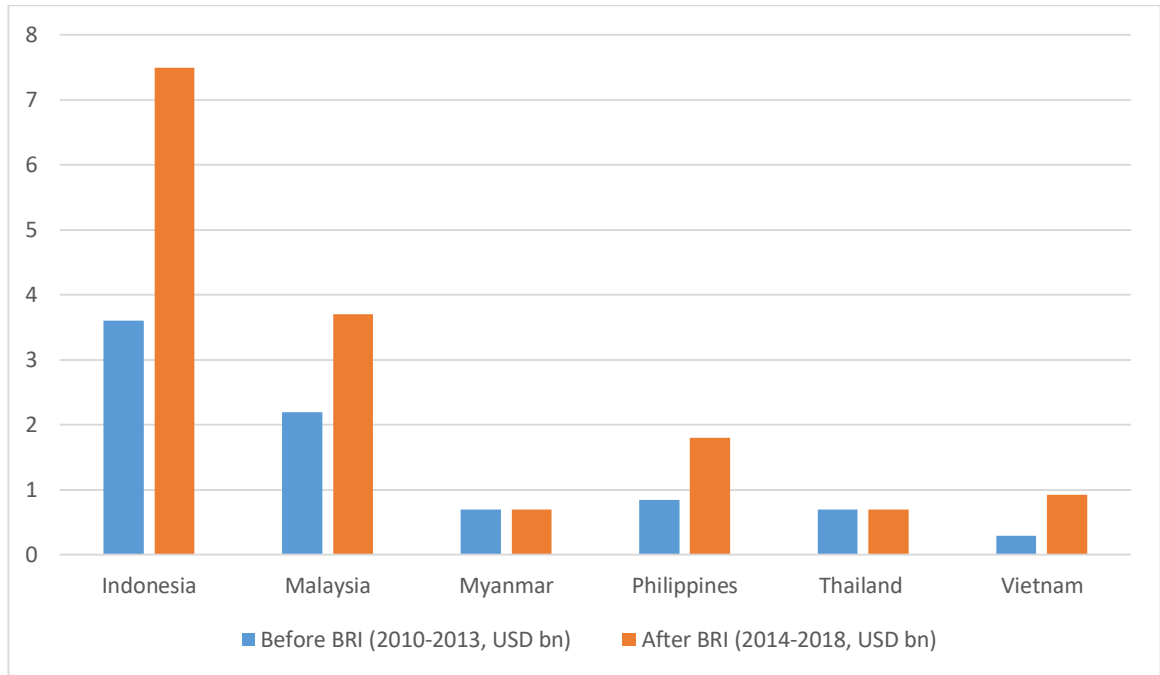


Figure 11. Mainland Chinese Greenfield FDI in six Southeast Asia before and after BRI⁸⁸

Note: The FDI for each country is the Average Annual Value During Each Period.

Next, we examine the distribution of large mainland Chinese construction projects in Southeast Asia countries (Figure 12). Again, we see the largest amounts in Indonesia and Malaysia, where construction projects more than doubled. However, among the other countries the patterns are not the same as for FDI. Notable are large increase in construction projects but from smaller bases in Thailand (10 times Increase), the Philippines (doubling), and Myanmar (150% increased), and a considerable drop in construction projects in Vietnam from a high base. Because Infrastructure projects entail large capital disbursements, there is greater year-to-year variability in construction projects compared to FDI.

⁸⁸ Ibid

Research that analyzes the determinants of mainland Chinese outbound FDI flow to different countries using the global project-level dataset finds that after the start of the BRI, the importance of economic fundamentals such as economic growth rates in determining the destination of mainland Chinese FDI declined, while the importance of good governance increased.⁸⁹ These results suggest that the large increase in BRI investments may have been partly driven by non-economic or at least long-term objectives. However, mainland Chinese investors were clearly not seeking to exploit weak, poorly governed states but rather put more emphasis on governance quality when making new investments.

The map of key BRI Projects in ASEAN provides a more granular picture of the major BRI projects in the region. Many of the largest projects are transport infrastructure (rail, roads, ports, airports), energy projects, or economic cooperation zones or industrial parks. The industrial parks are all joint ventures between mainland Chinese and local partners, which help to increase the confidence of mainland Chinese firms that are considering establishing operations in the parks.

⁸⁹ Albert Park, Which Countries Have Benefited the most from mainland China's Belt and Road Initiative?, HKUST IEMS Through Leadership Brief No. 32, 2019. (<https://iems.ust.hk/tlb32>)

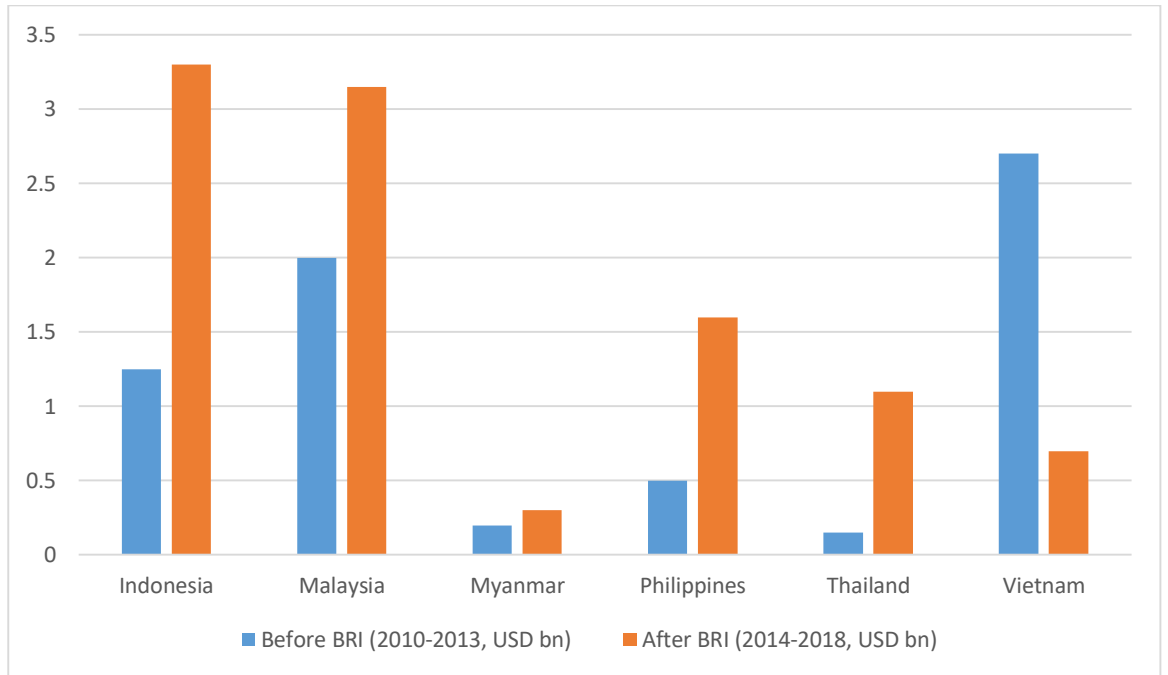


Figure 12. Mainland Chinese Construction Projects in Six Southeast Asian Countries Before and After BRI

Note: The Numbers are the Average Annual Value During Each Period.

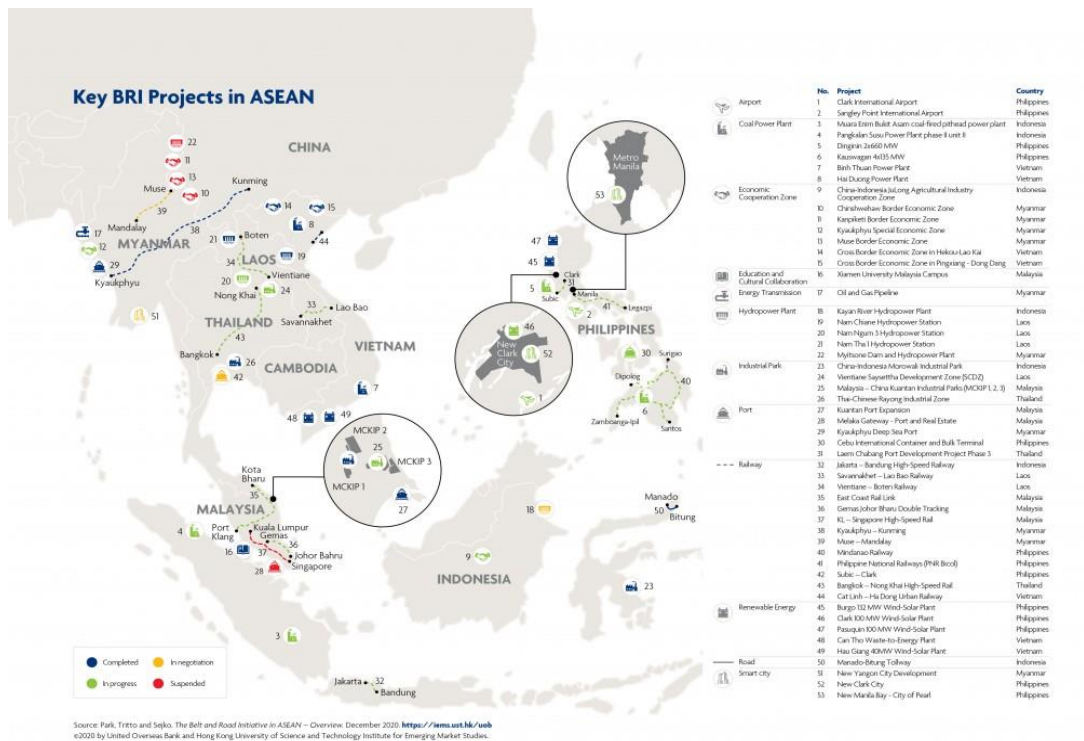


Figure 13. Key BRI projects in ASEAN

Source: HKUST IEMS Reports No. 2021-03

2.7.1. Sectors

The resource sector (including energy and minerals) accounts for a significant share of mainland China's large FDI projects in Southeast Asia, and in the Belt and Road countries. According to the project-level dataset, 55% of mainland China's greenfield FDI projects in Southeast Asia were in the resource sector before the BRI (2010-2013), increasing to 60% under the BRI (2014-2018).⁹⁰ Indonesia, Myanmar, and the Philippines, have over 80% of greenfield projects in the resource sector, while Vietnam has nearly 50%.⁹¹ The shares are much lower for Malaysia and Thailand. As can be seen from the map, some major BRI projects are coal power plants in Indonesia, the Philippines, and Vietnam. Many donor countries no longer invest in such plants because of their impact on climate change, but coal remains the cheapest energy resource for many countries. Mainland China has also supported the construction of a number of hydropower plants, some of which have been criticized for their environmental impact. In recent years, in response to International criticism, mainland China has put greater emphasis on green projects, and the map shows that mainland Chinese companies have invested in a number of large renewable energy projects in the Philippines and Vietnam, while Thailand and Myanmar have received investments in the manufacturing of solar panels.

