

China's "One Belt, One Road" Initiative and ASEAN Relations: New Situation and New Challenges

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The International Seminar "The One Belt and One Road Initiative in the Global Context"
Beijing, 10-11 October 2016

China Unveils its “One Belt, One Road” Initiative

- The OBOR initiative is an attempt by China to rejuvenate the glorious ancient Silk Road, economically, politically as well as culturally.
- Since the announcement in 2013 of China's OBOR strategy by Xi, the Chinese government has fully mobilized resources to promote this grand national development strategy to the international community.
- As well as focusing on economic and infrastructure cooperation, the OBOR initiative clearly incorporates geopolitical and geostrategic elements. The OBOR initiative will allow China to develop a formidable economic presence in Asia and beyond leveraging on its strong manufacturing capacity and infrastructure development strengths.
- From the domestic perspective, China's economy is slowing down substantially, and its growth rate will continue to fall. The Chinese government views the OBOR strategy as a new engine for sustainable economic growth.
- The Silk Road strategy will contribute to absorbing serious domestic excessive capacity in industries such as steel, manufacturing and cement.

- The OBOR initiative has far-reaching regional and global implications for the coming decades, in potentially reshaping the geo-economic and geo-strategic landscape of Asia and beyond.
- The OBOR initiative and the consequent establishment of the Asian Infrastructure Investment Bank (AIIB) is perceived as China's strategic response to the high-profile US "pivot to Asia" strategy adopted by the Obama administration.
- The OBOR strategy will further strengthen bilateral economic ties between the ASEAN and China; and it will draw the Southeast Asian countries into the orbit of China's economic development.



AIIB to Spearhead China's OBOR Initiatives

- To support implementation of the OBOR strategy, China has initiated the establishment of the AIIB.
- Inadequacy of transport infrastructure has acted as a bottleneck impeding development of close regional economic integration.
- Inter-connectivity of infrastructure forms a central part of the OBOR strategy and the AIIB will spearhead this strategy through provision of capital loans and technical services for facilitation and acceleration of infrastructure projects.
- Infrastructure building is one of the most competitive areas for Chinese companies. In fact, they have already made a deep imprint in the Asian infrastructure market over the years.
- China's total foreign reserves of US\$3.4 trillion and outward foreign direct investment totaling US\$120 billion give it the financial power to back up the operations of the AIIB.

Table: Infrastructure Performance of Selected Asian Nations in the 2013-14
 Global Competitiveness Index

Country	Quality of overall infrastructure	Quality of roads	Quality of railroad infrastructure	Quality of port infrastructure	Quality of air transport infrastructure	Quality of electricity supply
Singapore	5	7	10	2	1	8
Malaysia	25	23	18	24	20	37
Brunei Darussalam	39	35	n/a	49	55	59
Thailand	61	42	72	56	34	58
Indonesia	82	78	44	89	68	89
Philippines	98	87	89	116	113	93
Vietnam	110	102	58	98	92	95
Lao PDR	65	65	n/a	137	76	61
Cambodia	86	80	91	81	90	112
Myanmar	146	138	104	136	146	118
India	85	84	19	70	61	111
Bangladesh	134	118	78	104	125	133
Sri Lanka	54	49	40	73	60	70
Pakistan	119	72	75	55	88	135

