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“One Belt-One Road Initiative” and ASEAN Connectivity: Synergy Issues and Potentialities

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Bruno Jetin

Abstract:

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 Chinese initiative is potentially a good news for ASEAN which has huge infrastructure investments needs to implement its master plan for connectivity (AMPC). 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. Otherwise, the risk is that the OBOR strategy may deepen existing divides between mainland ASEAN and maritime ASEAN, while the purpose of the AMPC is precisely to alleviate them. This paper will analyse these issues and explore the solutions to achieve a synergy between China’s OBOR and AMPC.

Keywords: *OBOR, ASEAN, connectivity, infrastructure, inequality, South China Sea*

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“One Belt-One Road Initiative” and ASEAN Connectivity: Synergy issues and potentialities

Bruno Jetin¹

INTRODUCTION

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. The OBOR has two main components which try to revive the memory and symbolic significance of the ancient Silk Road. A land road, also called “Silk Road Economic Belt”, and a “21st Maritime Silk Road” (see the following chart)². Starting in Xi’An in China, the mainland road will cross central Asia, Russia and reach Germany and the rest of Europe. Another road will connect the South of China to Singapore across mainland ASEAN and another road will start from Central Asia to West Asia and then the Mediterranean Sea by combining land and sea. The 21st Maritime Road will link the coast of China to the Pacific on one side and another road would cross the disputed South China Sea, the Indian Ocean and then head to Africa and Europe. Many other subsidiary land and maritime roads are envisaged in the Greater Mekong Subregion (GMS), in the South China Sea and Java Sea plus specific projects such as the high speed train that will link the south of China to Tibet and from there will join the China-Pakistan Economic Corridor. These projects are grand and involve so many diplomatic, political and economic issues that one may wonder whether they will ever materialise in their entirety. The areas covered produce 75% of the world’s gross national product, regroup 70% of world population and 75% of known energy

¹ The views expressed here are my sole responsibility and do not represent the University of Brunei Darussalam or the government of Brunei Darussalam.

² There are no official and final maps of OBOR but just tentative ones because the projects are not defined in details and are pending on future negotiations. However, this map gives a good idea of the broad project.

reserves (Godement, 2015). The total cost of OBOR could amount to US\$1.4 trillion, an equivalent of 12 times the Marshall Plan which was about US\$ 120 billion in today’s value (Zhu, 2015). Even if part of this very ambitious plan is implemented, it will give an edge to China which can expect to open up new opportunities and markets to its heavy industry which is plagued by chronic overcapacity, while providing neighbouring countries the development of much needed infrastructure. Its realisation will boost national economies, above all China’s, with an additional stimulus provided by new facilities for international trade.