⁹⁰ Albert Park, *Which Countries Have Benefited the Most from China's Belt and Road Initiative?*, HKUST IEMS, No. 32, Sep 2019. <file:///C:/Users/user/Downloads/park-which-countries-benefited-bri-hkustiems-tlb32.pdf>

⁹¹ Ibid

The US-Trade tensions and the ongoing pandemic are leading many manufacturers to seek greater diversification of their supply chains. In recent years, mainland China also has experienced rapidly rising wages that make producing intensive goods domestically less competitive.

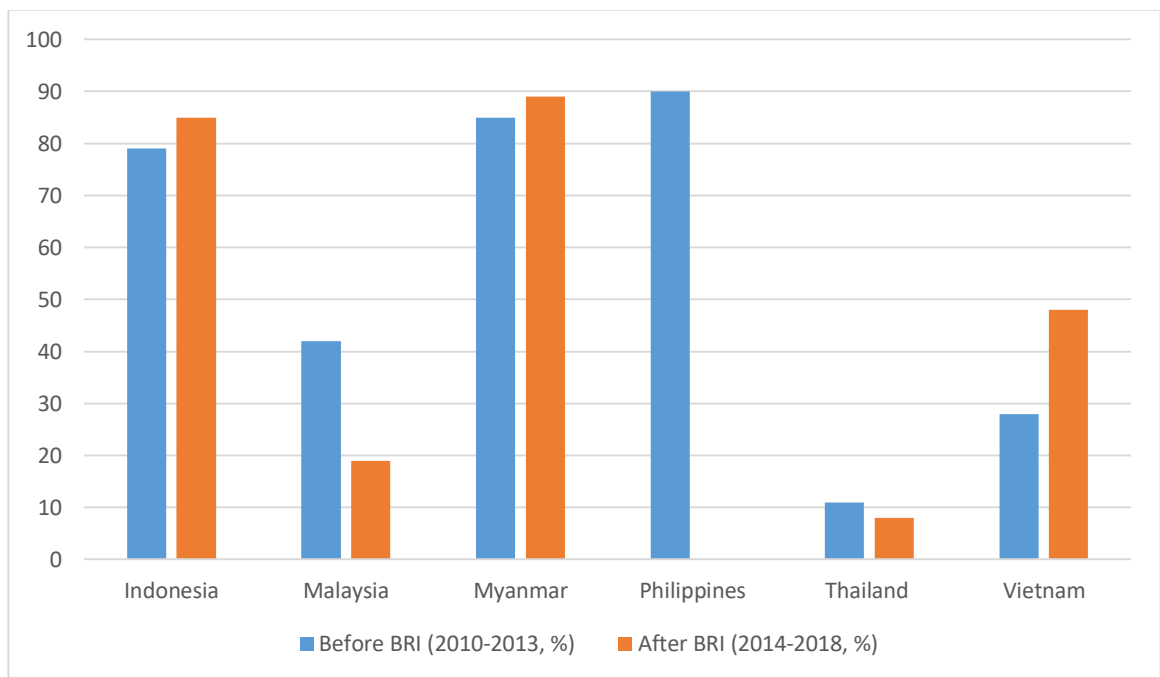


Figure 14. Resource Sector Share of Mainland Chinese Greenfield FDI in six Southeast Asian Countries.⁹²

As the result of this trends, more manufacturing activities are relocating from mainland China to other countries, providing an opportunity for countries in Southeast Asia to attract these business. Vietnam’s low wages, discipline labor force, and hospital investment environment have proven to be an attractive location for labor-intensive manufacturing. However, low wages are not always indicative of the overall costs of production, which also

⁹² Ibid

depend on difference in labor productivities, supply chain costs, and the reliability and price of energy. Yet even if overall costs are not lower, there still may be an incentive to shift production to other countries just to avoid high tariffs imposed on mainland Chinese exports to the US. Manufacturers of higher value added goods may care less about the wages of unskilled workers and more about the availability of skilled workers and high-quality inputs as well as the presence of other high-tech firms and business services.

The services sector accounts for a significant share of FDI flowing into ASEAN countries.⁹³ FDI in services are concentrated in financial services, wholesale and retail trade, and real estate. The overall amount of FDI in different service industries in different countries depends on local demand and supply as well as government policies towards foreign investment in specific industries.

Emerging markets in Southeast Asia have considerable demand for high tech products and services, Governments view investments in telecommunications infrastructure and development of smart cities as important for supporting rapid development, and consumers and business have great demand for smartphones, online services and entertainment, and other high-tech products. Leading mainland Chinese telecommunications and technology companies like Huawei and Alibaba as well as smaller, more specialized companies, are active in many countries in Southeast Asia, selling smartphones, building 4G and 5G infrastructure, providing e-commerce and other online services, and supporting other smart city technologies.⁹⁴ As

⁹³ The ASEAN Secretariat and UNCTAD, ASEAN Investment Report 2019 (Jakarta: ASEAN Secretariat), 2019.

⁹⁴ Tech Wire Asia, *Southeast Asia expansion continues for China tech like ByteDance, Alibaba,* <https://techwireasia.com/2020/06/china-tech-firms-look-to-southeast-asia-as-us-rivalry-intensifies/>

reflected on the map, several key BRI projects are smart cities in Myanmar and the Philippines. Alibaba acquired Lazada, the leading e-commerce company in the region, in 2016.⁹⁵ In the same year, Jack ma was appointed as an adviser to the Malaysian government to advise the country on its digital economy strategy, and later Alibaba supported the launch of a Digital Free Trade Zone to promote e-commerce for SMEs, and also helped develop a smart city solution for Kuala Lumpur that collected data on traffic to reduce congestion.⁹⁶ In Indonesia, many onlineP2P lenders from mainland China entered the local market, catching regulators off guard. Eventually, their activities were restricted in order to protect Indonesian consumers.⁹⁷ In the digital services space, government regulations are not very well developed in most countries in the region, including how to address privacy issues. Thus, investors in such services should be aware that regulations could evolve rapidly as new services are introduced and become better understood by regulators.

2.7.2. The Role of States-Owned and Private Enterprises

Some observers have expressed concerns about the leading role played by mainland Chinese SOEs in the BRI and have wondered whether the initiative is attracting much investment from private mainland Chinese firms. The Chinese government has made significant

⁹⁵ Yoon Ah Oh, Suyeon No, *The patterns of state-firm coordination in China's private sector internationalization: China's mergers and acquisitions in Southeast Asia*, 23 April 2019.

<https://www.tandfonline.com/doi/abs/10.1080/09512748.2019.1599410>

⁹⁶ Siew Yean Than, Jia Yi Andrew Kam, *Exploring the trade potential of the DFTZ for Malaysian SMEs*, ISEAS Publishing 2019, 2019. <https://www.degruyter.com/document/doi/10.1355/9789814843447/html>

⁹⁷ Sara Hsu, Jianjun Li, *China's Fintech Explosion*, Columbia University Press 2019, 2019.

<https://www.degruyter.com/document/doi/10.7312/hsu-19656/html>

progress in providing stronger incentives to SOE managers to maximize profits. However, the advice of government leaders and preferential access to credit and other government subsidies affects the investment and other decisions of SOEs. As a consequence, SOEs often are more willing to bear risks and be patient in waiting for returns to materialize when pursuing projects endorsed by mainland China's central or local governments. Some SOE managers report that they are expected to participate in the BRI and make new outbound investments. In the short term, such incentives may undermine the expected profitability of BRI projects, but could deliver longer term benefits by encourage firms to undertake investments and gain experience that may eventually pay off. The ability of the BRI to attract private firms is a better market test of whether the Initiative is creating profitable business opportunities.⁹⁸

By linking our project-level data to Chinese firm registration data, we are able to identify which FDI projects are undertaken by SOEs versus private enterprises, and thus can present unique micro-based estimate of the shares of FDI coming from two ownership types. We report these shares for greenfield FDI in the six countries in Figure 15. We find that since the BRI began, in five of the six countries the majority of FDI funds are invested by SOEs. The SOE shares are over 90% in Myanmar, between 50% and 60% in Indonesia, Malaysia, Vietnam, and the Philippines, and about 10% in Thailand. While these findings confirm the important role played by SOEs in most countries in the region, they also reveal that private firm activity also is significant, accounting for at least 40% to 50% of FDI in all countries other than Myanmar. Since private firms usually make smaller investment than SOEs, the share of FDI projects

⁹⁸ Jonathan Hillman, *China's Belt and Road Initiative: Five Years Later*, CSIS, January 25, 2018.

<https://www.jstor.org/stable/pdf/resrep22612.pdf>

undertaken by private firms is likely much higher. Moreover, the data reveal that the SOE share of FDI decreased after the BRI in four of the six countries, including very large decreases in Thailand and the Philippines. Overall, both SOEs and Private enterprises are playing important roles in the BRI.

