

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

BRUNO JETIN, INSTITUTE OF ASIAN STUDIES, UNIVERSITY OF BRUNEI DARUSSALAM  
International Seminar: Think-tank Forum " Building the Community of Common  
Destiny between China and its Neighbors: Challenges and the Future",  
Chinese Academy of Social Sciences (CASS), Beijing, 18-19 November 2016.



# ASEAN ECONOMIC COMMUNITY: A MODEL FOR ASIA-WIDE REGIONAL INTEGRATION?

- ▶ My presentation will be based on the main results of a book I have coedited with Mia Mikic from UNESCAP:
- ▶ B. Jetin And Mia Mikic: Asean Economic Community: a Model for Asia-wide Regional Integration? Palgrave, New York, 2016
- ▶ However, the views expressed here are my personal views and do not engage the contributors of the book or the University of Brunei Darussalam or the government of Brunei Darussalam




# OBOR, THE MOST IMPORTANT INITIATIVE BUT NOT THE ONLY ONE

- ▶ 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.
- ▶ Its realisation will boost national economies, above all China’s, with an additional stimulus provided by new facilities for international trade.
- ▶ 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 these initiatives 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.



# OBOR, THE MOST IMPORTANT INITIATIVE BUT NOT THE ONLY ONE

- ▶ 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 infrastructure bottlenecks.
- ▶ 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.
- ▶ 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.




# ASEAN has launched the ASEAN Economic Community but needs to be more integrated

- ▶ ASEAN's connectivity needs are all the more obvious when one looks at the trade flows and the cost of trade.
- ▶ The launch of the ASEAN Economic Community (AEC) on the 31<sup>st</sup> of December 2015 which officially rests on a single market and a single production base does not mean that AMS are already fully integrated.
- ▶ Due to the lack of connectivity, some AMS are even more integrated with Northeast Asia countries than with other AMS.
- ▶ According Y. Duval and E. Feyler, 2016, Nontariff comprehensive trade costs within ASEAN-4 (Indonesia, Malaysia, Philippines, and Thailand) remain higher (77%) than those within China, The Republic of Korea and Japan (51%), although there is no formal trade agreements between the Northeast Asian countries.



# ASEAN has launched the ASEAN Economic Community but needs to be more integrated

- ▶ NTC Trade costs of ASEAN-4 are much higher with Cambodia, Lao PDR, Myanmar and Vietnam (164.5%) than with China, South Korea and Japan (76.5%).
- ▶ This evidence shows the pre-eminence of Global Value Chains (GVC) in shaping Asia integration and the dominant position of China which lies at their core.
- ▶ It also stresses the magnitude of between-country inequality among AMS whose living standards have started to converge only recently (Jetin, 2016)
- ▶ This evidence shows the importance of connectivity for economic growth and the reduction of inequality within ASEAN area.



# A continental and maritime divide in ASEAN?

- ▶ The main issue of ASEAN integration is to reduce the divide between continental ASEAN and maritime ASEAN thanks to improved connectivity.
- ▶ Up to now, the continental ASEAN integration is far more advanced than the maritime ASEAN integration due to the flurry of connectivity developments in the Great Mekong Subregion (GMS).
- ▶ Other ASEAN subregions are much less advanced:
- ▶ The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)
- ▶ 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.



# The Master Plan on ASEAN Connectivity (MPAC)

- ▶ ASEAN is aware of these spatial inequalities.
- ▶ It adopted the MPAC at the 17<sup>th</sup> 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.
- ▶ One of the MPAC's main objective is precisely to reduce inequality in infrastructure development so that a balanced connectivity between AMS is achieved.
- ▶ The MPAC states: "the challenge is in ensuring that GMS and ASEAN programmes and projects mesh together very well".





# Financing is the key issue

- ▶ The problem of ASEAN is that it has not the financial means to carry out successfully the ambitious projects of the MPAC.
- ▶ According to the Asian Development Bank (ADB), Asian countries will need to invest US\$8 trillion in national infrastructure and another US\$290 in inter-regional infrastructure between 2010 and 2020.
- ▶ 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 MPAC depends on external capital.
- ▶ The Asian Development Bank (ADB) has been up to now one of the major investors in infrastructure in the region.
- ▶ But its lending capacity is limited to US\$13 billion each year.



# Financing is the key issue

- ▶ The ADB has been much more involved in the implementation of the integration process in the GMS than in the IMT-GT (N. 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.
- ▶ The infrastructure connection between the GMS and the IMT-GT has never been really considered.
- ▶ China, with its US\$3.9 trillion in its foreign exchange reserves has much more financial clout either through its bilateral relations with Southeast Asian countries; through the China-ASEAN Investment Cooperation Fund (CAF); the Asian Infrastructure Investment Fund (AIIF) and the Silk Road Fund.