Note: comparison was based on ranking of 148 Countries/Economies

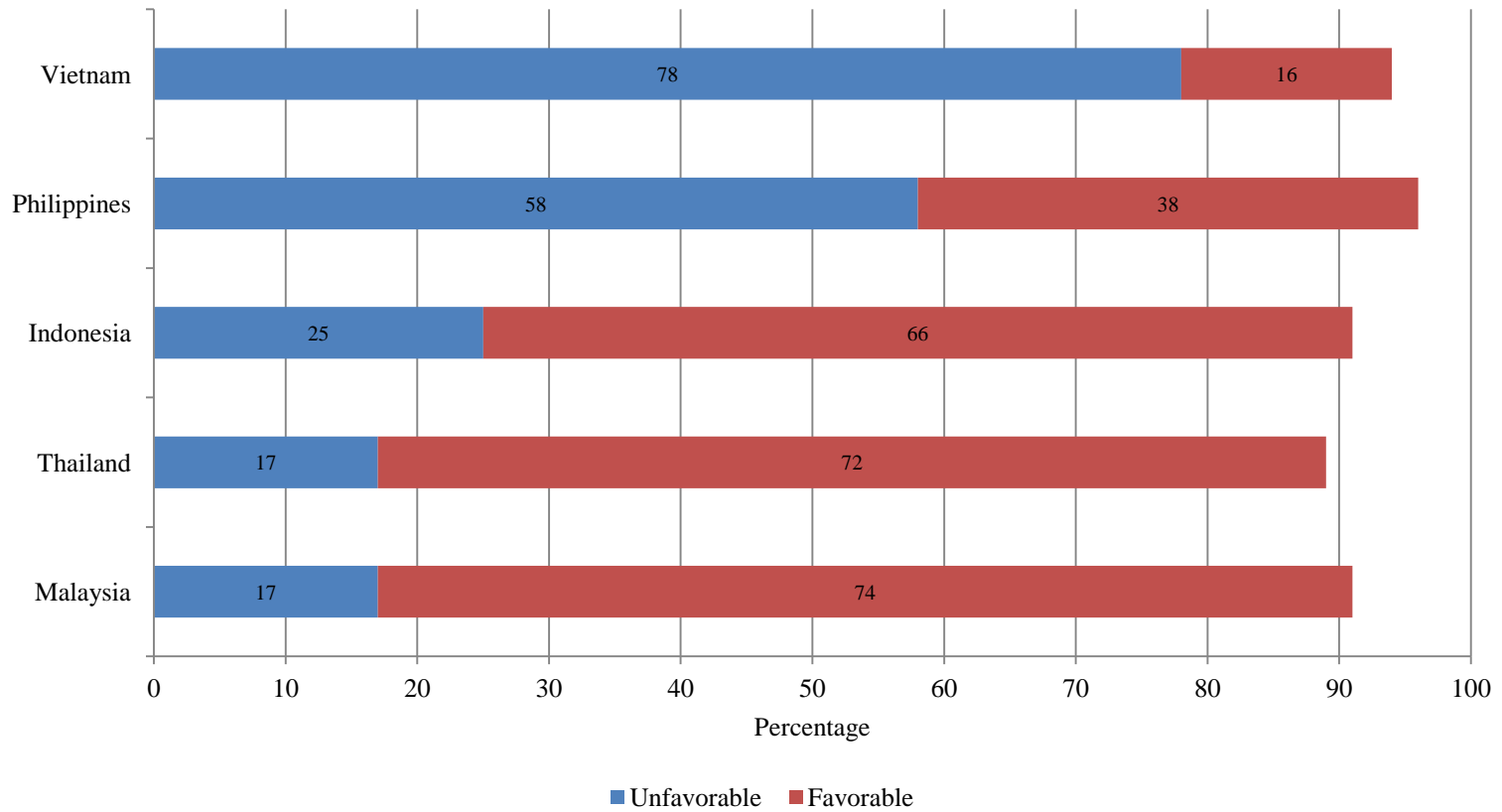
Source: compiled by the author based on the data provided by World Economic Forum, 2013

- This welcome response among many developed and developing regional and non-regional countries has raised the bank's international profile outside the immediate region and will promote its transformation into a banking organization of global reach and perspective.
- The AIIB commenced operations in January 2016. Initial signs are promising. In June 2016, the AIIB announced its first batch of four self-financed or co-financed projects worth US\$509 million, located in Pakistan, Bangladesh, Indonesia, and Tajikistan.
- Regardless of China's motivation to establish the AIIB, the developing countries in the region will stand to benefit enormously from the AIIB, Silk Road Fund and other multilateral development institutions.



Challenges to the OBOR Initiative from the ASEAN Perspective

Figure 1: General Views of China among Selected ASEAN Countries



Source: Pew’s Global Attitudes Survey, Spring 2014

- The South China Sea (SCS) issue has in particular negatively affected bilateral relations between China and certain ASEAN claimant states.
- From the Southeast Asian countries' perspective, China has taken a very assertive foreign policy stance toward neighboring small countries, particularly regarding the territorial and maritime disputes in the SCS.
- The OBOR initiative has fueled concern among many Southeast Asia countries about the security risks of economic overdependence on China.
- Hence, Southeast Asian countries are cautious of becoming economically over dependent on China as they fear being forced to adopt a pro-China foreign policy stance.
- Whilst China has the financial and economic capacity to fund OBOR-associated infrastructure and industrial projects, it must tread cautiously in implementing OBOR initiatives to avoid domestic political backlash and resistance from the countries along the "Belt and Road" route.
- As China-funded mega projects can exert tremendous influence on local communities and local economies, these projects can easily become political targets and subject to scrutiny by political parties in the countries concerned, on such grounds as potential environmental damage, corruption, and lack of fairness and transparency in the project bidding process.

