Economics and Trade Impact of the Silk Road Economic Belt Initiative

Kaewkamol Pitakdumrongkit

The Belt and Road Initiative (BRI) is a project proposed by China to foster and enhance connectivity between Asia, Europe, and Africa. Chinese President Xi Jinping proposed the Silk Road Economic Belt during his visit to Kazakhstan in September 2013 and unveiled the Maritime Silk Road during his speech at the Parliament in Indonesia in October 2013. Since its official launch, BRI has increasingly been promoted by Beijing. For example, in December 2013 the BRI was discussed at the Central Economic Work Conference, a gathering of top Chinese leaders.¹ In November 2014, President Xi announced that China would establish the Silk Road Fund with a capital of US$40 billion as a financing mechanism for BRI.² The document “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”, published in March 2015, elaborated on the details of this scheme. In December 2015, the Asian Infrastructure Development Bank (AIIB) was created to additionally finance connectivity projects.³ Beijing, in May 2017, convened leaders from more than 30 nations to the Belt Road Forum. At this meeting, several countries and international organisations signed agreements with the former to advance the BRI concept.⁴ The 19th National Congress of China’s Communist

Party, in October 2017, incorporated BRI into the Constitution to further solidify Beijing’s commitment in pursuing this initiative.5

The BRI has two components: the 21st Century Maritime Silk Road, and the Silk Road Economic Belt. The former is a sea-based initiative striving to connect the South China Sea, Indian Ocean, Mediterranean Sea, and Suez Canal. On the other hand, the latter is a land-based programme aimed at linking the Chinese economy to the Asian, Middle Eastern, and European ones. The Silk Road Economic Belt envisages six economic corridors: (1) China-Indochina Peninsula; (2) Bangladesh-China-India-Myanmar; (3) China-Pakistan; (4) New Eurasian Land Bridge; (5) China-Central Asia-West Asia; and (6) China-Mongolia-Russia (Figure 1).

**Figure 1: Map of CICPEC.**


---

5 *The Straits Times*, 2017. “19th Party Congress: Belt and Road in CCP charter shows China’s desire to take global leadership role”, 24 October.
This paper examines the effects of BRI on Southeast Asian countries and global economic relations. It aims to answer the following puzzles: (1) What are the key trends of BRI?; (2) How has BRI affected China’s trade and investment patterns, its diplomatic reach, and its soft power in the Southeast Asian region?; (3) What are the economic implications of BRI for global economic relations?; and (4) Why is BRI still perceived as a debt trap by the regional states? To shed light on these questions, I chose to analyse the China-Indochina Peninsula Economic Corridor (CICPEC) under the Silk Road Economic Belt because it is aimed at linking eight major economic and transportation hubs in China and Southeast Asia, Nanning (the capital of China’s Guangxi province), Vientiane (Laos’ capital), Phnom Penh (Cambodia’s capital) Bangkok (Thailand’s capital), Ho Chi Minh City (Vietnam’s capital), Hanoi (a Vietnamese city), Kuala Lumpur (Malaysia’s capital), and Singapore. Consequently, this arrangement has greater potential to impact Southeast Asia than the other Belt initiatives.

1. KEY TRENDS

CICPEC consists of several projects to boost connectivity between China and Southeast Asia. Regarding land transport, CICPEC seeks to link Chinese cities (especially Kunming and Nanning) to those in Southeast Asia by major land routes. First, the Central Route starts in Kunming, then goes to Vientiane, and down to Bangkok, Kuala Lumpur, and Singapore. Second, the Eastern Route connects Kunming to Hanoi via the Mengzi-Hekou Railway, which started its operation in December 2014.\(^6\) From Hanoi, the route will lead to Ho Chi Minh City. Finally, the Western Route links Kunming to Yangon using the Dali-Ruili Railway.\(^7\)

