



ASEAN Countries' Approach to the Belt and Road Initiative

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The countries of the ASEAN differ in their approach to the Chinese Belt and Road Initiative (BRI), ranging from involvement or conditional support to scepticism. Although the initiative is a response to the region's infrastructure needs, it can also serve China's aim to politically split ASEAN. Because of the growing influence of China, ASEAN countries may be interested in a counteroffer from, for example, the U.S., Japan, or the EU.

Southeast Asia is key to implementing the BRI, both because of its vicinity to China and the sea routes that pass through the region from East Asia to Europe, Africa, and the Middle East. The maritime part of the initiative was even announced by Chinese President Xi Jinping in Indonesia in 2013. In the dynamically developing economies of ASEAN—which averaged GDP growth of 5.1% in 2018—there live more than 600 million people, making them an attractive outlet for Chinese goods and services. The ASEAN member states in joint declarations note the potential benefits of the BRI, but their various experiences with related projects, however, has led to differences in their approaches to the Chinese initiative.

China's Position in the Region. China is ASEAN's most important trading partner, associated via a free trade agreement since 2010. In 2018, the value of China-ASEAN trade in goods amounted to \$588 billion (compared to about \$270 billion with the EU). In the first half of 2019, ASEAN became China's second-largest trading partner, moving ahead of the U.S. for the first time. ASEAN countries, including Malaysia, Singapore, and the Philippines, have strong links with China through production networks. In 2018, the stock of Chinese investment in ASEAN amounted to around \$150 billion (in the reverse, \$60 billion). This puts China behind the EU, U.S., and Japan. According to the think tank Asean+3 Macroeconomic Research Office, Chinese involvement in the region will increase to around \$500 billion by 2035 and ASEAN countries investment in China will rise to about \$200 billion.

China's security policy, including the expansion of the armed forces and the creation of artificial islands in the South China Sea (SCS), is causing concern in the region. However, China tries to improve its image and build mutual trust, such as negotiating with ASEAN a so-called Code of Conduct in the SCS to prevent conflict there. It also uses public diplomacy (including its Confucius Institutes) and tourism and student exchanges to strengthen relations with ASEAN countries. In addition, it provides development assistance and politically defends selected countries of the region. This applies, for example, to Cambodia and Laos, when they are accused of violating human rights or attacking the opposition, or Myanmar, criticized for its actions towards the Rohingya.

One of China's main forms of activity in ASEAN is financing—mainly in the form of loans—of infrastructure investments which are then counted in the BRI (there is no official list). Projects worth a total of about \$255 billion are currently in various stages of implementation. China's offer is attractive given the region's large investment needs, estimated at about \$200 billion annually. Infrastructural deficiencies are one of the main barriers to the development of regional trade and attracting investment. To assist in this, within

ASEAN, an infrastructure development project connecting the member states called “Master Plan on ASEAN Connectivity 2025” is being implemented. BRI can complement it, which was underlined by the leaders at the ASEAN-China summit in November. However, critics of the Chinese initiative say there is a lack of transparency, violations of labour rights, a negative impact on the environment and local people (e.g., the construction of dams on the Mekong River) and little benefit for local companies in exchange for the Chinese financing. In addition, they point to the potential for their countries entering a “debt trap”, which means difficulty in repaying the liabilities owed to China. This, in turn, may involve economic or political concessions, resulting in, for example, a loss of control over strategic infrastructure.

Different Approaches to BRI. ASEAN members can be divided into three groups based on their assessment of the BRI. The first group includes countries that strongly support the initiative and it includes Cambodia, Laos, and Brunei. Among the first two—poor and heavily dependent on foreign support—openness to cooperation with China is the greatest. In addition, they are not involved in disputes with China in the SCS. Close cooperation is manifested, for example, in the implementation of a \$6 billion rail link from Kunming in China to Vientiane, the capital of Laos, or the construction of hydropower plants and highways in Cambodia. These projects have resulted, however, in increasing the debt of both countries to China by more than 25% of their GDP. Brunei, despite having claims in the SCS, also works closely with China in the energy sector and is counting on Chinese investments.

The second group consists of countries that conditionally support the BRI. It includes Indonesia, Malaysia, Myanmar, Singapore, and Thailand. In Indonesia, where, for example, a high-speed rail link between Jakarta and Bandung (cost around \$6 billion) is being built, contractors are required to employ local workers and use green technologies. Malaysia, which is involved in disputes over the SCS, abandoned some BRI projects or demanded cost optimisation after the Mahathir Mohamad government was formed in 2018. For example, it renegotiated the conditions for the construction of a railway route on the east coast of the country, reducing the costs to \$10.7 billion from the original \$16 billion. In 2016, Thailand rejected the high interest rates in Chinese financing of a planned high-speed rail extension of the Kunming-Vientiane connection. With the objections taken into consideration, the project finally began at the end of 2017. Myanmar wants to create an economic corridor with China but due to the threat of increased debt, it has limited the scale of the projects, such as the construction of the Kyaukphyu port. In turn, Singapore is an important partner for China, including in financing and implementing BRI projects, which can allow the city-state to emphasize investment profitability.

The third group is sceptical of the BRI and includes Vietnam and the Philippines. Vietnam has been China’s most active rival in the SCS and has experienced the implementation of poor-quality projects by Chinese companies, for example, the poorly built urban railway in Hanoi. The Philippines, since the start of the presidency of Rodrigo Duterte in 2016, has favoured Chinese investments and distanced the country from the U.S. However, disappointment with China in the implementation of a few projects announced since then and worth around \$45 billion, along with a failure to settle the dispute in the SCS, has led the Philippines to be more cautious.

Conclusions and Perspectives. The approach of individual ASEAN members to the BRI varies, influenced by calculations of potential benefits and threat perceptions. The BRI is a response to the financial demand concerning infrastructure but it is also an instrument that can be used by China to divide the countries of the region and gain political concessions, including in the SCS.

The key to the success of the BRI in ASEAN will be China’s response to the concerns of the countries in the region, including helping them avoid the “debt trap”. To build a positive image of the BRI and reduce concerns about how it might be used to leverage influence, China may be more flexible in how projects are implemented. This can be accomplished, for example, by expressing a readiness to renegotiate contracts, as in the case of Malaysia, debt restructuring, or the inclusion of international institutions, such as development banks.

With their fear of growing Chinese influence, ASEAN countries may be interested in a counteroffer and may be ready for more involvement by other actors, including the so-called “Quad”—comprised of Australia, India, the U.S., and Japan (the latter has already invested heavily in the region)—and South Korea. This might also include the EU, which is interested in the security of maritime routes and improvement of investment conditions. It can join the financing and implementation of infrastructure projects in the region. The inflow of capital from these directions would increase investment standards and could be a backstop for ASEAN countries in the event of reduced funding from China, for example, as a result of the deterioration of its economy.