- On 12 July 2016, the five judges on the Hague-based Arbitral Tribunal panel finally and unanimously rendered their verdict on the SCS disputes.
- In essence, the Award on the merits overwhelmingly endorsed the Philippines' claims on the SCS and rejected China's claims of historical rights in the SCS and its self-claimed "nine-dash line" as being without legal basis.
- Of course, it is wishful thinking that the Arbitral Tribunal award will settle the SCS disputes between China and other claimant states.
- China made it very clear, before and after delivery of the verdict, that it will never accept, participate in or recognize these proceedings or any associated Award, as they are perceived to be illegal and unjustified by China.
- From Beijing's perspective, the Tribunal abused its judicial power and unfairly took the side of the Philippines.
- China has indicated its strong resolve to safeguard its historical maritime and sovereign rights in the SCS.
- However, China has not engaged in any ruthless diplomatic or military actions to showcase its anger over the SCS. China spoke harshly, but acted softly.
- China repeatedly calls on the Philippines and Vietnam to resolve the relevant SCS disputes through peaceful means including direct bilateral negotiation and consultation.

- As widely perceived by the Philippines, Vietnam, and other like-minded nations in the region, the Tribunal's decision on the SCS issue is lawful and legally binding.
- The Tribunal's award is a diplomatic and legal setback for China.
- As a major world power, China will never submit to international pressure to comply with the Tribunal's ruling. The SCS is a core national interest for China.
- China's non-compliance with the Tribunal's award will damage its reputation as "a responsible, trustworthy and law-abiding power" and harm its international image accordingly.
- Security concerns will make countries such as Vietnam and the Philippines, which have on going territorial disputes with China over the SCS, unwilling to fully participate in China's OBOR initiative or allow involvement of Chinese companies in large-scale projects in their territories.
- The Philippines will continue to rally international support for the Tribunal's award from allies such as the US and Japan and liked-minded allies in the ASEAN such as Vietnam. In doing so, the Philippines will seek to put more international pressure on China.
- The Philippines will continue to build up its military force, especially its naval strength, and strengthen and diversify its security partnerships with the US, Japan, Australia, and India.

- In local communities within Southeast Asia, China's attitude and behaviors over the Arbitration Tribunal Award are widely perceived as self-serving and disrespectful of international law. This is not supportive of China's ambition to be perceived as a responsible and friendly power in the region and beyond.
- The ASEAN countries are watching closely to monitor how China will use its growing power to treat its smaller neighboring countries.
- China intends to downplay the widespread concern expressed over the SCS disputes in Southeast Asia.
- Some analysts further warn that China is deliberately attempting to divide the ASEAN countries and break down ASEAN unity over the SCS issue.
- The Arbitral Tribunal's award poses a dilemma for the ASEAN, as they will find it difficult to completely distance themselves from the award.

- Although China's argues that the OBOR framework offers "win-win" economic and investment cooperation, many neighboring nations view the OBOR initiative as distinctly favoring China.
- Southeast Asia is very much concerned about the consequences of potential emergence of a Sino-centric economic and political order in the region to accompany the implementation of the OBOR initiative.
- Promotion of economic cooperation and inter-regional physical connectivity are moves in the right direction. However, to forge win-win economic cooperation and mutual trust with other ASEAN countries, China has to make more effort to reach the hearts and minds of the local communities, by treating them as equal partners and addressing their security concerns.
- In his speech delivered at the legislative Chamber of the Supreme Assembly of Uzbekistan in June 2016, Xi Jinping remarked:

“China is willing to join hands with its partners to forge a new platform for mutually beneficial cooperation among countries along the “Belt and Road” featuring multi-agents, comprehensiveness and cross-fields.”

- China's smaller neighbors in Asia very much that China will follow through on this declaration.

Thank you for your attention

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