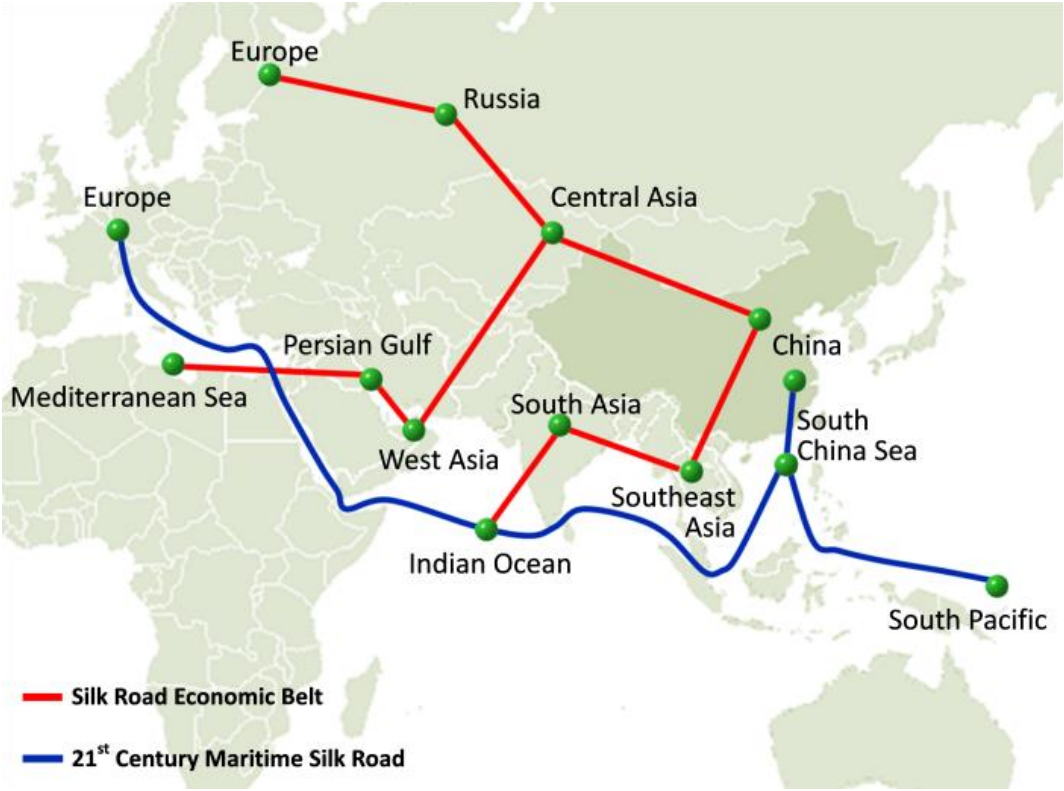


Figure 1. Main land and maritime routes
 Source: Legislative Council of Hong Kong, China.

The OBOR strategy is the most widely-promoted initiative but is not the only one. The Republic of Korea (ROK), India and Japan have announced their own infrastructure initiative. The implementation of all of these may potentially create a complex Asian landscape not unlike the famous “noodle soup effect” stemming from the proliferation of free trade agreements in the Asia-Pacific. This leaves a priori ASEAN, which has its own “ASEAN Master Plan for Connectivity” (AMPC), in a rather positive situation since it would have the choice between different solutions

to remove the infrastructure bottlenecks which are hampering its growth and trade³. However, this depends on ASEAN's capacity to assert its centrality in Asia which implies that ASEAN stayed united and speaks with one voice. Given the nature of ASEAN, maintaining unity is anything but certain: ASEAN is an intergovernmental association which takes decisions when a consensus is reached and implement them only when it is in each ASEAN member state's (AMS) interest. This is especially the case because of the asymmetric trade relations between China and ASEAN. Since 2009, China is the largest country of destination for ASEAN's exports but ASEAN is only the third largest trading customer of China. At the country level, bilateral relations between China and AMS are even more unbalanced. In these circumstances, the risk is that the OBOR strategy may deepen existing divides for instance, between mainland ASEAN and maritime ASEAN, while the purpose of connectivity is precisely to alleviate them. This paper will analyse these issues and explore the solutions to achieve a synergy between China's OBOR and AMPC. Section 1 summarises ASEAN's connectivity needs and challenges. Section 2 focuses on the possible synergy between AMPC and OBOR. Section 3 examines the alternative infrastructure initiatives and concludes that rivalry between Asia's superpowers may be the surest way to achieve synergy.

ASEAN's connectivity needs and challenges

ASEAN's connectivity needs are all the more obvious when one looks at the trade flows and the cost of trade⁴. The launch of the ASEAN Economic Community (AEC) on the 31st of December 2015 which officially rests on a single market and a single production base does not mean that AMS are already fully integrated (Chia, 2016). In fact, it appears that ASEAN's integration is still incipient and that some AMS are more integrated with Northeast Asia countries than with other AMS. According to Duval and Feyler (2016), nontariff comprehensive trade costs (NTC)⁵ within ASEAN-4 (Indonesia, Malaysia, Philippines, and Thailand) remain higher (77%) than those within China, ROK and Japan (51%), although there are no formal trade agreements between the

³ The "ASEAN Master Plan for Connectivity" (AMPC) was first adopted in 2010 at the 17th ASEAN Summit in Hanoi to build a physical, institutional and people-to-people well-connected ASEAN made necessary by the launch of the ASEAN community in 2015. An updated master plan, the ASEAN Connectivity 2025 (MPAC 2025), was adopted in Vientiane on 6 September 2016 focusing on five strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility.

⁴ This section draws on the main results of a book I have coedited with Mia Mikic (Jetin & Mikic, 2016). However, the views presented here are my sole responsibility.

⁵ Trade costs involve observable costs such as tariffs and nontariff trade costs such as compliance costs, transportation costs, behind-the-border barriers, costs associated with the performance of trade logistics and facilitation services as well as barriers linked to differences in language, culture and currency.

