



中国(深圳)综合开发研究院
China Development Institute



BRI Projects in ASEAN: Implementation, Mechanism and Suggestions

BRI Projects in ASEAN: Implementation, Mechanism and Suggestions

Date: June 26, 2019

As a key strategic partner of China, ASEAN is an important participant in the development of the Belt and Road Initiative (BRI). ASEAN has made a commitment to link its Master Plan on ASEAN Connectivity 2025 with the BRI and accelerate its infrastructure development on the great momentum brought about by the BRI. At present, the BRI has achieved general strategic alignment with ASEAN countries.

1. Implementation of BRI Projects in ASEAN

China and ASEAN countries have launched a number of cooperation projects ranging from trade and investment, energy, infrastructure and industrial parks.

1.1 Cooperation on trade and investment

The trade volume between China and ASEAN was USD 587.87 billion in 2018, up by 14.1% year-on-year, reaching a historical high. China has been ASEAN's largest trading partner for 10 consecutive years, while ASEAN has been China's third largest trading partner for 8 consecutive years.

By the end of 2018, the accumulated investment by China to ASEAN reached USD 89.01 billion, and that by ASEAN to China reached USD 116.7 billion. By far, China has established over 4,000 enterprises in ASEAN countries through direct investment with investment areas expanding from manufacturing, mining, retailing to electric power, water supply, and telecommunications etc.

1.2 Cooperation on energy

In the power sector, China has gained a foothold in the ASEAN market by capitalizing on large state-owned enterprises and striving to meet emerging needs for power development in the region. State Power Investment Corporation Limited (SPIC) has business in Malaysia, Indonesia, Myanmar, Laos, Cambodia, Vietnam and the Philippines. China has successfully transmitted power from China's Yunnan province to Vietnam and Laos, while incorporating a portion of Myanmar's hydroelectric power into Yunnan's grid.

In the field of renewable energy, China and Vietnam, Myanmar and Laos have signed multiple agreements on technology transfer in solar power through the China-ASEAN Technology Transfer Center (CATTC). China General Nuclear Power Corporation (CGN) has also signed cooperation agreement with ASEAN Centre for Energy.

1.3 Cooperation on infrastructure

First, the establishment of financing platforms has helped infrastructure connectivity. The Asian Infrastructure Investment Bank and the Silk Road Fund, with an initial capital of USD 50 billion and USD 40 billion respectively, provide long-term and low-cost funding for connectivity of road, rail, shipping, oil and gas pipelines between China and ASEAN.

Second, connectivity of transport infrastructure has made initial progress. The joint venture consortia of China and ASEAN have undertaken a number of major infrastructure projects, such as Indonesia's Jakarta-Bandung High-speed Railway, the China-Laos Railway, and China-Thailand Railway, etc. The Trans-Asian Railway (TAR) going through Vietnam, Laos, Myanmar and Singapore is also expected to go operational before 2020.

Third, the first phase of the China-ASEAN Investment Cooperation Fund (CAF), with a total investment of USD 10 billion, has been launched. In Cambodia, CAF helps companies with Chinese background adopt Chinese technologies, equipment and management personnel to build optical fiber backbone network and digital television networks for the region. In addition, CAF also partners with domestic enterprises and Cambodian state television to invest in Cambodia's smart TV project.

1.4 Cooperation on industrial parks

By far, China has set up overseas industrial parks in ASEAN countries, which represents a new model of cooperation between China and ASEAN. A total of 8 overseas parks have been established in ASEAN, as confirmed by China's Ministry of Commerce (MOFCOM), including Qin Zhou Industrial Park in Guangxi, China and the Kuantan Industrial Park in Malaysia (Two Countries, Twin Parks), Sinothaizone, Sihanoukville Special Economic Zone (SSEZ), Vientiane Saysettha Development Zone (SCDZ), China-Indonesia Economic and Trade Cooperation Zone, Long Jiang Industrial Park in Vietnam, China-Indonesia Morowali Industrial Park, and the China-Indonesia JuLong Agricultural Industry Cooperation Zone.

Established in 2006, Sinothaizone is a modern industrial park developed by Holley Group Co., Ltd. of China and Amata Corp. PCL of Thailand. By the end of 2016, more than 60 companies from China operating in sectors including electronics, machinery, auto parts and home appliances, had settled in, with an output value of USD 3.75 billion and a cumulative tax payment of over USD 70 million to the local government. While Chinese companies have successfully leveraged the advantages of Sinothaizone in transport, policy preferences and infrastructure, Thailand has benefited from job creation, talent cultivation and technology transfer.