It would be a mistake to think that CICPEC consists of only the routes above. On the contrary, there are other land courses under this framework designed to reach certain key regional commercial and logistics hubs. The 250-kilometer Bangkok-Nakhon Ratchasima railway is a case in point. Once built, it will connect Bangkok to Nakhon Ratchasima (Thailand’s commercial hub in its northeastern region); subsequently it will be extended to Nong Khai (a Thailand-Laos border town) and eventually to Laos. Other plans are geared towards developing land links to reach economic centres in Guangzhou and Hong Kong. In addition, CICPEC encompasses

---


\(^7\) *Business Times*, 2018. “A Primer on China’s Belt and Road Initiative Plans in Southeast Asia”, 2 April.
projects to develop seaports, economic zones, industrial parks, and tourist destinations in Southeast Asia. For instance, the Melaka Gateway Project in Malaysia encompasses a cruise passenger terminal, a commercial city, and a maritime industrial park.\(^8\) The combined population under the CICPEC framework is estimated to be about 50 million.\(^9\)

As far as progress is concerned, the projects along the Central Route are the most advanced. For example, the Kunming-Vientiane railway is under construction and expected to be completed by 2021. The first part of the Bangkok-Nakhon Ratchasima rail line in Thailand was built in December 2017 and the whole railway is slated to be finished as early as 2022.\(^10\) Regarding the Melaka Gateway Project launched in 2014, the authorities announced that 60% of the work had been done and that they expected it to be completed in 2025.\(^11\) Moreover, China signed MOUs with some ASEAN nations to jointly develop economic cooperation zones. One example is the Mohan-Boten Economic Cooperation Zone, the first cross-national economic zone Beijing set up in the Southeast Asian region. In 2015, Beijing and Vientiane inked the Joint General Scheme to Develop the Mohan-Boten Economic Cooperation Zone, seeking to create such a zone at the borders of China’s Yunnan province and Laos’ Luang Namtha province.\(^12\) In addition, the Malaysia-China Kuantan Industrial Park (MCKIP) in Pahang, modelled after its sister park China-Malaysia Qinzhou Industrial Park (CMQIP) in Guangxi province, was established in 2013.

---

2. HOW HAS THE BRI AFFECTED CHINA’S TRADE AND INVESTMENT PATTERNS, ITS DIPLOMATIC REACH, AND ITS SOFT POWER?

2.1. Effects on trade and investment

CICPEC is likely to bring about two-way economic gains as it can boost Beijing’s trade and investment ties with ASEAN economies. For example, CICPEC has set up some cross-border economic zones such as the Friendship Pass in Pingxiang (a city in Guangxi Province bordering Vietnam). Such areas enabled Chinese entrepreneurs to employ Southeast Asians to work in their production processes to cut costs.\(^\text{13}\) CICPEC can also help Chinese companies lessen the impact of trade clashes between China and the US on Beijing’s economy. Even though both powers agreed to a 90-day truce in December 2018, during which they would attempt to resolve their conflicts regarding technology transfer and intellectual property,\(^\text{14}\) the talk might not completely end the tensions and the trade war might continue. The Asian Development Bank (ADB) estimated that a full-blown Sino-US trade war would shrink Beijing’s GDP by 1 percent within a few years.\(^\text{15}\) In such a scenario, CICPEC offers an alternative for the state to deepen its trade and investment ties in Southeast Asia and thus ameliorate the effects of Washington’s tariffs and other protectionist measures on its economy.

Likewise, CICPEC is likely to yield positive effects on ASEAN stakeholders in several aspects, namely, connectivity, trade, investment, and employment. First, as BRI, including CICPEC, seeks to build upon the existing regional economic integration frameworks such as Master Plan for ASEAN Connectivity 2025 (MPAC 2025), it has great potential to complement ASEAN’s connectivity programmes. MPAC 2025 is purposed “to achieve a seamlessly and comprehensively connected and integrated ASEAN that will promote competitiveness, inclusiveness, and a greater sense of Community.”\(^\text{16}\) The scheme focuses on five strategic areas: (1) sustainable infrastructure; (2) digital innovation; (3) seamless logistics; (4) regulatory excellence; and (5) people mobility. Going forward, there could be more collaboration