Northeast Asian countries. This runs contrary to the expectation of low trade costs between AMS after several decades of integration culminating with the AEC. NTC of ASEAN-4 are also much higher with Cambodia, Lao PDR, Myanmar and Vietnam (164.5%) than with China, ROK and Japan (76.5%). This evidence shows the pre-eminence of Global Value Chains (GVC)⁶ in shaping Asia's integration and the dominant position of China which lies at their core (Athukorala, 2016). It also stresses the magnitude of inequality among AMS whose living standards have started to converge only recently (Jetin, 2016). Improving connectivity between AMS is crucial for the reduction of the divide between the poorest and richest AMS and between mainland and maritime ASEAN. In this regard, one may be more optimistic for the poorest AMS's connectivity improvement because they are located in the Great Mekong Subregion (GMS) than for closing the gap between mainland and maritime ASEAN. Up to now, mainland ASEAN integration is far more advanced than maritime ASEAN integration due to the flurry of connectivity developments in the Great Mekong Subregion (GMS) (Wade, 2010). Other ASEAN subregions are much less advanced. This includes the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) and the Brunei Darussalam, Indonesia, Malaysia and the Philippines East ASEAN Growth Area (BIMP-EAGA). These subregional economic zones were created in the 1990s but remained on paper for many years. ASEAN is aware of these spatial inequalities and adopted the MPAC at the 17th ASEAN Summit in Viet Nam in 2010 to develop physical, institutional and people-to-people connectivity. It is not only about reducing business transaction costs, time and travel costs, but also to distribute all the expected benefits to all parts of ASEAN thus reducing the development divide in ASEAN. The MPAC states: "the challenge is in ensuring that GMS and ASEAN programmes and projects mesh together very well" (ASEAN, 2011).

ASEAN's problem is that it has not the financial means to carry out successfully the ambitious projects of the AMPC. According to the Asian Development Bank (ADB, 2012), Asian countries will need to invest US\$8 trillion in national infrastructure and another US\$320 billion in inter-regional infrastructure between 2010 and 2020. ASEAN region alone requires US\$60 billion

⁶ Global Value Chains (also called global Production Networks) imply the geographic dispersion of the stages of production of goods and services across national borders led by multinational firms that play a central role in leading and coordinating these processes. The objective is to reduce costs, specialise each production and distribution sites and avoid the risks involved in the concentration of activity in one unique country. In Asia, many Southeast Asian countries produce components and parts that are later exported to China where they are finally assembled and then exported all over the world. Mobile phones, computers are emblematic of this dominant form of industrial organization.

in investment per year in road, rail, power, water, and other critical infrastructure (ADB, 2106). As is well known, the ASEAN Infrastructure Fund (AIF) has a total equity of only \$485.3 million, far below the necessary amounts to make big loans each year. It means that the AMPC depends on external capital. The ADB has been until now one of the major investors in infrastructure in the region. But its lending capacity is limited to US\$13 billion each year. Moreover, the ADB has been much more involved in the implementation of the integration process in the GMS than in the IMT-GT (Fau, 2016). It played a central role in the GMS since 1992 but became really involved in the IMT-GT in 2007 only, whereas this cooperation zone was created in 1993. Contrary to AMPC's promises, the infrastructure connection between the GMS and the IMT-GT has never really been considered.

Additional obstacles have hampered the implementation of the AMPC: policy and institutional barriers have not been reduced. Rules, regulations and standards have not been harmonised between AMS. Political instability contributes to delays. For instance, in Thailand, the mega-projects which include the high-speed train linking South and North Thailand and beyond Vientiane and Kunming became a politically controversial topic. Since 2006, changes of governments and two *coups d'état* delayed the start of the works for 10 years until 2016 when an agreement with China was finally signed. Additional delays come from the difficulty in reaching an agreement on how the project will be funded and what the conditions will be (Peel & Hornby, 2016). The first 250 km phase of the project within Thailand cost around US\$ 5.2 billion while the China-Laos railway will cost around US\$ 7 billion. Because Thailand and especially Laos have limited financial capacities, the bulk of the financing will come from China. And because there is no certainty that the project will be profitable, the majority of the potential loss will be met by China. The same will probably occur with other segments of the land and maritime projected roads because most of the countries involved are poor or middle income countries. China have large financial capacities but they are not unlimited especially since these projects are very costly. Another possible issue is the construction itself. In many countries, big infrastructure projects when financed by China are realised by Chinese companies with Chinese workers which reduce job opportunities for local workers. It remains to be seen who will build the railways in Thailand and Laos but this will be for sure a sensitive issue.