2. Mechanism of BRI projects in ASEAN

Chinese governments, state-owned enterprises and private sectors are involved in BRI projects.

2.1 Participation of Chinese government in BRI projects in ASEAN

The Chinese government's participation in the BRI in ASEAN mainly aims to build a China-ASEAN regional international cooperation mechanism, provide regional "public goods", and facilitate partnership on overseas projects.

China is one of ASEAN's partners that have established some cooperation mechanisms with ASEAN, including the leaders' meeting, 12 ministerial meetings, and 5 working-level dialogues. These arrangements, along with the China-ASEAN Exposition (CAEXPO) and the China-ASEAN Center, fully demonstrate a comprehensive and multi-level strategic partnership.

The Chinese government has established the China International Development Cooperation Agency (CIDCA) as a direct agency under the State Council, integrating functions related to foreign assistance projects. On the one hand, the new top design is conducive to the funding of overseas projects in line with the implementation of projects under the BRI; on the other, it can facilitate understanding of the development bottlenecks and needs of ASEAN countries, thus creating customized development plans for each of them.

The Chinese government has advocated the Indo-China Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor and constructed cross-border

economic cooperation zones with Vietnam, Laos, and Myanmar to explore a new model of integrated development of border economy. The Chinese government has also transplanted its own experience of establishing special economic zones and international trade and economic cooperation parks to ASEAN countries. At the same time, the Chinese government proposed to set up the “China-ASEAN special loan for infrastructure development” with a total sum of USD 10 billion. In 2015, the Chinese government proposed to add another USD 10 billion to the “China-ASEAN special loan for infrastructure development” in its second phase at the “China-ASEAN (10+1) Leaders’ Meeting”.

2.2 Participation of state-owned enterprises in BRI projects in ASEAN

State-owned enterprises, particularly central enterprises, are the main force of BRI projects in ASEAN countries. Many competitive central enterprises have engaged in the projects in the form of engineering contracting, equity investment and joint ventures.

First, many Chinese central enterprises started contracting overseas engineering projects many years ago and have rather mature cooperation model. Construction is usually carried out by a single enterprise and its subsidiaries at home or abroad, or by a consortium formed by several domestic central enterprises, or jointly contracted by domestic and foreign enterprises. Usually, the central enterprises that have won the bid will be responsible for project financing, deliver the project and get return on investment. The Sumsel-1 2×350 MW Coal-fired Power Generation Project in Indonesia is an exemplary project of the BRI, with SPIC in charge of general EPC contracting and construction.

Second, in the equity investment mode, central enterprises and their subsidiaries will usually invest in relevant businesses and projects in ASEAN countries through equity investment. Generally, the central enterprises buy the shares of relevant projects or businesses through their head offices, domestic and foreign subsidiaries or equity investment funds. The projects are mostly financed by the main investors themselves, and the income will be distributed according to the proportion of shares held. The China-ASEAN Investment Cooperation Fund is a large equity investment fund and is funded by central enterprises including the Export-Import Bank of China, China Investment Corporation, Bank of China, International Finance Corporation, and China Communications Construction Company Ltd.

Third, single central enterprises or a consortium formed by a number of central enterprises may establish joint ventures with ASEAN countries to carry out investment and cooperation. The advantage of setting up a joint venture is that it can improve adaptability and reduce transaction costs operating in foreign countries. The Chinese consortium led by China Railway Corp. established a Sino-Indonesian Joint Venture with Indonesia's SOE Consortium to undertake the construction and operation of the Jakarta-Bandung High-speed Railway Project, with 60% of shares held by Indonesia and 40% by China.

2.3 Participation of private enterprises in BRI projects in ASEAN

The operation mode of private enterprises participating in BRI projects in ASEAN countries mainly includes project contracting, labor cooperation and collective investment in overseas projects through establishing industrial parks.

Private enterprises may cooperate with domestic enterprises to carry out equity investment in projects, set up overseas engineering companies through consortium, or establish joint ventures with overseas enterprises. One of the most popular ways for private enterprises to participate in BRI projects in ASEAN countries is to set up industrial parks, so as to support their collective "going out" efforts. By 2017, Chinese companies had built 23 overseas cooperation parks in ASEAN countries, attracting 421 Chinese enterprises to settle in, with a total investment of about USD 21.3 billion.

