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## The Belt and Road Initiative as a New China's Foreign Economic Policy towards the ASEAN Countries

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**Abstract:**

**Purpose:** The article deals with an ambitious transport and economic project “the Belt and Road Initiative” (BRI), also known as “One Belt One Road” or “New Silk Road”. It entails achievement of economic prosperity by the countries along the Silk Road, their sustainable economic development and strengthening the cooperation between the regions.

**Design/Methodology/Approach:** The subject of this research allows for using a combination of various methods and approaches, such as comparative method, statistical, systematic approach, structural and dynamic analysis, which form the methodological basis of the research. Content analysis and synthesis methods were applied to identify the ideological content and essence of the Chinese BRI towards the ASEAN countries.

**Findings:** The authors have identified that the ASEAN countries are involved in the BRI due to development of China Indochina Peninsula Economic Corridor (CICPEC) and the 21st Century Maritime Silk Road. Strategic areas, such as sustainable infrastructure, digital innovation, seamless logistics, and people mobility have been investigated to build up a regional network of people and infrastructure. The authors have come to the conclusion, that CICPEC has a great impulse to launch a new era of China-ASEAN cooperation.

**Practical implications:** On the basis of the analysis of the China – ASEAN cooperation, the authors have pointed out the most prospective spheres for further strengthening their links. Besides, the authors have evaluated the potential risks for both sides.

**Originality/Value:** The analysis of evolution of the China-ASEAN relations provides the understanding of China's interests in the ASEAN partnership.

**Keywords:** China, belt and road Initiative, CICPEC, ASEAN, free trade zone, trade.

**Paper Type:** Research article.

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## **1. Introduction**

In 2013, Chinese President and General Secretary of the Chinese Communist Party Xi Jinping inaugurated the Belt and Road Initiative (BRI), his signature economic and foreign policy project designed to finance and build infrastructure and connectivity around the world, with a focus on Eurasia and the Indo-Pacific region. China's expansive Belt and Road Initiative (BRI) is the signature foreign policy and geo-economics project of Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping, who has extolled it as the "project of the century."<sup>5</sup> What BRI means in practice is still coming into focus, but Beijing's aspirations for the initiative are clear: encouraging domestic development and increasing control in China's outer provinces, expanding markets and exporting technical standards, building hard and digital infrastructure, bolstering energy security, expanding the reach of China's military to protect overseas interests, and advancing geopolitical influence.

The BRI covers the in land 'Silk Road Economic Belt' (SCREB) and the sea-based the "21st century Maritime silk road" (MSR). SCREB covers six economic corridors: New Eurasia Land Bridge, China-Mongolia Russia; China-Central Asia-West Asia; China-Pakistan; Indochina China; and Bangladesh-China-India-Myanmar. The additional "Maritime silk road" provides for the development of key seaports along traditional and new sea routes to Southeast Asia, Africa and the Mediterranean region with good connections to land transport routes (Hans-Dieter and Menkhof, 2018). There are 6 BRI routes and China has economic interests all over the world. Nevertheless, South-East Asia, due to its geographical location and trade routes passing through it, is reasonably perceived as the "core" of China's interests (Terskikh, 2019). The development of relations with ASEAN as a whole and with its 10 member countries separately remains one of the top priorities in the Chinese foreign policy paradigm.

China seeks to ensure a secure and controlled buffer along its borders – the "belt of peace, stability and joint prosperity". China's current position in Southeast Asia is very strong and based on mutual pragmatism, which is largely due to significant achievements in trade, economic and investment cooperation. Bilateral agreements in politics, security and defense are steadily developing. Cultural and humanitarian ties are closely linked, and designed to prosper mutual future (Vlasov, 2015). Southeast Asia has historically been in the sphere of China's interests. For a long time, the peoples of this region used to be were under Chinese governance due to vassal-suzerain relations. But in the XIX century the power in the Region shifted towards European Countries. However since the late 1970s the Chinese policy of "open doors" combined with effective internal economic transformations, helped to

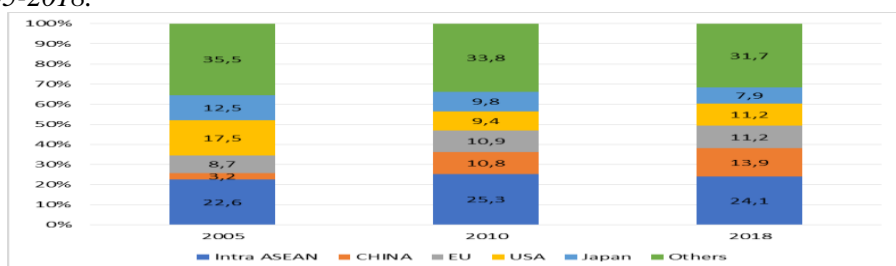
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<sup>5</sup>*The Economist*, "China's Belt-and-Road Plans Are to Be Welcomed—and Worried About," July 26, 2018

regain its lost positions. By the early 1990s Beijing managed to restore relations with all Southeast Asian countries, and by the early 2000s create a basis for long-term cooperation and consolidation in the region (Vlasov, 2015).