Other potential political uncertainties point to the potential fragility of the OBOR strategy. The relations between China and the Philippines have long been tainted by the contentions over the South China Sea. The conflict has climaxed when an arbitration court in The Hague ruled in favour of the Philippines about the Scarborough Shoal. The announcement by the new president of the Philippines, Rodrigo Duterte, “to separate from Washington”, and to find a compromise with China is undoubtedly a success for Chinese diplomacy and will surely facilitate the integration of the Philippines in the maritime link. The recent agreement on naval cooperation between China and Malaysia is also a success for China. But questions arise whether the successes are only circumstantial. Future heads of states may take opposite decisions. Our point here is that the large investments in infrastructure are needed to build new land and maritime connections in addition to long-term commitments and institutional relationships to manage them, which in turn require long-term political stability and not short-term diplomatic success. The shock election of Sri Lanka’s new president in January 2015, Maithripala Sirisena, who defeated Mahinda Rajapaksa, the previous president who had awarded Beijing-controlled companies large infrastructure projects show precisely what may happen in the future in other countries where China has made massive investments. Works on the \$1.4bn Colombo Port City property development have been suspended since March 2015 following a decision to review the project and the conditions of the Chinese loans. The political conflict in Pakistan between the government and the army about which entity will take leadership over the China-Pakistan Economic Corridor (CPEC) worth \$45 billion in infrastructure projects in part reveals other types of political hurdles that OBOR will have to resolve. This is in addition of the huge security issues. Most of the infrastructure are located in regions at war and a 15,000-strong-army-led security force is necessary to protect the Chinese workers assigned to the project. The same mix of internal political tensions and security issues exist in Myanmar where pipelines and access to the Indian Ocean are critical to the success of OBOR.

In summary, the success of OBOR depends on many diplomatic agreements and economic compromises which are not easy to secure in the long-term and makes OBOR a very complex strategy.

AMPC and OBOR: a possible synergy?

China, with US\$3.9 trillion in foreign exchange reserves has much more financial clout than any other superpower or institution in the region. China can use various avenues for financing infrastructure investments in Southeast Asian countries. In 2009, it created the China-ASEAN Investment Cooperation Fund (CAF) with a capital of US\$10 billion and a US \$15 billion credit line for infrastructure projects in ASEAN. In October 2014, China won a major diplomatic success with the launch of the Asian Infrastructure Investment Fund (AIIF) with an authorised capital of US\$ 100 billion of which China provides US\$ 50 billion. This multilateral bank with initially 21 member states gained momentum when, against America's advice, Western countries like the United Kingdom, Germany and France joined the AIIB, followed by Australia, New Zealand, South Korea, Russia and others rounding up to 57 total members as of today. The USA and Japan are the only significant countries to stay outside the AIIB which is viewed as a competitor to the World Bank and the Asian Development Bank where the two countries exercise a decisive influence. OBOR and the AIIB are "twin brothers" according to Chinese officials quoted in Ye (2015). The action of the AIIB is completed by a "Silk Road Fund" with a capital of US\$40 billion. While the AIIB is a multilateral development bank, in which 75% of the capital comes from Asian member states, among them all AMS, the Silk Road Fund is a Chinese investment fund which can decide unilaterally to invest in OBOR project for instance in the Chinese-Pakistan Economic Corridor. With such huge financing at its disposal, the question is whether the greater integration of ASEAN with China will contribute to the reduction of spatial inequality within ASEAN? In part, the answer is yes.

If we take again the example of the railway project in mainland ASEAN, the recent agreement between China and Thailand if problems are resolved shows that OBOR can give the final impetus and achieve what AMS alone have never been able to do. This high-speed railway project is part of the Singapore-Kunming Rail Link (SKRL) which was first proposed in 1996 and later included in the AMPC in 2010 but never built. Under the OBOR umbrella, it has a greater chance of being finally achieved. But this does not mean that other elements of the AMPC will receive the same boost. Other projects are still on hold such as the high speed railway between Singapore and Kuala Lumpur; in Laos, from Kong Ming to Vientiane and between Phnom Penh and Ho Chi Minh City (Le, 2015). This means that OBOR may stimulate the realisation of large

projects that are better aligned with the needs of China's economic interests while minor projects remain idle although they may be important for people at the local level. The risk is to create a core-to-periphery structure of connectivity, China being the hub and other countries the spokes of the system which fits well the logic of global value chains.