\(^\text{14}\) Breuninger, Kevin and Javier E. David, 2018. “US will hold off on raising China tariffs to 25% as Trump and Xi agree to a 90-day trade truce”, CNBC, 3 December.


between China and Southeast Asian nations on these aspects. Also, CICPEC can help fill ASEAN’s financing gap. According to the ADB, Southeast Asia will require US$2.8-3.1 trillion from 2016 to 2030 for infrastructure building. In other words, the region will need US$184-210 billion annually. However, the ASEAN Infrastructure Fund can only supply about $485 million. Such a financing deficit partly accounted for the slow progress of certain transnational connectivity projects, namely, the Trans-ASEAN Gas Pipeline and ASEAN Power Grid.17

Because CICPEC seeks to boost Sino-Southeast Asia connectivity, it can hence improve both sides’ capacity to better receive foreign direct investment (FDI), galvanising transnational production networks and trade. The analysis by the ASEAN+3 Macroeconomic Research Office demonstrated that Chinese FDI in ASEAN and ASEAN FDI in China will rise to about US$500 billion and US$200 billion respectively by 2035. On the trade front, it was forecast that by 2035 China will account for 22 percent of ASEAN’s total trade, while the latter is expected to account for 16 percent of Beijing’s total trade.18 Given that China-ASEAN trade and investments are projected to soar, CICPEC could further enhance these trends.

A close look at individual Southeast Asian economies reveals that CICPEC is beneficial to the former. For instance, the infrastructure projects can give Laos access to the sea, ultimately transforming it from a land-locked to a land-linked country. To elaborate, the Sino-Laos railway network could be expanded to connect to Thailand’s Nong Khai province and Map Ta Phut seaport. This rail line has also been found to better link Laos’ northern region to the electricity grids.19 Also, CICPEC has provided jobs to the Vietnamese. As of October 2018, around 121,000 Vietnamese were working in the Friendship Pass, a China-Vietnam border economic zone.20

In Malaysia, MCKIP has attracted FDI from Beijing as several Chinese firms such as Alliance Steel and Huawei Technologies established their production plants in the

manufacturing and services sectors.\textsuperscript{21} According to one Malaysian authority, this industrial park has created about 19,000 jobs and will further attract US$7.3 billion in investments.\textsuperscript{22} The Melaka Gateway Project could generate additional Chinese investment, spurring Malaysia’s employment rate and growth. Seeing the potential benefits of participating in CICPEC, Bangkok is planning to link it to the country’s Eastern Economic Corridor, a special economic zone for high-tech industries such as smart electronics, robotics, and aviation with the potential to draw in $50 billion in investment to Thailand’s economy.\textsuperscript{23}

### 2.2. Impact on China’s diplomatic reach

Beyond economic gains, BRI projects such as CICPEC can enable China to expand its diplomatic clout by using economic means to strengthen political ties with some regional stakeholders. The latter were sometimes found to accommodate Beijing’s requests and shift their policy behaviour in its favour, affecting the regional dynamics. ASEAN’s failure to coin a joint communiqué at the 45th ASEAN Foreign Ministers’ Meeting in July 2012 was a case in point. While disagreements among Southeast Asian governments over what to be included in the statement regarding the South China Sea matters contributed to the debacle, one cannot deny that China’s ties with Cambodia was another factor causing this incident.