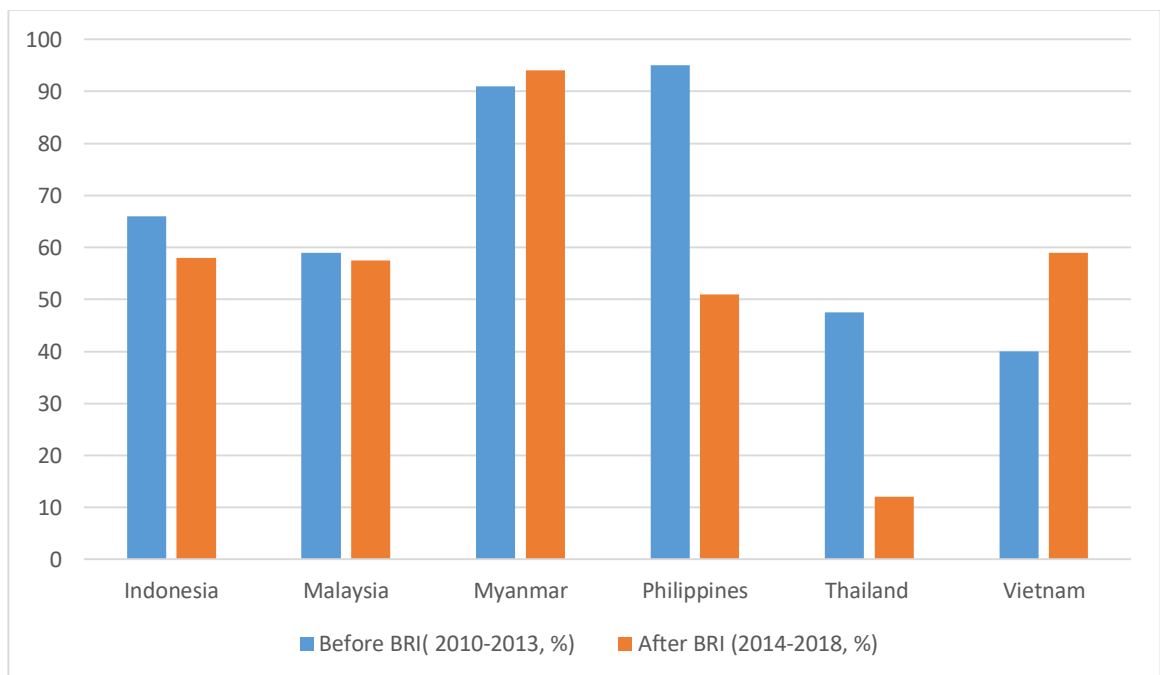


Figure 15. State-Owned Enterprise Share of Mainland Chinese Greenfield FDI in Six Asian Countries

2.7.3. Competing with Japan and Korea

ASEAN countries' fast development pace and dynamism attracts substantial amount of FDI from countries other than mainland China (14% including 7% from Hong Kong SAR), the United States (5%), Netherlands (5%), Korea (4%).⁹⁹ Other than Singapore, the favorite destination of Japanese investors is Thailand, where they have established a supply chain for

⁹⁹ The ASEAN Secretariat and UNCTAD, ASEAN Investment Report 2019 (Jakarta: ASEAN Secretariat), 2019.

auto manufacturing and other manufacturing sectors. Japanese firms also invest heavily in Thailand's finance and insurance sectors. Other than Thailand, Japanese firms also invest significant but smaller amounts in Indonesia and Vietnam. Korean investors have concentrated investments in Vietnam, where they are also investing in the auto sector and other manufacturing sectors. In the countries where they are active (especially Thailand, Indonesia, and Vietnam), Japan (and to a lesser extent Korea) also had been supporting the implementation of large infrastructure and FDI projects for many years. Japanese and Korean entities have established a strong reputation for complying strictly with local government regulations and using advanced technologies to produce high quality products. Mainland Chinese firms typically and highly competitive on price, but are relative newcomers with less established reputations in compliance and quality compared to Japanese and Korean firms.¹⁰⁰

2.8. The Role of Hong Kong

Hong Kong SAR is the economic gateway to mainland China, an increasingly important economic partner for ASEAN countries, and a global financial center with strong market-based Institutions and professional services. Hong Kong SAR's gateway role is being enhanced by the Greater Bay Area initiative that will more closely integrate Hong Kong SAR with Shenzhen,

¹⁰⁰ John Ravenhill, *Is China an Economic Threat to Southeast Asia*, University of California Press, Asian Survey Vol. 46, No. 5 (September/October 2006), pp. 653-674 (22 pages). <https://doi.org/10.1525/as.2006.46.5.653>
<https://www.jstor.org/stable/10.1525/as.2006.46.5.653>

Guangzhou, and other cities in Guangdong Province. Given these unique attributes, Hong Kong SAR is well positioned to both lead and support investment projects in BRI countries.¹⁰¹

More than two thirds of mainland China's inbound and outbound FDI go through Hong Kong, and Hong Kong is the second largest destination for mainland Chinese exports after the US, much of which re-exported. As noted earlier, in 2018 Hong Kong also was the fourth largest investor in ASEAN accounting for 7% coming directly from mainland China. Notably, Hong Kong FDI in ASEAN countries increased by 83% from 2017 to 2018.¹⁰² Among the six countries studied in this report, Thailand and Malaysia are the main destinations of Hong Kong FDI. ASEAN also accounts for 16% of Hong Kong's imports, 16.95 of domestic exports, and 7.7% of re-exports, making ASEAN Hong Kong's most important trading partner after mainland China.¹⁰³

The Hong Kong SAR government has been proactive in supporting the BRI and engaging with companies interested in pursuing projects in Belt and Road countries. In 2016, it established and Infrastructure Financing Facilitation Office (IFFO) under the Hong Kong Monetary Authority and a Belt and Road Office. It joined the Asia Infrastructure Investment Bank in 2017. Since 2016, the Hong Kong Trade and Development Council (HKTDC) has hosted an annual Belt and Road Summit which focuses on connecting businesses interested in

¹⁰¹ Tae-Hee Choi, Bob Adamson, *China's Belt and Road Initiative: Opportunities and Linguistic Challenges for Hong Kong*, Aug 8, 2020. https://link.springer.com/chapter/10.1007/978-3-030-40701-8_11

¹⁰² Ibid

¹⁰³ Source: Hong Kong SAR Trade and Industry Department

(https://www.tid.gov.kh/english/trade_relations/mainland/trade.html)

pursuing projects in BRI countries, with many participants from ASEAN countries, and also organized trade missions to many countries in ASEAN. The Hong Kong-ASEAN FTA signed in 2018 has accelerated efforts to promote greater economic engagement between Hong Kong SAR and ASEAN countries.

Hong Kong is clearly well placed to help finance BRI projects, with its large number of foreign banks providing a large asset pool of hard currency as well as its being the largest offshore RMB center in the world. Although mainland Chinese policy banks have provided most financing for large infrastructure and investment projects in the past, it is not clear whether such funding will be sufficient in the future to meet growing demand. Hong Kong also has a transparent legal framework, respected dispute arbitration services, and high quality professional services, making it a preferred location for concluding FDI contracts. Although Singapore also is a leading financial center for Southeast Asia, Hong Kong's close proximity to mainland China and the Greater Bay Area and close linkages to mainland companies gives it clear advantages for financing BRI projects.¹⁰⁴ Recent progress in developing green financing products in Hong Kong could support efforts to make BRI projects more environmentally sustainable. Hong Kong firms generally have very positive reputations in terms of management, professionalism, and quality, and so are viewed as attractive business partners. Hong Kong companies in a wide range of business areas may benefit from pursuing projects in Belt and Road countries. For example, some Hong Kong garment manufacturers that previously moved production to mainland China are now investing in Vietnam where

¹⁰⁴ Alicia Garcia-Herrero, Hanrui Li and Gary Ng, Hong Kong SAR's Intermediary Role on Funding the BRI: How does it fare against Singapore?, HKUST IEMS Thought Leadership Brief No.44,2020. (<http://iems.ust.hk/tlb44>)

wages are lower. Most Hong Kong investment in Myanmar is also in manufacturing. In November 2020 the Federation of Hong Kong Industries signed a Memorandum of Understanding with the Eastern Economic Corridor Office of Thailand to promote industrial investment and business exchanges by Hong Kong and Thai companies, especially in advanced industries. Hong Kong also has globally leading expertise in logistics that is in high demand for building and managing new infrastructure. For example, Hong Kong's CK Hutchison operates major ports in many Southeast Asian countries, Hong Kong's Mass Transit Railway (MTR) has provided training and advisory services to Indonesia's Mass Rail Transit through its MTR academy, and many other Hong Kong logistics firms handle various components of building or managing large infrastructure projects. Hong Kong also has leading real estate developers, food and beverage companies, and retail companies that are undertaking investments in ASEAN to meet the growing demands of rising middle classes in the region.¹⁰⁵

Hong Kong SAR is striving to become an innovation leader in the areas of fintech, biotechnology, artificial intelligence and robotics, and smart city development. Hong Kong companies in these fields may be attractive partners for emerging markets in ASEAN desiring to upgrade their industrial or service technologies. For example, a Hong Kong architecture firm is designing the smart city development Manila City of Pearls in the Philippines, and Thailand's Ministry of Industry is working with Hong Kong's Cyberport to develop a start-up ecosystem.

¹⁰⁵ Chen Juan, *China-ASEAN Relations April 2019 to June 2019: Chronology of Events*, Volume 17, Number 3, August 2019. 200-209. <https://muse.jhu.edu/article/732784/summary>

2.9. Implementation of BRI projects

2.9.1. Role of Host Country Governments

Officials and commentators from the US and some other Western countries have strongly criticized the BRI as an attempt by the Chinese government to exert control over other countries. Mainland Chinese leaders have consistently emphasized their desire to support economic development in other countries. Overlooked in these debates is the essential and critical role played by local government leaders in each country in designing their own development strategies and deciding on what is the proper role, if any, for mainland Chinese or other foreign investment. In fact, all of the governments in Southeast Asia can be considered developmental states in which leaders at least to some extent put high priority on achieving high rates of economic growth and promoting the development of their countries. As such, they have agency in determining what infrastructure or FDI projects are approved, how the contracts are awarded, and what regulations must be observed by investors given the country's strategic direction. Local governments also make decisions on whether or not to reform institutions or policies to encourage or discourage different types of investments. Thus, the strategies and policies of local governments critically determine the opportunities and constraints faced by both domestic and foreign investors. The country reports go into great detail on these strategies and policies in each country and what they mean for investors. Here, we highlight in a general way some of the key ways in which local governments affect the actual implementation of BRI projects, drawing on examples from the six country reports.