3. Challenges for BRI projects

The major challenges for BRI projects in ASEAN countries mainly include political concerns, inconsistent standards and difference in business environment.

3.1 Political concerns

Some ASEAN countries are ambivalent about the BRI and China's opening-up in general. On the one hand, they look forward to China's continued effort in opening-up, affirming its positive impact and hoping to obtain more funding and technology from China and export their domestic products to huge Chinese market. On the other hand, they worry that the purpose of China's BRI is to export domestic excess capacity and to translate economic clout into political dominance, thus harming their own interests.

3.2 Inconsistent standards

Current inconsistencies in technical standards and norms in infrastructure construction under the framework of the BRI in ASEAN countries can obstruct infrastructure connectivity among ASEAN countries. Therefore, technical standards and norms to some extent are even more important than physical connectivity.

China and many ASEAN countries have adopted markedly different transport technology standards and management systems, which constitutes a major issue in fostering infrastructure connectivity. This has increased the technical difficulty and construction cost of the Trans-Asian Railway in Southeast Asia. At the same time, freight transportation across areas with different gauge standards must go through track adjustment, considerably increasing the time cost.

3.3 Differences in business environment

Currently, there are great disparities among ASEAN countries in economic development and industrial structure, as well as in investment environment and management system. There are also large and various inconsistencies among countries in legislation, market access rules and standards. Certain countries do not have a sound and stable legal system and have relatively high logistics cost, all of which have led to relative unstable business environment and high risks for project development. The situation is further complicated by different languages, customs and religions in ASEAN member states, all presenting difficulties for the investment and operation Chinese businesses.

4. Suggestions

To promote the BRI cooperation between China and ASEAN countries, here are some suggestions:

4.1 To enhance mutual trust

China and ASEAN countries should improve policy communication and strategic alignment, enhance bilateral mutual trust, and bring together main stakeholders to move these projects forward.

In response to the concerns of some ASEAN countries about the BRI, we shall promote in-depth alignment between the BRI and the development strategies of ASEAN countries,

such as Vietnam's "Two Corridors and One Ring", Cambodia's "Quadrangle-Development Strategy", Indonesia's vision for "Global Maritime Fulcrum", among others.

At the same time, the role of dialogues between think tanks should be leveraged as an important complement to official diplomacy. Research outputs of think tanks tend to be more convincing in objectivity and accuracy, and can help make policy communication more effective. Thus, dialogue mechanisms of think tanks can help both sides understand each other better, conducive to building mutual trust between China and ASEAN countries regarding the implementation of BRI projects.

4.2 To align technological standards for infrastructure projects

Regarding the differences in technological standards for infrastructure projects between China and ASEAN countries, both sides should sign bilateral agreements in the fields of rail, road and aviation, etc., and create key demonstration projects towards achieving "connectivity". China should vigorously advocate the adoption of international standards.

China's rich experience in and strong record of delivering construction projects of railways, airports and ports prove the feasibility of China's technological standards. The technological planning and standards for infrastructure construction under the BRI, such as railways and roads, should be jointly discussed and formulated by the governments of ASEAN countries and China, and enterprises before the signature of bilateral agreements. It is recommended that the two sides establish a BRI railway or aviation company to serve multinationals operating under the BRI and to jointly plan and coordinate the operation of railways, roads, air routes and other infrastructures.

4.3 To respect national conditions of host countries

The disparities among ASEAN countries in economic development, industrial structure, investment environment, culture and religions have led to different types of risks for doing business in the region. China needs to be aware of the different endowments of ASEAN countries, and optimize project cooperation and "going out" strategies for its enterprises by taking account of industrial complementarities and the development needs of the host country. At the same time, full respect shall be given to the national culture and religious beliefs of the host country in specific projects.

The focus of cooperation with ASEAN countries in the early stage of industrialization is to ensure that China's technological advantages synergize with local production factors, such as cheap labor and land, and to help ASEAN countries industrialize; China can import from these countries much-needed energies and primary products. In contrast, cooperation with countries in their late stage of industrialization, such as Singapore, should focus on research and development, design and management of high-tech products.