As regards maritime ASEAN, there may be the same tendency to give priority to large projects that fits the needs of China's foreign trade. According to Pitlo (2015), "state-owned COSCO acquired a 49% stake in the COSCO-PSA terminal in Singapore. Beibu Gulf Holding Co. Ltd bought a 38% equity share in a consortium that received a 30-year concession to manage Kuantan Port in Malaysia poised to serve the Malaysia-China Kuantan Industrial Park". China is also investing large amounts of money in Indonesian infrastructure to improve access to Indonesian natural resources. But China does not invest a lot in ASEAN Roll-on Roll-off network (ARN) projects which are also part of AMPC. ARN projects are key to the development of IMT-GT and BIMP-EAGA. These subregions of ASEAN are far from Chinese ports and are not located on the main "Maritime Silk Roads".

One area for OBOR to address connectivity at the local level is to look for potential synergies with national connectivity development plan. President Jokowi of Indonesia has announced at an international audience, during the Ninth East Asia Summit in Naypidaw 2014, a new maritime policy called "Global Maritime Fulcrum" which aims at making Indonesia a maritime power to better manage its maritime resources, improve the connectivity of the archipelagic state and strengthen its maritime defence force and maritime diplomacy. This new maritime policy plans to build 35 new deep water and ordinary ports but it is clear that Indonesia cannot finance on its own the colossal investments. This is why Indonesia has agreed to articulate its Global Maritime Fulcrum with the 21st Maritime Silk Road. A joint statement published when President Joko Widodo visited China in March 2015, promised a "maritime partnership" and described the two maritime policies as "complementary". From China's point of view, Indonesia is a key partner in Southeast Asia, not only because it is ASEAN's largest economy and located at the juncture between the Indian and Pacific Oceans, but also because it has sea lanes of communication that pass around the Sunda and Lombok Straits, which offer an alternative to the Strait of Malacca (Len, 2015) provided that new ports and relevant infrastructure are built.

These three examples show that China's funding support for ASEAN's AMPC will be provided when there is compatibility with OBOR projects. But if China really wants OBOR to be a success, it will have to go beyond its direct interest and contribute to reduce the gap between mainland ASEAN fast developing connectivity and the lagging maritime ASEAN. Otherwise, the latter may turn to other regional powers such as Japan.

Alternative infrastructure initiatives in Asia

The OBOR initiative is not the only one in Asia. In fact, there is a proliferation of infrastructure initiatives (Szczudlik, 2016). India's "Blue Economy" and "Act East Policies", Korea's "Eurasia Initiative" and Japan's "Partnership for Quality Infrastructure: Investment for Asia's Future". This proliferation calls for multilateral talks. Infrastructure investments mobilise huge amount of money and are not always profitable. It does not make sense to compete in a field where large economies of scale are necessary. So, at one point, the search for synergy will have to include not only OBOR and AMPC but also avoid overlapping. But another possibility is that the different initiatives cover different geographical areas and/or needs. This is the case of India's and Korea's initiatives although OBOR also includes South Asia and Eurasia. Japan's initiative is aimed at Southeast, Southwest and Central Asia so is potentially competing with OBOR. But Japan is trying to differentiate from OBOR and to focus on quality infrastructure investment and can potentially fill the gap left by OBOR. Japan leverages on its high technology capacities, its reputation for quality products and reliability of its industrial organisation. It can make a difference when Chinese products and firms' reputation have sometimes been marred by quality issues and substandard technology, as in Indonesia concerning the construction of a ten million megawatt power plant (Fitriani, 2015). Japan's initiative relies on creating jobs for local people and increasing local skills while Chinese firms abroad tend to employ mainly Chinese workers. Japan also wants to prioritise countries' development plan so that synergy is built-in. It also emphasises ADB's role in Southeast Asia of which Japan is the biggest stakeholder and which has been one of the biggest funding institutions of AMPC. Japan has also long been directly one of the major funders of AMPC with two priorities: the East-West and Southern economic corridors and the maritime ASEAN corridor. Japan can reinforce its influence by financing projects of the AMPC that are not considered as priorities by China in the Great Mekong Subregion. The Japanese alternative can be attractive to maritime AMS and a way to finance ARN. Two additional elements weigh in favour of Japan.