Government-to-government agreements between China and the host country are usually the starting point for many of the ambitious projects undertaken under the BRI. These can take the form of joint statements (or communiqués) or memorandums of understanding that express

the government's willingness to participate in the BRI in general terms and may also indicate agreement between the two countries to work together on specific major projects.

All of the countries in ASEAN have signed such agreements with China. The agreements provide a clear signal to investors that the two governments are committed to the goals of the BRI and to successfully completing specific major projects. Given the inherently high risks attached to most greenfield FDI projects, such agreements provide some assurance (but no guarantees) to mainland Chinese investors that host governments will work in good faith to resolve unanticipated problems that might arise, and that the Chinese government will support them in undertaking the project, including by providing necessary financing.¹⁰⁶ Thus, potential investors should be fully aware of the contents of all existing government-to-government agreements. However, joint statements (or communiqués) or memorandums of understanding do not create legal obligations for the parties involved and so do not provide direct protections to investing companies.

As discussed earlier, governance quality plays an increasingly important role in attracting FDI. Although host governments face constraints in terms of the capabilities of public bureaucrats, they also have the ability to reform institutions and policies to improve governance and reduce the costs of doing business in their countries. Many of the governments in the six countries studied responded to the opportunity to attract mainland Chinese FDI under the BRI by making organized efforts to attract mainland Chinese investors and reduce the red tape

¹⁰⁶ Shi Jin, Hu Xiaohui, Li Yunxiong, Feng Tao, *Does the Belt and Road Initiative Reshape China's Outward Foreign Direct Investment in ASEAN? Shifting motives of State-owned and Private-owned Enterprises*, <https://www.worldscientific.com/doi/abs/10.1142/S0217590819500772>

involved in making investments. Indonesia and Malaysia set up dedicated China desks in their investment promotion agencies, and Myanmar established a BRI Committee chaired by Daw Aung Sang Suu Kyi herself.¹⁰⁷ In order to improve the ease of doing business, Indonesia upgraded its Online Single Submission for business license applications after consulting with mainland Chinese companies. Thailand set up One-Stop Service Centers for foreign investors to streamline administrative procedures in industrial parks and special economic zones, and also recently introducing a new Smart Visa to facilitate mobility of highly- skilled professionals.

Governments also may provide incentives and/ or restrictions for different types of foreign investments based on the country's development priorities. For example, in Thailand, investments may qualify for tax reductions or other subsidies if they are in designated high-tech or high value-added sectors. Vietnam shifted in 2014 to a "negative list" approach that allows foreign businesses to operate in all business areas except for in a few explicitly prohibited sectors.

2.9.2. Moving up the learning curve

Compliance with local laws, regulations, but also with cultural norms is paramount to achieve positive investment outcomes and develop a good reputation. Some Belt and Road projects, especially hydropower and coal power plant projects, have been criticized both internationally and locally for not adequately considering environmental impacts. Public

¹⁰⁷ Guanle Lim, Chen Li, Emirza Adi Syailendra, *Why is it so hard to push Chinese railway projects in Southeast Asia? The role of domestic politics in Malaysia and Indonesia*, ScienceDirect, Volume 138, February 2021, 105272.

<https://www.sciencedirect.com/science/article/abs/pii/S0305750X20303995>

opposition to such projects can delay or prevent the projects' implementation and damage the reputation of the companies involved and mainland Chinese investors as a group.

The Chinese government has recognized the need to put greater priority on promoting green Belt and Road projects. During the Belt and Road Forum in 2019 President Xi emphasized the greater attention toward the pursuit of sustainable investment projects through compliance with strict environmental standards.¹⁰⁸ Even when local environmental or labor regulations are not strictly enforced, mainland Chinese investors should conduct their own assessments and anticipate and avoid projects that are likely to be unpopular among local citizens.

Prompted by both China's aspiration for a greener BRI and increased demands from local governments and citizens for more sustainable development, in some countries Chinese companies are responding with increased investments in renewable energy projects.

There are some positive examples of mainland Chinese companies improving their Corporate Social Responsibility (CSR). Many potential problems can be avoided if firms reach out to local consultants and community-based organizations that understand local dynamics. Some civil society organizations have successfully established a meaningful dialogue with investors to discuss ways to further environmental and social goals. Ideally, affected communities should be consulted beforehand regarding planned projects and adequately compensated based on how the project affects their land and resources.

¹⁰⁸ Matthew Baird, Brendon Thomas, *Greening BRI in ASEAN*, BRILL, Dec 10, 2020.

https://brill.com/view/journals/cjel/4/2/article-p217_6.xml

In Kyaukphyu, Myanmar, CITIC established a fund for local villagers in Rakhine state to develop small businesses and has established a center for vocational training. The company has committed to disbursing US\$1 million in CSR funds over the first five years of the project, and US\$500,000 afterwards to alleviate poverty improve the living conditions of the nearby communities.¹⁰⁹ A mainland Chinese real estate company involved in land reclamation to develop Forest City in Johor, Malaysia drew criticism for harming the local ecosystem. In response, the company stepped up efforts to address the concerns and now supports local villages, educational programs, and local civil society groups.¹¹⁰

2.10. Opportunities and Challenges

The BRI is supporting large scale infrastructure projects and promoting other dimensions of connectivity between mainland China and ASEAN countries, although it is too early to tell how BRI projects will shape the development trajectories of host countries. However, the scale and scope of BRI projects commands the attention of anyone who is on the lookout for profitable investment opportunities in one of the world's most dynamic and fast growing regions.¹¹¹

As they consider these possibilities, investors should be mindful of many factors, including the following:

¹⁰⁹ Yimou Lee, Thu Thu Aung, *China to take 70 percent stake in strategic port in Myanmar – official*, Oct 17, 2017.

<https://www.reuters.com/article/china-silkroad-myanmar-port-idUSL4N1MS3UB>

¹¹⁰ Keith Schneider, *A Civic Outcry in Malaysia forces a Chinese builder to live up to its eco-friendly tag*, 5 September 2018.

<https://news.mongabay.com/2018/09/a-civic-outcry-in-malaysia-forces-a-chinese-builder-to-live-up-to-its-eco-friendly-tag/>

¹¹¹ Ibid

- Economic fundamentals, governance quality, and cultural features of the country
- Trade and investment agreements, tariff exposure, and global value chain linkages
- Impacts of Covid-19 on the economy and government macroeconomic policies
- Competition from investors from other countries, especially Japan and Korea
- Host government's development strategy and investment policies
- Content of government-to-government agreements on the BRI
- Procedures and requirements for project selection and procurement
- Services and procedures that affect the ease of doing business
- Local labor and environmental regulations
- Economic and social returns and environmental impacts of the project
- Working norms and cultural norms of workers
- Potential local partners
- Ways to engage local communities

To maximize the likelihood that BRI projects are successful, investors are advised to consider all of these factors carefully when deciding whether to move forward with a project and while implementing green-lighted projects. Managers should ensure that the firm conducts its own independent assessment of the economic, social, and environmental impacts of the project. Companies should move as rapidly as they can up the learning curve by being attentive to local cultural, social, and labor norms. Collaborating with local partners and engaging with local community members can facilitate the understanding of the new market. Investors are advised to focus on building a long-term reputation rather than minimizing short-term costs.

CHAPTER 3: ASEAN PERSPECTIVE

ASEAN directly relates to both the Silk Route Economic Belt and the Maritime Silk road. This region is also the location of the China-Indochina Peninsula Economic Corridor linking the Pearl River Delta Economic circle with Southeast Asian countries. This strategic corridor is expected to improve China's cooperation with the ASEAN countries in terms of infrastructure development, trade transaction, investment and tourism. This report will describe the relationship between China and ASEAN member countries as well as expected areas of opportunity stemming from the BRI.

The ASEAN region shares a land border with the Southern part of mainland China. In terms of demographic comparison, the Chinese population is about 2 times greater than the total ASEAN's and the size of the Chinese economy is bigger. From ASEAN's point of view, joining the initiative would create a greater chance to gain access to China's market, to enhance the region infrastructure and economic development.¹¹²

3.1. ASEAN Economic Community Blueprint 2025

The implementation of the ASEAN Economic Community (AEC) Blueprint 2015 has been substantively achieved in, among others, eliminating tariffs and facilitating trade; advancing the services trade liberalization agenda; liberalizing and facilitating investment;

¹¹² Shihong Bi, *Cooperation between China and ASEAN under the building of ASEAN Economic Community*, 22 Feb 2021.

<https://www.tandfonline.com/doi/full/10.1080/24761028.2021.1888410>

streamlining and harmonizing capital market regulatory frameworks and platforms; facilitating skilled labor mobility; promoting the development of regional frameworks in competition policy, consumer protection and intellectual property rights; promoting connectivity; narrowing the development gap; and strengthening ASEAN's relationship with its external parties.

ASEAN recognizes that regional economic integration is a dynamic, ongoing process as economies as well as domestic and external environments are constantly evolving. In this context, ASEAN has initiated two studies for the AEC Blueprint 2025. The AEC Blueprint 2025 has been developed taking into account the recommendations of the two studies, namely, by the Economic Research Institute for ASEAN and East Asia (ERIA), and the S. Rajaratnam School of International Studies (RSIS) and the Institute of Southeast Asian Studies (ISEAS), as well as inputs from other stakeholders. The measures taken have to lead in creating a networked, competitive, innovative, and highly integrated and contestable ASEAN.¹¹³

The overall vision articulated in the AEC Blueprint 2015 remains relevant. The AEC Blueprint 2025 will build on the AEC Blueprint 2015 consisting of five interrelated and mutually reinforcing characteristics, namely: A Highly Integrated and Cohesive Economy; A Competitive, Innovative, and Dynamic ASEAN; Enhanced Connectivity and Sectoral Cooperation; A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN; and A Global ASEAN.¹¹⁴

¹¹³ The ASEAN Secretariat Jakarta, *ASEAN Economic Community Blueprint 2025*,

https://www.asean.org/storage/2016/03/AECBP_2025r_FINAL.pdf

¹¹⁴ Ibid

The immediate priority is to complete the implementation of measures unfinished under the AEC Blueprint 2015 by end-2016. The continuing commitments of Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam (CLMV) under the AEC Blueprint 2015 up to 2018 are also incorporated under the AEC Blueprint 2025.¹¹⁵

In the next decade, ASEAN will also provide a new emphasis on the development and promotion of micro, small and medium enterprises (MSMEs) in its economic integration efforts. At the same time, ASEAN will likewise embrace the evolving digital technology as leverage to enhance trade and investments, provide an e-based business platform, promote good governance, and facilitate the use of green technology.