Association of Southeast Asian nations was formed in 1967, during the period of the Cold war. But only after collapse of Soviet Union in 1991 China and ASEAN relations started to boost so in 1996 China was granted the status of a full-scale partner of the Association. In the early 2000s, China joined the Treaty of friendship and cooperation in Southeast Asia, so it was a start of a new round of relations between the PRC and ASEAN began. Two giants also conclude the Joint Declaration on strategic partnership for peace and prosperity. This includes a series of five-year action plans. (Feinschmidt, 2018) In November 2015 foreign Ministers of China and the ASEAN member countries adopted the 2016-2020 plan. It is aimed at boosting political interaction, socio-economic issues, security, and international and regional relations. Nowadays, China is represented almost in all ASEAN multilateral negotiations in the Asia-Pacific region. They are the ASEAN Regional forum, the East Asia summit, the ASEAN+8 Council of defense Ministers, and the ASEAN+3 economic cooperation format. Thus, the relationship between China and ASEAN has a strong economic and political component. It is expressed in developed trade and investment cooperation and joint promotion of economic regional initiatives, as well as the ASEAN countries involvement in the implementation of China's BRI (Fainshmidt R. I. 2018). Since 2005, China has been playing an increasing role in ASEAN economics. Figure 1 and Figure 2 prove that. ASEAN exports to China have risen from 3,2% in 2005 to 13,9% in 2018 and imports from China have risen from 5,4% in 2005 to 20,5% in 2018. The USA and Japan used to be ASEAN's main trading partners, but now their role is decreasing.

**Figure 1.** ASEAN shares of merchandise exports values (%) by trading partners, 2005-2018.

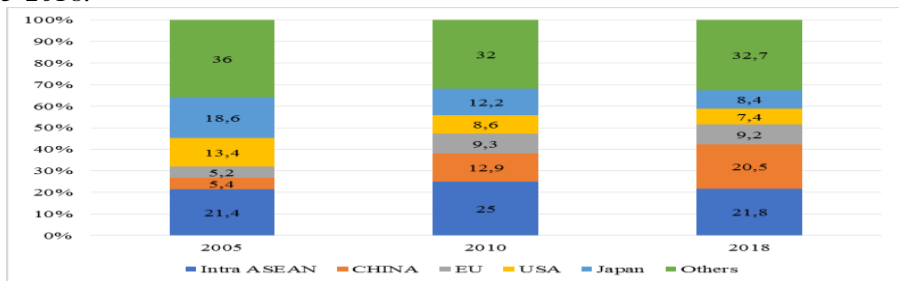


**Source:** Compiled by the authors upon ASEANstats database <https://www.aseanstats.org/>

Not only trading ties are strengthening. Investment cooperation from China to ASEAN countries is flourishing, as well. Figure 3 shows that Chinese top 5 FDI has 6 times increased while FDI from Japan USA, EU have been diminishing. Over 7 years of BRI implementation China has launched a number of investment infrastructure project, transport facilities of the region are developing. Railway communication (including high-speed branches), gas pipelines, bridges, airports and

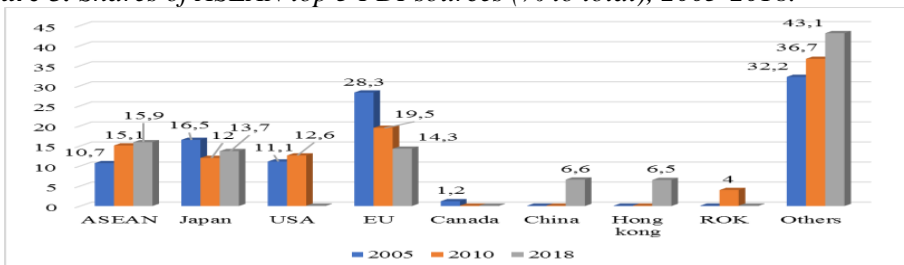
seaports, power plants are being constructed. China provides to the region the necessary engineering skills and construction experiences, machinery and equipment as well as raw materials like cement and steel products.

**Figure 2.** ASEAN shares of merchandise imports values (%) by trading partners, 2005-2018.



Source: compiled by the authors upon ASEANstats database <https://www.aseanstats.org/>

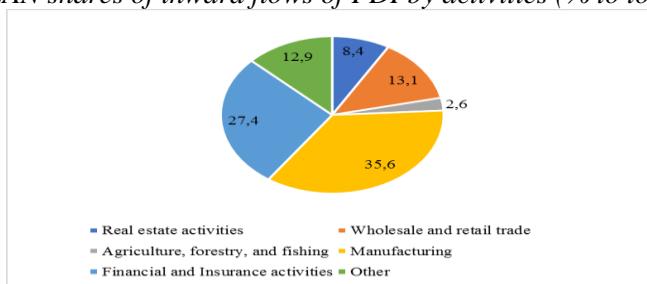
**Figure 3.** Shares of ASEAN top 5 FDI sources (% to total), 2005-2018.