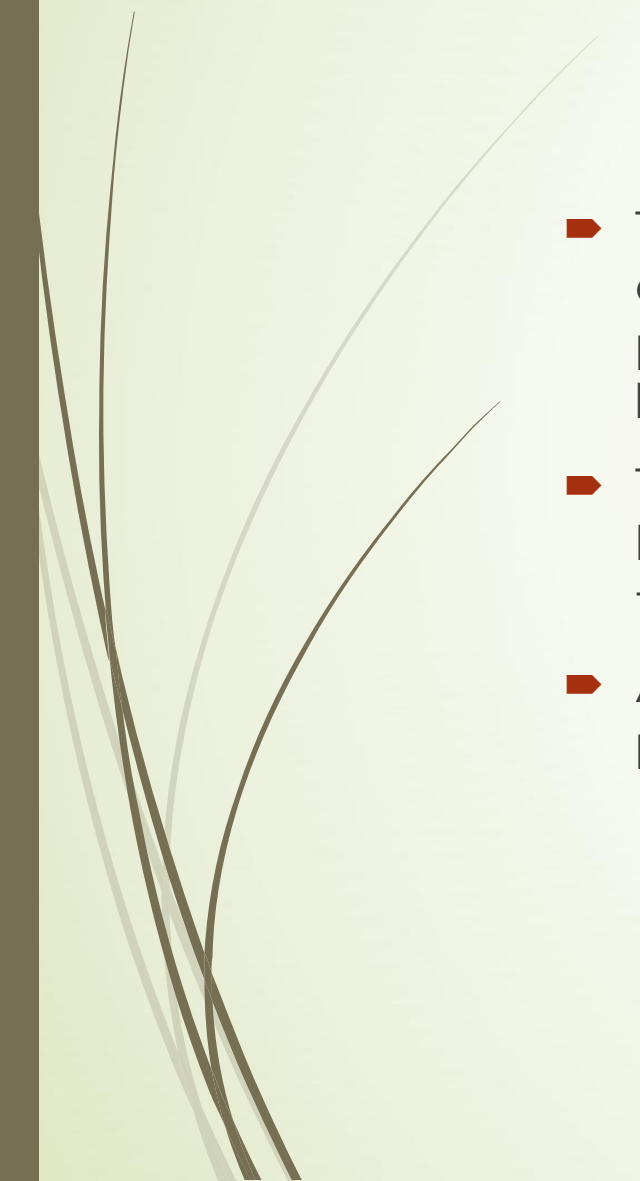


# AMPC and OBOR: a possible synergy?

- ▶ The recent agreement between China and Thailand on a high-speed railway across Thailand shows that OBOR can give the final impulse 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 then integrated in the AMPC.
- ▶ 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




# AMPC and OBOR: a possible synergy?

- ▶ 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.
- 



# AMPC and OBOR: a possible synergy?

- ▶ 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 a lot in Indonesian infrastructure to improve access to Indonesian natural resources.
- ▶ In Brunei, China is already the biggest foreign investor, with Chinese companies heavily involved in major infrastructure projects, such as the construction of a US\$4 billion crude oil refinery at Pulau Muara Besar and the US\$1.6 billion Temburong Bridge.
- ▶ These investments are part of the recently established “Brunei-Guangxi Economic Corridor”.
- ▶ China and Brunei are willing to sign an agreement linking the OBOR initiative and Brunei’s long-term development programme called “Vision 2035”



# Conclusion: OBOR, a huge potential... but remaining issues.

- ▶ OBOR could help reduce the gap between the continental ASEAN fast developing connectivity and the lagging maritime ASEAN.
- ▶ OBOR could help improve the connectivity of the (IMT-GT) (BIMP-EAGA).
- ▶ But many problems must be resolved:
- ▶ Fine tuning the interest of China's trade and the interest of AMS to develop their domestic infrastructure and their connectivity with other AMS.
- ▶ Selecting sustainable projects that do not end up making losses and that local authorities and population may own and control. Otherwise, there will be more white elephants.



# The « New Maritime Silk Road »: promises and issues

- ▶ The success of the Maritime Silk Road rests on the long-term cooperation among many countries that are politically unstable or experience high level of civil conflicts. It will not be easy to overcome these problems.
- ▶ 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.
- ▶ India is also sensitive towards the MSR for security reasons. It is not clear whether the MSR can be successful without the full cooperation of India.
- ▶ All these problems can find solutions. But it involves a lot of diplomatic actions and political compromises.



Thank you.