The AEC 2025 is envisioned to:¹¹⁶

1. Create a deeply integrated and highly cohesive ASEAN economy that would support sustained high economic growth and resilience even in the face of global economic shocks and volatilities;
2. Engender a more equitable and inclusive economic growth in ASEAN that narrows the development gap, eliminates if not reduces poverty significantly, sustains high growth rates of per capita income, and maintains a rising middle class;
3. Foster robust productivity growth through innovation, technology and human resource development, and intensified regional research and development that is designed for commercial application to increase ASEAN's competitive edge in moving the region up the

¹¹⁵ Ibid

¹¹⁶ Ibid

global value chains (GVCs) into higher technology and knowledge-intensive manufacturing and services industries;

4. Promote the principles of good governance, transparency, and responsive regulatory regimes through active engagement with the private sector, community-based organisations, and other stakeholders of ASEAN;

5. Widen ASEAN people-to-people, institutional, and infrastructure connectivity through ASEAN and sub-regional cooperation projects that facilitate movement of capital as well as skilled labour and talents;

6. Create a more dynamic and resilient ASEAN, capable of responding and adjusting to emerging challenges through robust national and regional mechanisms that address food and energy security issues, natural disasters, economic shocks, and other emerging trade-related issues as well as global mega trends;

7. Incorporate a sustainable growth agenda that promotes a science-based use of, and support for, green technology and energy;

8. Promote the use of the ASEAN Protocol on Enhanced Dispute Settlement Mechanism (EDSM) and develop other approaches to speed up economic dispute resolution;

9. Reinforce ASEAN centrality in the emerging regional economic architecture by maintaining ASEAN's role as the centre and facilitator of economic integration in the East Asian region; and

10. Work towards a common position and enhance ASEAN's role and voice in global economic fora.

3.1.1 Implementing AEC

ASEAN entered a new phase of economic integration after December 31, 2015,¹¹⁷ as the 10 Southeast Asian nations jointly announced the establishment of an AEC. Basically, the AEC has three important functions in ASEAN's economic integration: eliminating trans-border tariffs, reducing the non-tariff barriers, and decreasing transaction costs. The major concerns of AEC have two obvious objectives: One is to attract foreign investment into the region, and the other is to promote their manufactures into global value chains. To an extent, the emergence of AEC has increased its influential economic power in the region, especially drawing more attention from big global economies, such as the United States, Japan, China, India, and the European Union.¹¹⁸

In 2003, a concord on establishing the AEC by 2020 was inked by all ASEAN members. In 2007, it was decided that the AEC should be established by 2015.¹¹⁹ Actually, the AEC was carried out by the end of 2015, pursuing the goal of a single market and production base. ASEAN leaders strongly believe that the AEC will boost the region's economy, with a market of more than 630 million people and a combined GDP of nearly US\$3 trillion. Although ASEAN members might not be ready yet to take full advantage of the AEC, the AEC as a

¹¹⁷ ASEAN Secretariat Jakarta, *ASEAN Integration Report 2019*, <https://asean.org/storage/2019/11/ASEAN-integration-report-2019.pdf>

¹¹⁸ Jenn-Jaw Soong, *China's One Belt and One Road Initiative Meets ASEAN Economic Community: Propelling and Deepening Regional Economic Integration?*, 01 Feb 2019.
<https://www.tandfonline.com/doi/full/10.1080/10971475.2018.1457335>

¹¹⁹ Romeo Jr. Abad Arca, *ASEAN 2015 Community Building & Post-2015 ASEAN*,
https://asean.org/storage/2012/05/ASEAN-General-Presentation_as-of-May-2017.pdf

common market may allow them to attract more investment and economic cooperation from outside (ASEAN Secretariat, 2015).

As acknowledged, the implementation of the AEC Blueprint 2015 has been substantively worked on eliminating tariffs and facilitating trade, liberalizing and facilitating investment, harmonizing capital market regulatory frameworks and platforms, facilitating skilled labor mobility, promoting connectivity, narrowing the development gap, and strengthening ASEAN's relationship with its external parties (ASEAN Secretariat, 2015).¹²⁰

ASEAN well recognizes that regional economic integration is a dynamic, ongoing process as economies as well as domestic and external environments are constantly evolving. Following this recognition, ASEAN has initiated the AEC Blueprint 2025. Yet the overall vision articulated in the AEC Blueprint 2015 remains relevant. In short, the AEC Vision 2025 will build on the AEC Blueprint 2015 consisting of five interrelated and mutually reinforcing characteristics: (1) a highly integrated and cohesive economy; (2) a competitive, innovative, and dynamic ASEAN; (3) enhanced connectivity and sectoral cooperation; (4) a resilient, inclusive, people-centered, and people-centered ASEAN; and (5) a global ASEAN. Simultaneously, ASEAN will also embrace the evolving digital technology as leverage to enhance trade and investments, provide an e-based business platform, promote good governance, and facilitate the use of green technology (ASEAN Secretariat, 2015).¹²¹

¹²⁰ ASEAN Secretariat News, *ASEAN Integration Report 2015*, 20 November 2015. <https://asean.org/asean-integration-report-2015-4/>

¹²¹ Ibid

On close inspection, the adoption of AEC has three levels of advantages in regional economic integration. The first level is from the ASEAN common market, upgraded from the ASEAN FTA. The second level is from “ASEAN plus one” FTA, such as China, Japan, South Korea, India, and Australia. The third level is from the Regional Comprehensive Economic Partnership (RCEP) that is based on “ASEAN plus six,” including Australia, China, India, Japan, New Zealand, and South Korea. The RCEP accounts for 48% of the world’s population and 30% of global GDP. These three levels are very fruitful on goods, services, trading, investment, and cultural exchange.¹²²

Besides, ASEAN will also explore opportunities to use China’s OBOR initiative to help its member states to take advantage of a more integrated and interdependent economic community. The implementation of AEC will also give fresh impetus to China’s OBOR initiative. The construction of OBOR could be aligned and interconnected with the development of AEC.¹²³

A strong, effective, and united ASEAN remains the best option of development to navigate the region’s unprecedented changes with a way of ASEAN centrality. With the advocacy of ASEAN centrality, it will enhance the ASEAN to play a stronger role towards great powers. Simply put, the regional consensus of ASEAN centrality is a strategy not too dependent on either China or the United States. Such a genuine balance between world powers may ensure and enhance peace and stability in the Asia-Pacific. The balance of trade rather than

¹²² ASSOCIATION OF SOUTHEAST ASIAN NATIONS, *ASEAN Economic Community*, <https://asean.org/asean-economic-community/>

¹²³ Ibid

just the amount of trade should be also examined. Since the full enactment of the China–ASEAN FTA in 2010, the largest free trade area in the world by population, ASEAN’s trade in goods with China has gone from a surplus to a deficit reaching US\$45 billion in 2013.¹²⁴ An unfavorable trade balance of ASEAN with China has been a political issue, and in some cases this has been highlighted as a priority to solve.

3.2. ASEAN perspective on OBOR

ASEAN is composed of two groups: the founding members and the latecomers.¹²⁵ The founding members are Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines. The latecomers, also known as the CLMV (Cambodia, Laos, Myanmar and Vietnam) are China’s immediate neighbors and are therefore strategically important. Cambodia and Laos seem to have responded enthusiastically to OBOR. Myanmar and Vietnam, however, find themselves in a dilemma: both have welcomed OBOR and become founding members of AIIB, but they also face issues in their relations with China.

The ASEAN member countries sometimes view China with mistrust, for several reasons. China’s exaggerated claims in the South China Sea, implementation of the Chinese Dream and modernization of the PLA towards 2050 have heightened the sense of insecurity in ASEAN members, not least because a fundamental objective of ASEAN is to keep Southeast Asia free from dominance by any internal or external power. Economically, the ASEAN countries are

¹²⁴ Santasombat, Yos. “Chinese Capitalism and Economic Integration in Southeast Asia”. March 2018. <https://www.think-asia.org/handle/11540/8140>

¹²⁵ Rebecca Sta. Maria, Shujiro Urata, and Ponciano S. Intal, Jr, “The ASEAN Economic Community Into 2025 and Beyond”, ASEAN@50 Journal 5 (2017), 3.

bound deeply together with China, but they worry about Chinese power projection Southeast Asia.

The main objective of OBOR is to tackle socio-economic imbalances between China's flourishing coastal provinces and its less-developed western and central provinces. For OBOR to succeed, China is dependent on pragmatic implementation of the Strategic Partnership with ASEAN.

Views on OBOR differ within ASEAN. Some ASEAN scholars identify three categories of responses from individual member countries: enthusiastic, cautiously positive and skeptical. Cambodia, Laos and Thailand, which have strong economic ties with China, are in the 'enthusiastic' group. The countries seen as 'cautiously positive' are Brunei, Indonesia, Malaysia, and Singapore, whereas the Philippines, Vietnam and Myanmar are seen as 'skeptical'. Although Myanmar has no territorial disputes with China, there are negative sentiments among the people concerning Chinese investments. The cases of Cambodia, Myanmar, and Laos illustrate the high infrastructure risk levels among ASEAN countries, as several Chinese projects were halted in the past.¹²⁶

ASEAN as such has been divided regarding Chinese intentions, as with the South China Sea disputes. Unlike the case of the EU, all decision-making in ASEAN takes place on a consensus basis. China hopes that ASEAN would reach consensus on engaging with OBOR. This has proven difficult, but ASEAN is trying to find out how OBOR can fit into the Master

¹²⁶ This was labelled as an ASEAN study tour; however, five member-states were not represented due to their disagreements with China over the South China Sea issue at the time of the invitation.