Firstly, Japan is providing new patrol vessels to the Philippine and Vietnam Coast Guard and aid to Indonesia to procure three new ones in a clear move to counterbalance China's domination over the South China Sea (Lee, 2015). Secondly, the Japanese Parliament approved on May 11, 2016, a milestone change to the operating charter of the Japan Bank for International Cooperation (JBIC). This change will allow the bank to make riskier infrastructure investments through a special account so that it can compete more aggressively with China (Financial Times, (2016)). Too stringent risk guarantees are one of the reason why Japan lost the bid for the first high-speed rail project in Indonesia in 2015 in favour of China (Adi Syailendra, 2015). With the amendment, Japan expects to bid competitively for large investment infrastructure projects like the Kuala Lumpur- Singapore high-speed rail project.

Conclusion

The OBOR strategy has a huge potential for integrating Asia internally and Asia with the rest of the world. This potential is all the most important in Southeast Asia where it could help achieve the AMPC for the mutual interest of China and ASEAN. To achieve this goal, a fine balance must be reached between ASEAN and China's interests to develop not only connectivity between the two entities but also the connectivity between AMS. It means that China has to include in OBOR infrastructure smaller projects that are not directly linked to China's international trade and strategic interests but which also benefit the local economy, which has different connectivity needs. For instance, improving coasting trade in the case of maritime transport or secondary routes in the case of land transport may have a larger and more direct impact for small and medium enterprises and the local economy. This implies selecting sustainable projects that regional authorities and people may appropriate and control. It is crucial that infrastructure projects be inclusive and based on dialogue because they have a strong impact on the use of land and the environment on which depends the economic opportunities and wellbeing of many people at the lower end of the income distribution. Large and small infrastructure projects can be better selected and combined if based on a process of dialogue with local communities and if impact analyses on social and environmental issues are initially conducted. This would prevent these projects resulting in excessive sovereign debt and making huge losses. In short, the OBOR should not only be an initiative for economic but also for human development. For instance, mechanisms of

inclusiveness or social and environmental conditionalities could be included in the selection process of the AIIB. For the moment, nothing of the sort seems to be planned.

A necessary condition for OBOR to synergise with AMPC and better serve human development is that ASEAN speaks with one voice in its dialogue with China. The AMPC, which represents ASEAN collective interest, should be the base of this dialogue to be sure that a coherent connectivity scheme is promoted that benefit all ASM and reduce development gaps between rich and poor ASM and between continental and maritime ASEAN. For the moment, negotiations are carried out in a piecemeal fashion between each ASM and China on a bilateral basis. ASEAN as such has not published any statement on OBOR, expressing ASEAN's view on OBOR and how the AMPC could synergise with OBOR. The new "Master Plan on ASEAN Connectivity 2025" (ASEAN, 2016) adopted in Vientiane on September 6, 2016 does not mention OBOR, not even in the "ten trends that have important implications for the ASEAN connectivity agenda" (p 35). The existence of the AIIB is mentioned on page 31 as a new funding vehicle among others but without further elaboration. This lack of recognition reveals the inability of ASEAN to play a strategic role at a time when precisely a regional leadership is most needed. ASEAN could be the vehicle of negotiation between Southeast Asia and China to make sure that the AMPC benefit from the various financing vehicles linked to OBOR. One way to do it would be to act collectively in the AIIB which is a multilateral institution where projects to be financed will be discussed. Other financing vehicles such as the Silk Fund leave ample room for bilateral relation between China and individual AMS to attract additional funding for specific local infrastructure projects. An ASEAN collective action could also be useful to coordinate the Japanese and Korean infrastructure initiatives so that they do not compete directly but complement each other to avoid duplication and the waste of resources. Finally, the security issues are also key to the long-term outcome. The territorial dispute over the South China Sea is certainly an obstacle for the full development of the New Maritime Silk Road as it creates tensions and wariness. Separating sovereignty conflicts on one side and cooperative projects on the other side may work on the short-term but certainly not on the long-term if these conflicts do not find solutions which involve diplomatic initiatives and political compromises.

List of acronyms

ADB	Asian Development Bank
AMPC	ASEAN Master Plan for Connectivity
ARN	ASEAN Roll-on Roll-Off Network
AIF	ASEAN Infrastructure Fund
AMS	ASEAN Member State
AIIF	Asian Infrastructure Investment Fund
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
	China-ASEAN investment Cooperation Fund
GMS	Grand Mekong Subregion
GVC	Global Value Chain
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
MSR	21 st Maritime Silk Road
NTC	Nontariff comprehensive Trade Costs
OBOR	One Belt-One Road
ROK	Republic of Korea
SKRL	Singapore-Kunming Rail Link
SREB	Silk road Economic Belt

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