Furthermore, Beijing’s rejection of the July 2016 Tribunal Ruling concerning the South China Sea and continued construction of military installations on artificial islands have deteriorated the trust in China by the regional states and heightened the latter’s fear that the former’s use of economic diplomacy would negatively affect the regional order. Illustratively, Chinese facilities built under BRI in their countries could someday be converted to military outposts, altering Asian security dynamics. As one source posits, “Large ports in Pakistan, Sri Lanka and Malaysia – three countries along a major oil and commerce route from the Mideast and Africa – could someday double as naval logistics hubs.”\textsuperscript{24} As a result, BRI programmes,

\begin{footnotes}
\end{footnotes}
including CICPEC, possess “the potential to erode the current security architecture in the region, allowing China to use its economic leverage to accumulate inordinate geopolitical power in its immediate neighbourhood”.25

Such a trust problem was unveiled by the 2019 survey of regional experts and stakeholders by the Institute of Southeast Asian Studies (ISEAS). 51.5% of the respondents had either little or no confidence that Beijing would “do the right thing” in contributing to global peace, security, prosperity, and governance. 45.4% of them thought that China would become a revisionist state with an objective of turning Southeast Asia into its sphere of influence. When asked about the effects of BRI on their countries, almost half of these individuals believed that the arrangement would push ASEAN member states to get “closer into China’s orbit...The fear of being drawn into China’s orbit is widely shared across seven ASEAN member states: Singapore (60.2%), Vietnam (58.7%), Brunei (52.3%), Malaysia (51.8%), Thailand (51.3%), Indonesia (44.4%) and the Philippines (38.7%).”26 To conclude, the economic benefits of BRI notwithstanding, this trust deficit may end up thwarting China’s efforts to augment its diplomatic clout and domination in the region.

2.3. Effects on China’s soft power

While greater attention has been paid to the infrastructure, one should not ignore the fact that BRI also seeks to boost people-to-people ties so as to bolster Beijing’s soft power in the world. Soft power is defined as the “the ability to get what you want through attraction rather than through coercion.”27 Via BRI, China has been promoting its positive image through several means, such as Confucius Institutes offering courses on Chinese languages and cultures, educational exchange programmes and scholarships, cultural ambassadors, and development of English-language news outlets such as CCTV and China Daily newspaper.

However, such efforts have yielded little success. This is largely due to a mismatch between the image Beijing is trying to promote and what it is actually doing. For example, Confucius Institutes were chastised when they were found to be curbing academic freedom at host institutions regarding certain issues, namely, Taiwan.

Tibet, and Tiananmen Square. The nation’s crackdown on non-governmental organisations, media control and censorship, and rising assertiveness in the South China Sea have thwarted its efforts to enhance its persona in the international community.

Moreover, Beijing's reputation has been suffering from the way it does business overseas. For example, its corporations were viewed as key players contributing to food safety and environmental degradation problems in other states, making the latter reluctant to adopt a Chinese model of development. Other censures include a lack of transparency and little private sector participation as the majority of the infrastructure projects were awarded to state-owned enterprises (SOEs). In short, 95 percent of BRI programmes have been implemented by the Chinese government and SOEs. In addition, these entities tended to possess “a different view when it comes to labour and environmental strictures. To staff overseas projects, Chinese companies have flown in their own workers by the thousands, drawing complaints that they are doing little to create local jobs…[Also,] Beijing continues to export polluting technologies like coal-fired power plants, even as such projects have become unpopular in China.” In sum, the Chinese way of doing business seems to beget little buy-ins from the regional stakeholders and undermines Beijing's effort to strengthen its soft power in the region.

3. WHAT ARE THE ECONOMIC IMPLICATIONS OF BRI FOR GLOBAL ECONOMIC RELATIONS?

Some observers may contend that it is too soon to determine the effects of BRI on global economic relations given that it has only been launched for five years. Yet, evidence concerning Southeast Asian states’ recent responses to this scheme can help us grasp such impacts. At the time of this writing, BRI, including CICPEC, is facing push-backs in the region. In short, Southeast Asian governments are...