Plan of ASEAN Connectivity. The ASEAN Connectivity Coordinating Committee and its counterpart, the Chinese Working Committee of the China-ASEAN Connectivity Cooperation Committee, (CWA-CACCC) have held several meetings concerning OBOR.

Trust is important for the ASEAN countries in engaging with China. In the case in point, that became evident during a ten-day April 2015 study tour on OBOR, in which this author participated (with various representatives of academia, civil society, the media and political parties), on invitation from the Chinese People's Association for Peace and Disarmament in order to promote better understanding of China.¹²⁷ Some important questions were raised: Who draws up the OBOR plans? Will China discuss with ASEAN member countries in deciding how to develop OBOR? Study tour participants also queried the possible consequences of the OBOR initiative in dealing with environmental pollution and degradation, and the implications for daily life in local communities. Myanmar is always alert to changes and development in China that may have implications for Myanmar. Myanmar–China relations soured after Myanmar's democratization and reforms undertaken under the U Thein Sein administration in 2011.¹²⁸ Central developments here include the suspension of China National Petroleum Corporation's (CNCP) investment in the Myitsone Dam hydropower project, local opinion on

¹²⁷ Peter J. Rimmer, *China's Global Vision and Actions: Reactions to Belt, Road and Beyond*, 2020.

https://books.google.com.kh/books?hl=en&lr=&id=ozsIEAAQBAJ&oi=fnd&pg=PR1&dq=Trust+is+important+for+the+ASEAN+countries+in+engaging+with+China.+In+the+case+in+point,+that+became+evident+during+a+ten-day+April+2015+study+tour+on+OBOR&ots=jxvRea10qf&sig=ocj74tsYGGmnQonsnFgl0kqIIc&redir_esc=y#v=onepage&q&f=false

¹²⁸ Jurgen Haacke, *Myanmar's Foreign Policy under President U Thein Sein: Non-aligned and Diversified*, ISEAS Publishing, 2016. <https://doi.org/10.1355/9789814762267>

the gas pipeline project from Rakhine to Yunnan, severe environmental degradation in the copper mine project in Monywa, land-grabbing in many areas of Myanmar, illegal trading of jade in Northern Kachin and the influx of ethnic Chinese into the Mandalay area.¹²⁹ Moreover, the Railways Ministry of Myanmar cancelled the railway project linking Kunming to Myanmar's Rakhine coast in 2014, due to strategic concerns. This railway would give China access to the Indian Ocean, making it a major concern not only for Myanmar but also for India.¹³⁰

After the 2015 elections, China–Myanmar relations were restructured with State Counselor Daw Aung San Suu Kyi's visit to China in September 2016. This visit paved the way for signing agreements on the implementation of two infrastructure development projects worth USD 20 billion: one for electrification in Myingyan Township of Mandalay Region; the other for a highway to run from Shwe Li-Mandalay-Nay Pyi Taw-Mon State, under the framework of the Asian Infrastructure Investment Bank (AIIB). However, negative sentiments among people in Myanmar regarding major Chinese investments remain high. Even though the central government is willing to embrace OBOR, it would be difficult for Myanmar to work with China on major infrastructure connectivity projects. In response to these anxieties, the Chinese government has begun using media like Xinhua News Agency as a tool to better understand attitudes towards OBOR by compiling data, including the distribution of questionnaires on OBOR.¹³¹

¹²⁹ Ibid

¹³⁰ Ibid

¹³¹ Questionnaires were sent to this author by Xing Hua News Agency

In Southeast Asia, Vietnam is the first in line, functioning as a gateway for the Maritime Silk Road. Many officials and analysts in Vietnam hold that accepting China's Maritime Silk Road initiative would reduce Vietnam's territorial tensions with China in South China Sea (Chan and Mingjiang 2015: 2). In addition, because Vietnam needs to upgrade its seaports, land and rail links as connectivity to ASEAN, OBOR is seen as an opportunity to support Vietnam's economic development and integration within the ASEAN Economic Community.

However, in Vietnam there are similar concerns as in Myanmar, relating to issues like the influx of Chinese goods, Chinese immigrants along the border, and natural resource extraction from incoming Chinese investments. Also the Vietnamese have problems with public opinion towards Chinese companies, workers and their treatment of local communities. When Jason Morris-Jung, a visiting fellow at ISEAS, did field research on the Chinese–Vietnamese mineral sector partnership in a remote region of northern Vietnam, he found a lack of transparency and regulation from the Chinese side operating in the mineral sector in Vietnam, and that the influx of Chinese workers gave rise to anti-Chinese sentiments. In addition, Vietnam might worry about the changing diplomacy of the Philippines, whose relations with the USA are becoming strained as relations with China improve correspondingly.

Unlike Myanmar and Vietnam, neither Laos nor Cambodia has territorial disputes with China; indeed, both countries have strong economic ties that have benefited their trade and investment. When, as non-claimant state to the South China Sea, Laos chaired the ASEAN Summit in 2016, it allowed no opportunities for the South China Sea issue to be raised at the Summit. Cambodia has been the most China-friendly country in ASEAN, especially after it chaired the 2012 ASEAN Summit and averted the release of a joint communiqué on the South

China Sea.¹³² Connectivity under OBOR can increase the connectivity of landlocked Laos, which would boost the country's economy and tourism. Both Laos and Cambodia are positive towards Belt and Road (BRI) initiative but on the other hand, they are concerned about financing as it is still unclear how infrastructure projects will be funded – by bilateral means, or within the framework of the Asian Infrastructure Investment Bank.

Stances towards OBOR among the ASEAN member-states can be divided into four categories: 1) countries that are willing to engage with China; 2) countries that have already engaged with China to implement OBOR, 3) countries that are reluctant to engage with China, and 4) countries that have been waiting, studying and monitoring developments related to OBOR.¹³³ Although the CLMV welcome and support OBOR, concerns remain about China and whether it is using OBOR as a vehicle for other purposes, and employing a carrot-and-stick approach to cajole neighboring countries into going along with OBOR. The workshop hosted by Myanmar ISIS issued a recommendation to establish a multilateral mechanism among the CLMV to overcome the asymmetric relationship between China and these four states. Although most of the CLMVs have no option for maneuvering as regards OBOR, Myanmar has geostrategic advantages which could enable it to play an active diplomatic role.¹³⁴

¹³² Phou Sambath, *Cambodia-China Relations: Past, Present and Future*, 2018.

https://d1wqtxts1xzle7.cloudfront.net/51792870/China-cambodia_relation-with-cover-page-v2.pdf

¹³³ Bruno Jetin, 'One Belt-One Road Initiative' and ASEAN Connectivity: Synergy Issues and Potentialities, January 2018.

[https://www.researchgate.net/publication/322375088_One_Belt-One_Road_Initiative' and ASEAN Connectivity Synergy Issues and Potentialities](https://www.researchgate.net/publication/322375088_One_Belt-One_Road_Initiative_and_ASEAN_Connectivity_Synergy_Issues_and_Potentialities)

¹³⁴ Ibid

3.3. The arranged structure of special issues

Several articles are planned, designed, and arranged for this special issue, as shown in Figure 16. Considering the linkage and connectivity development between OBOR and AEC, six important research articles are introduced and discussed here.

Figure 16 the main framework of this special issue.



The first article explores the prospects and challenges facing China–Malaysia cooperation within the overall framework of China–ASEAN strategic relations. It emphasizes that the Malacca Strait and the South China Sea give Malaysia geopolitical significance that is ripe for major power rivalry. It also gives Malaysia a huge advantage in that it can tap into the opportunities provided by the 21st Century Maritime Silk Road project.¹³⁵

The second article handles the political economy of development between China and Myanmar involving OBOR and AEC policies. It is noted that China’s OBOR offers Myanmar an opportunity for development but also maybe a perceived threat from China. Thus, it is

¹³⁵ Emile Kok-Kheng Yeoh, Chang Le, and Zhang Yemo on “China–Malaysia Trade, Investment, and Cooperation in the Contexts of China–ASEAN Integration and the 21st Century Maritime Silk Road Construction.”

important for China to take proper measures to enhance Myanmar's confidence in cooperation with China.¹³⁶

The third article talks about Development under the One Belt One Road Initiative: Challenges and Opportunities.” Thailand has much better geo-economic and geopolitical conditions than other ASEAN countries and its circumstances are conducive to being the hub of the region. It also tries to investigate the challenges and opportunities of Thailand under China's OBOR strategy framework. The OBOR initiative also conforms to Thailand's trade strategy as being the center of connectivity with countries both inside and outside ASEAN. In turn, China can gain economic advantage thru Thailand's trade as well.

The fourth article will explore China's OBOR initiative and AIIB toward Vietnam's development would likely create a win-win situation. Yet, due to the sovereignty dispute of the South China Sea, Vietnam may have negative and pragmatic thinking on China's economic and political purpose. Even welcoming China's investment, Vietnam is still in a dilemma in engaging with OBOR. Thus, Vietnam will be very cautious on China's intention of OBOR regarding political and security risks. It is worth discussing that the new government of 2016 appears more pragmatic than dogmatic and more flexible than rigid among the Vietnam–United States–China triangle in its economic reforms.¹³⁷

The fifth article examines how China and the Philippines decrease the perceived threat of the South China Sea issue and improve their mutual benefits on economic expectations. The

¹³⁶ Li Chenyang and Song Shaojun, who focus on “China's OBOR Initiative and Myanmar's Political Economy.”

¹³⁷ Jenn-Jaw Soong and Khac Nghia Nguyen and examines “China's OBOR Initiative and Vietnam's Political Economy: Economic Integration With Political Conflict.”

new Duterte government has reoriented its foreign policy toward China mainly based on economic concern, different from the former government of Aquino III with much security concern that is highly dependent on USA. Thus, for the sake of a boon to the future economy, the Duterte government will choose to move closer to China's OBOR initiative to attract more infrastructure investment in the Philippines. It also gives a breakthrough opportunity for China to promote OBOR in the Philippines.¹³⁸

The last article reviews how Cambodia's political economy development has paralleled China's grand regional economic strategy. Cambodia seemed an extension of China's domestic production chain. Due to geopolitical imbalance and leaning to China, Cambodia demands more infrastructure investment and aids from China, especially acquiring advantages from the OBOR initiative. The research also finds that Cambodia has urgent needs for a better environment of law enforcement, legal accountability, anti-corruption, human right protection, ruling legitimacy, finance transparency, and social justice to enhance Cambodia's substantial development. These needs can secure China's overseas interests in Cambodia.¹³⁹

3.4. Challenges facing the AEC 2025 vision

Based on the overall vision articulated in the AEC Blueprint 2015, the AEC Blueprint 2025 envisions a deeply integrated and highly cohesive ASEAN economy. It seeks to increase ASEAN's competitive edge by moving the region up the global value chain, and to enhance

¹³⁸ Wan-Ping Tai and Yang-Fu Huang, on the work of "Political and Economic Relationships Between China and the Philippines Under the OBOR Initiative."

¹³⁹ Shihlun Allen Chen, on the topic of "The Development of Cambodia-China Relation and Its Transition Under the OBOR Initiative."

ASEAN's role globally.¹⁴⁰ But ASEAN members still face a number of critical challenges, including internal divisions and weak regional cooperation. Good infrastructure is desperately needed for the smaller and poorer members of ASEAN to attract foreign direct investment (FDI), so as to catch up with their ASEAN fellows. Hence, it is not surprising that the AEC 2025 vision continues to call for transport cooperation in terms of greater connectivity, efficiency, integration, safety and sustainability.

Many observers agree that due to strains in internal cohesion and to the lack of capacity to lead its own regional integration agenda, there is great uncertainty as to whether ASEAN can realize the single market it envisages. Kung Phoak believes, for example, that “the biggest challenge to ASEAN's unity and centrality is the unevenness of economic development within the group”.¹⁴¹ Elodie Sellier, in turn, claims that “given the wide development gaps between countries, combined with the lack of solid and inclusive institutional structures and agencies to govern the newly formed markets under the AEC, ASEAN as an entity is likely to emerge as a chain of disparate markets, divided between modern developed economies (ASEAN-6) and less developed countries (CLMV)”.¹⁴²

ASEAN faces the difficult challenge of enhancing its centrality in regional economic cooperation. It started taking the lead on regional issues in the early 1990s, and by proposing the ASEAN+3 cooperation after the 1997 Asian financial crisis, it created a functional platform for East Asian cooperation. This functional centrality was strengthened further when a series of

¹⁴⁰ ASEAN Secretariat, “ASEAN Economic Community Blueprint 2025”, ASEAN, November 2015.

¹⁴¹ Kung Phoak, “Is China a Threat to ASEAN Unity?” East Asia Forum, 3 June 2015.

¹⁴² Elodie Sellier, “The ASEAN Economic Community: The Force Awakens?” The Diplomat, 12 January 2016.

ASEAN+1 Free Trade Agreements (FTA) were signed and enforced. These FTAs/CEPs (comprehensive economic partnership) lay the foundation for ASEAN's centrality in global and regional engagement. But the momentum began to decline in the late 1990s, and especially after 2010 with China shifting towards being an active driver of the regional and global economy. By the time the Trans-Pacific Partnership (TPP) and the OBOR initiative were being discussed, ASEAN centrality in regional cooperation had weakened. Hence, the AEC Blueprint 2025's expressed attempt to "Reinforce ASEAN centrality in the emerging regional economic architecture by maintaining ASEAN's role as the centre and facilitator of economic integration in the East Asian region".

According to the Blueprint, ASEAN needs to go beyond focusing on reducing barriers and building infrastructure connectivity. Instead, the member countries needs to foster regional economic integration by focusing not only on freer movement of goods and capital, but also on better policy coordination and improved mechanisms for cooperation.

In this regard, ASEAN should become more integrated with the Chinese economy and other big powers through the OBOR initiative and other cooperation frameworks (including the TPP and the Regional Comprehensive Economic Partnership (RCEP)) so as to further participate developing regional and global economic governance. These interactions may aid the emergence of ASEAN as a world economic power, and enhance its role and voice in global economic fora.

3.4.1. Can OBOR synergize the AEC Blueprint 2025?

In discussions of the OBOR initiative, many new policy-relevant concepts have been raised. The term "synergy" or "strategic connection" is one of them. For example, concerning recent Sino-Russian relations there are suggestions of "synergy of China's Silk Road Economic

Belt and the Russia-led EAEU (Eurasian Economic Union)”;¹⁴³ in China-EU relations “synergy of OBOR and European Strategic Investment Plan (Jean-Claude Juncke)” is mentioned; while Sino-Indian relations have brought force the idea of “synergy of OBOR and India’s ‘Mausam Project’ and the ‘Spice Route’”.¹⁴⁴ These examples show synergy to be a concept generated by China’s recent style of formulating its foreign, economic and diplomatic policies, and extends from Beijing’s approach in promoting the OBOR initiative.

The Vision and Action on OBOR issued by the Chinese government in March 2015 shows a significant evolution in China’s approach, in stressing that OBOR should promote policy coordination, infrastructure connectivity, financial integration and mutual understanding among the people along the route. Therefore, it “should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the Belt and Road”.¹⁴⁵

An important component of Vision and Action is getting the OBOR initiative to synergize with the development strategies and plans of countries along the Belt and Road. This is best achieved via policy coordination, consultation and collaboration, and indicates an adjustment

¹⁴³ The two countries will hold a second round of talks in October 2016 on an economic cooperation agreement between China and the EAEU. If successful, such a deal would mark a major success in linking together the EAEU with China’s OBOR initiative.

¹⁴⁴ Zhao Hong, “China’s One Belt One Road: An Overview of The Debate”, Trends in Southeast Asia, no. 6 (Singapore: ISEAS Publishing, 2016).

¹⁴⁵ “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

of China's approach in order to better resolve the conflicts and contradictions between OBOR and the relevant countries' own strategies or programs.

In China's official documents, "synergy" sees China taking the "initiative" to approach other countries or country groups which then respond, evaluate and avail themselves of the opportunities arising from the initiative. This is meant to be an interactive process, and as Kung Phoak stated, "ASEAN member states will need to adjust their policies to reflect those potential interests in a realistic manner, although many believe that ASEAN members cannot be too dependent on China".¹⁴⁶

At the national level, China hopes to strengthen policy coordination with individual ASEAN countries in relation to production capacity. It has the potential to transfer some of its high-level production capacity to Southeast Asian countries, especially to CLMV, and sees this as a way of dealing with its surplus in production capacity while also meeting the demand for more investment and technology in Southeast Asia.

Some synergies at the national level have been very evident. These include the construction of the Sino-Laos and Sino-Thai railways projects, and several industrial parks jointly developed by China and Malaysia, China and Thailand, China and Cambodia, and China and Vietnam which have been effectively linked up with local development projects and plans. Now China needs to 'digest' these countries' growing industrial production by importing more of their manufactured products, since only when these countries participate in China's big consumption market, can the OBOR be sustainable.

¹⁴⁶ Kung Phoak, "Why ASEAN should Embrace Chinese Initiatives", East Asia Forum, 2 October 2015.

At the regional level, OBOR can also synergize with and complement the AEC vision. The essence of the initiative, after all, is apparently to promote regional and cross-continental connectivity between China and Eurasia. The Vision and Actions of OBOR stresses that connectivity covers five major areas: policy coordination, infrastructure construction (including railway and highways), unimpeded trade, financial integration and people-to-people ties.¹⁴⁷ OBOR-AEC synergy will involve the Initiative for ASEAN Integration Work Plan, the Master Plan on ASEAN Connectivity, and the new Masterplan of ASEAN Connectivity in 2025.

3.4.2. Will OBOR challenge ASEAN centrality?

ASEAN centrality was formed in the process of East Asian economic cooperation. Given China's and Japan's differences in envisioning the ideal regional order, competition between the two for regional leadership is likely persist for some time. However, this is unlikely to affect ASEAN's leading role as the center and facilitator of East Asian economic integration.¹⁴⁸ However, since the role requires ASEAN to upgrade its internal integration, widen its market scale and enhance its capacity to lead. It cannot avoid exploring ways for its member states to take full advantage of China's initiatives.

Through infrastructure and better transnational market arrangement, OBOR has the potential to stimulate regional economic growth and be a framework for regional economic

¹⁴⁷ "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

¹⁴⁸ Mie Oba, "TPP, RCEP, and FTAAP: Multilayered Regional Economic Integration and International Relations", *Asia-Pacific Review* 23, no. 1 (2016): 100–114.

integration encompassing the entire Eurasian region. In the short term, investment in infrastructure has a strong economic spill-over effect in the local economy. Makmun calculates that in Asia every US\$1 investment in infrastructure can result in US\$3 to \$4 being invested in other economic sectors, and every US\$1 billion investment in the infrastructure sector can create 18,000 employment opportunities.¹⁴⁹

More importantly, OBOR can create long-term benefits, and enhance ASEAN member countries' participation in Global Value Chains. These chains are essentially the practice of vertical integration in which the various stages of production get located across multiple countries in order to minimize marginal costs.¹⁵⁰ Regional infrastructure connectivity may integrate ASEAN countries, especially CLMV countries into a wider range of regional growth mechanisms, prompting them to develop global value chain-oriented policies. The success of these policies can be measured in terms of increased trade efficiency and reduced transaction costs.

At present, synergy between OBOR and Southeast Asian development plans at the national level seems to be developing well. Many railway construction projects and jointly-run industrial parks appear within a bilateral cooperative framework. However, there are serious concerns that China's bilateral approach lends structural advantage to China to set the terms and shape the economic and political future of some ASEAN countries, and this in turn may affect unity within ASEAN. OBOR could therefore at the same time as it brings benefits, also

¹⁴⁹ Makmun Syadullah, "Prospects of Asian Infrastructure Investment Bank", *Journal of Social and Development Sciences* 5, no. 3 (September 2014): 155–167.