---

29 “China is spending billions to make the world love it”, The Economist, 23 March; Lim, Kheng Swe, 2014. “China-ASEAN Relations: Hamstrung Soft Power in South China Sea?”, RSIS Commentary No. 174, S. Rajaratnam School of International Studies, Singapore, 3 September.
31 Greer, Tanner, 2018. “One Belt, One Road, One Big Mistake”, Foreign Policy, 6 December.
increasingly reluctant to allow the projects to make headway in their countries. For example, in August 2018, Malaysia halted the US$22 billion East Coast Rail Link (ECRL) and a gas pipeline project in Sabah province, citing the prohibitive costs and Putrajaya’s fiscal constraints. Although the country’s Prime Minister, Mahathir Mohamad, in January 2019 posited that his country could proceed with the ECRL if its construction cost was reduced, at the time of this writing the deal is still under negotiation. Likewise, Myanmar, in August 2018, decided to scale down Beijing’s stake in its Kyaukpyu deep seaport from US$7.3 to US$1.3 billion, constituting a 82 percent drop from the initial plan. This move was driven by the fact that Naypyidaw did not want its economy to be too reliant on China. Additionally, Thailand delayed talks on the Sino-Thai rail line to acquire better contract terms. At the time of this writing, the Ministry of Finance is still pondering whether to borrow from the Export-Import Bank of China or from alternative financial institutions such as the World Bank and the ADB. A Thai cabinet member stressed that Bangkok could tap multiple sources to fund the construction.

In conclusion, the evidence above indicates that BRI is not progressing as well and as fast as Beijing desires. For the initiative to have more significant implications for global economic relations in the future, Beijing must effectively address the issues causing concerns among the regional states, including transparency, business conduct, and Beijing’s behaviour in the South China Sea. Failure to do so could lead to additional push-backs, diminishing the effects of BRI on a global scale.

35 Strait Times, 2019. “Malaysia may resume East Coast Rail Link project, but on smaller scale: Mahathir”, 2 January.
4. WHY IS IT STILL PERCEIVED AS A DEBT TRAP?

Southeast Asian stakeholders are increasingly worried about Beijing’s ability via BRI projects to create a debt trap problem in developing Asia. Such a perception was revealed in the 2019 ISEAS survey, which found that 70% of the ASEAN respondents agreed with the statement that their governments should be cautious when striking BRI deals with Beijing so as to avoid being trapped in an unsustainable debt situation.38

This angst about BRI intensified as ASEAN policymakers watched how the situations in Sri Lanka and Laos unfolded. Illustratively, in its efforts to avoid defaulting on its loans, the Sri Lanka government, in late 2017, granted a 99-year lease of the country’s Hambantota Port (a project financed by Chinese loans) to Beijing. As a result, a Chinese SOE named Merchants Port Holdings is operating the facility.39 Regarding the Kunming-Vientiane Railway, criticism centred upon the agreement details that enabled China to gain an upper hand over Laos in the long run.40 In other words, the fact that this project costs the latter about US$6.7 billion, which is about half of the country’s 2016 GDP of US$13.7 billion. This raised questions about Vientiane’s ability to repay. Moreover, the contract grants Beijing the power to acquire Laos’ land up to 50 meters on each side of the track, triggering concerns over sovereignty compromises when participating in China-led BRI projects.41

To sum up, in the eyes of ASEAN leaders, these cases demonstrated that BRI participants might not only become indebted nations, but also lose sovereign control over their territories. Sri Lanka’s debt burden forced its government to give up control of its own seaport for 99 years while the land concession in Laos indicated Beijing’s ability to dictate certain BRI terms in its favour. Therefore, Southeast Asian stakeholders still view such schemes as creating a potential debt trap.

Kaewkamol Pitakdumrongkit is a Deputy Head and Assistant Professor at the Centre for Multilateralism Studies, at S. Rajaratnam School of International Studies (RSIS) of Nanyang Technological University, Singapore. Her research interests include international economic negotiations, Southeast Asian and East Asian economic governance, regional-global economic governance dynamics, ASEAN Economic Community, and cooperation between ASEAN and dialogue partners. She has published in various outlets such as The Singapore Economic Review, The International Relations of the Asia-Pacific, The Pacific Review, The Australian Journal of International Affairs, The Diplomat, Eurasia Review and East Asia Forum.