¹⁵⁰ Daniel Wu, "Are Global Value Chains the Kickstart that AEC Needs?" *East Asia Forum*, 27 April 2016.

erode ASEAN unity and undermine its consensus principle. To countermand this, ASEAN needs to arrive at a collective position on how to handle the OBOR initiative.

CONCLUSION

The OBOR initiative has evolved: from infrastructure connectivity to “policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people ties”; and from inviting related countries to join the initiative to stressing strategic synergy and connection with local development plans. As a model, it stimulates economic integration between China and its peripheral neighboring countries. Announced in 2013, the BRI is an ambitious plan to promote economic cooperation with countries around the world that has increasingly defined mainland China’s global engagement. The BRI’s official goals are to promote five connectivities: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. Under the Initiative China has helped to finance large infrastructure projects with the support of its state-owned banks and sovereign wealth funds and encouraged mainland Chinese firms to undertake FDI projects in participating countries. These projects are establishing a network of transnational economic corridors, multimodal land and maritime routes, oil and gas pipelines, and electrical grids that assist mainland China and participating countries to hedge against the inherent geopolitical risks of single trade routes. The ambitious scale and scope of the Initiative means that multinational and domestic firms alike should have a keen interest in monitoring new business opportunities created by BRI projects. At the same time, they should recognize the challenges of making investments in specific Belt and Road countries.

As stated earlier this study sought to answer three questions. This sections provides the discussion of the finding following the three research questions.

- **What extent does BRI contribute to ASEAN Community development?**

China-ASEAN cooperation has become more potential through the implement the BRI's projects to ASEAN community. The BRI is enhancing development prospects and create new business opportunities in ASEAN, one of world's most dynamic regions. The BRI contributes infrastructure development in ASEAN countries and supports the building of ASEAN Community, Supports ASEAN's central role in regional cooperation, and supports ASEAN to play a greater role in international and regional affair. Under the initiative China has helped to finance large infrastructure projects with the support of its state-owned banks and sovereign wealth funds and encouraged mainland Chinese firm to undertake FDI projects are establishing a network of transnational economic corridors, multimodal land and maritime route, oil, gas pipelines, and electrical grids that assist mainland China and participating countries to hedge against inherent geopolitical risks of single trade routes.

Since the establishment of China-ASEAN strategic partnership, and the acceleration of the ASEAN Economic Community (AEC) building, China-ASEAN economic cooperation relationship has entered a new era. In the building of the "Belt and Road Initiative" (BRI), ASEAN has a pivotal position and role, and ASEAN countries are key cooperation partners. China attaches great importance to the cooperative relationship with ASEAN, establishing and upgrading the China-ASEAN Free Trade Area, advocating the establishment of a China-ASEAN community with a shared future, and agrees that ASEAN maintaining its leadership role in East Asia regional cooperation. At the same time, China and ASEAN are gradually implementing the BRI to dock with the ASEAN Community Blueprint and the Master Plan on ASEAN Connectivity, and speeding up cooperation in trade, investment, and production capacity for win-win cooperation.

China and ASEAN have great potential for cooperation. But in order to realize strategic synergy between the OBOR initiative and the AEC vision, it is important for China to have policy consultation, coordination and collaboration with ASEAN in addition to bilateral policy cooperation for infrastructure construction and production capacity cooperation, even if this appears difficult in the current situation. Moving in that direction can bring new momentum to the realizing of the goals of the AEC Blueprint 2025 and strategically improve China-ASEAN relations.

- **What is the issue for ASEAN under BRI?**

The issue is about legal issue and the implication of BRI. The following legal issues and implications stand out from comparison of these three projects:

1. ‘Onerous’ concession terms: While it is common for sponsors to provide legal terms in their favour, these rail concession agreements feature a range of lengthy tax concession periods, long term leases for Chinese companies and imports, plus exemptions from foreign worker quotas that in the longer terms are highly likely to raise issues with regard to the competitiveness of existing domestic industries.

2. Conflicting priorities: The impact of a national government playing the dual role of commercial actor and regulator becomes problematic if the regulator role must take a back seat to the commercial actor, or vice versa. This can result in a bias towards large infrastructure projects that must be economically and environmentally significant. Allowing for ‘onerous’ concession terms will debilitate the government’s first task which is to govern a country’s resources such as by way of protecting the environment and the rights of its citizens. It is important then, in framing concession agreements, to be clear how much a government is relinquishing its traditional responsibility to its population.

3. Financing terms: Appropriate financing arrangements are a vital element for each BRI project. Most of these can be expected to come from Chinese banks and financial institutions such as the Asian Infrastructure Investment Bank, the Silk Road Fund and the New Development Bank. China is going through a steep learning curve in financing BRI, for example in export credit insurance, cross-border international transactions, project finance models, and security law. It is not a surprise that deployment of funds creates issues because a lot must come together, notably a regulatory system that is able to work across borders, provide transparency, and put in place a balanced approach to address gaps between public and private lending. Part of the complications relate to the credit ratings of BRI countries; some do not have any rating at all. Funders, particularly China policy banks, might then be taking on debt based on under-performing assets, so adding to the issues of non-performing domestic loans already on their balance sheets.

4. Debt hangover: In addition to deployment issues, the BRI also raises the risk of debt distress—difficulty in maintaining repayment of loans—in some borrower countries. Eight out of the 68 countries that have been identified as potential BRI borrowers are at risk of debt distress based on the pipeline of project lending associated with BRI.

Looking at BRI funding arrangements, it appears as if the recipient countries must bear the brunt of most of the financial risk whilst China benefits from both the financing and construction of infrastructure projects. For countries that plan to enter into BRI projects, while the economic prospects are tempting, the loan terms should be considered carefully and an in-depth due diligence must be conducted.

5. Navigating different legal and regulatory systems: Given the difficulties in navigating different regulatory and legal systems such as common law (Singapore and Malaysia),

continental law (Central Asia), and Islamic law (Middle East), it is inevitable that disputes and conflicts will arise. A solid legal foundation for the BRI therefore is important as clarity and legal certainty will be crucial components for BRI Projects to promote the flow of international capital.

- **What is the views of ASEAN member-states on China in the context of BRI?**

The views of the ASEAN member-states on China combine suspicion with some cautious optimism. Threat perceptions of ASEAN's members have always been influenced by the historical, geographical and cultural factors of China. Although the OBOR connectivity plan may appear positive, anxieties among some ASEAN member-states remain concerning China's carrot-and-stick approach. During the Cold War period, Southeast Asia was drawn into the competition between the USSR and the USA, at immense cost. Now in the 21st century, there is power competition between the USA and China, and the Southeast Asian countries may be seen as lying within the US orbit. If the Chinese OBOR strategy is meant as China's pivot to the West, then the ASEAN member-states, CLMV in particular, will find themselves drawn into a game of great-power competition.

RECOMMENDATION

The difficulty for ASEAN is that South East Asia has now become the “New Great Game” for strategic influence between the world’s two major great powers. It looms as the principal terrain in which the political, economic and diplomatic battle is being fought for the next quarter century for strategic dominance. South East Asia lies in the swing position, both geographically and politically, between China on the north-east of the Asian landmass, and India in the southwest. For ASEAN, this means, unfortunately, that you are now destined to indeed live in interesting times - as China seeks a more benign southern flank more willing to accommodate Chinese strategic interests, and as America seeks to preserve the sea-lanes of archipelagic South Asia for freedom of international navigation, as well as its own independent freedom of strategic maneuver. To avoid being captured and or constrained by the overwhelming interests of one external power that is to say the United States or China, ASEAN needs to maximize its efforts to develop and maintain common positions in dealing with the external powers, stay neutrality, and ASEAN now needs to look boldly out to the rest of the wider region, rather than focus exclusively on the formidable challenges that lie within.

First, ASEAN need to maximize its efforts to develop and maintain common positions in dealing with the external powers. In China’s case, that includes the South China Sea in general and the negotiation of the Code of Conduct in particular. In America’s case, it may mean ASEAN’s posture on future basing options for particular elements of the US fleet within the South East Asian region. Whatever the nature of the challenge, on major matters of regional policy concern, ASEAN must make greater recourse to the “ten minus X” formula if consensus is routinely denied by a small minority of states, or even just one smaller country.

The politics of the “lowest common denominator”, when taken to the extreme, can render the entire institution dysfunctional.

Second, ASEAN needs to stay neutrality. ASEAN should not choose between one or the other but continues to engage both. In the short term, governments swaying between the United States and China should make choices on a case-by-case basis. This means taking a stance issue, not a country. Engaging both the United States and China is still the preferred policy for ASEAN.

Third, ASEAN now needs to look boldly out to the rest of the wider region, rather than focus exclusively on the formidable challenges that lie within. In doing so, ASEAN needs increasingly to look both east and west—to both the Pacific and the Indian Ocean. Indeed, the time has come for

ASEAN to evolve its own strategic concept of an Indo-Pacific future. Of course, this has been part of ASEAN’s traditional thinking as well. But rapidly changing strategic realities require that this work now be intensified. ASEAN’s geographical location suggests that this should be the case anyway. Half the member states of ASEAN face the Indian Ocean. Just as more than half also face the Pacific. ASEAN also sits astride the sea transportation corridor between Northeast Asia, South Asia, the Middle East, Africa, and Europe. Then, of course, there is the question of India itself, a member state of the East Asia Summit (EAS), which for some time now has prosecuted a policy of “looking east” or “acting east.” And whether we like it or not, both China and the United States have deep interests in their futures of both oceans as well. So unless ASEAN evolves its own strategic concept of the future shape of a wider Indo-Pacific region, then ASEAN will simply be left with contending strategic conceptions of their wider region from both the United States and China.

To sum up, there are three ways that ASEAN can avoid being captured or constrained by the overwhelming interests of one external power or another – that is to say the United States or China. First, ASEAN needs to maximize its efforts to develop and maintain common positions in dealing with the external powers. Second, stay neutrality and third, ASEAN now needs to look boldly out to the rest of the wider region, rather than focus exclusively on the formidable challenges that lie within. These both three methods can help ASEAN avoid being captured or constrained by the overwhelming interests of one external power or another – that is to say the United States or China and also maintain Southeast Asia as ‘region of neutrality’ as well.

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