Source: Compiled by the authors upon ASEANstats database <https://www.aseanstats.org/>

Improved infrastructure facilities will be able to boost trade links along BRI corridor. A study by Roberts and Deichmann (2011) as well as Vidyarthi and Mishra (2020) showed that transport and telecommunications infrastructure plays a significant role in promoting spillovers when it interacts with regional trade integration (Sarah, 2017). Figure 4 illustrates that manufacturing is the main sector, which attracts the most inward flows of FDI.

**Figure 4.** ASEAN shares of inward flows of FDI by activities (% to total) 2018.



Source: Compiled by the authors upon ASEANstats database <https://www.aseanstats.org/>

Due to neighboring such a powerful country like People's Republic of China BRI provides ASEAN nations a unique opportunity to develop their economies by deepening intra-regional cooperation.

## **2. Methods**

A combination of various widely used methods forms the methodological basis of the research. The authors focus on the principle of scientific objectivity when carrying out the research. The theme of this research allows using classical scientific research methods such as: comparative method, statistical, system approach and others. The main research methods are the search, systematization, evaluation and structural and dynamic analysis of macroeconomic indicators that characterize ASEAN and China's cooperation in the sphere of trade and investment. The statistical observation method was used to identify trends of intensification their economic relations. When describing China's modern foreign economic policy, the method of scientific abstraction, analysis and generalization of existing fundamental research was used. Content analysis and synthesis methods were applied to identify the ideological content and essence of the Chinese BRI towards ASEAN countries. To conduct the research, the authors used statistical data from the international database of UNCTAD, database of ASEAN statistics and the state statistical office of the People's Republic of China.

## **3. Literature Review**

The Belt and Road Initiative, since its inception in late 2013, has drawn tremendous global attention. The views of political leaders, business people, the media, and analysts on the prospect of the BRI are ostensibly polarized. Since then thousands of scholarly papers, journal articles and books have been issued. Some experts (Belova *et al.*, 2019) asserts that the BRI will dramatically increase Beijing's global influence, particularly in China's neighborhood. Another group surmises that the BRI is expected to fail because of insurmountable challenges. Ha (2019) believes that China's strategy "aims to reinforce the ongoing power shift in Southeast Asia and engineer a smooth transition to a China-centred regional order against the backdrop of a perceived decline in US influence in the region. In this process, some predilections towards the pre-modern Sino-centric hierarchical regional system have resurfaced as China seeks to renegotiate the normative content of the regional order, and condition ASEAN member states into "good behaviours" accordingly.

More likely, through the BRI, China will definitely influence Southeast Asian countries but not to the extent of forging a Sinocentric order in the region (Gong, 2019). This can be explained by three major factors: (a) the responses of Association of Southeast Asian Nations (ASEAN) and its member states toward the BRI, (b) the effects of alternative infrastructure initiatives proposed by other major powers in Southeast Asia, and (c) China's questionable ability to deliver its BRI promises (Gong, 2019). Jetin marks that a BRI key goal is to enhance economic

interconnectivity and cooperation across Eurasia, East Africa and more than 60 partner countries. A similar emphasis on “connectivity” is found in the Masterplan on ASEAN Connectivity 2025 (ASEAN 2016; Jetin 2017).

Many scientists explore economic progression of ASEAN (Laique *et al.*, 2019) due to China’s trade and investment expansion (Thaib, Hakimah, and Yolanda, 2020) as well as Taguchi *et al.* (2014) and others do. In the last decade, China’s export share has risen in ASEAN countries trade turnover, reflecting their strengthening trade linkages with China as a global manufacturing base. Although, according to UNCTAD data, China's ODI still accounts for less than 5 per cent of total inflows across ASEAN, this is expected to increase in future years under the BRI as the infrastructure investment boom is likely to lead to tangible increases in the trade of goods and services and investment across the region (Sarah, 2017). China’s economic rise over the past decade, caused conceptual changes in the characteristics of direct foreign investment: high urbanization growth rates, “building a middle-class society” and the elimination of rural poverty, fundamental changes in environmental policy at the state level. This is what has allowed Vietnam, Indonesia and Malaysia to gain new competitive advantages and also become the leading recipients of foreign direct investment in Southeast Asia (Andronova *et al.*, 2020). Thus, China has been able to become an important a partner for ASEAN as Japan and the United States, entering all the main dialogue platforms and initiatives developed by the Association (Fainshmidt, 2018).

Lots of works are devoted to a particular ASEAN country and its economic positioning through participation with China. Syukur and Bungkilo (2020) examine the post-acquisition operating performance of acquirer companies in Indonesia as well as Ghozali and Khoirunurrofik (2020) do in their article. Rahman *et al.* (2020) indicate that, the goods market is the most significant market in promoting family takaful in Malaysia. Reinhard and Li (2008) cover that companies with better access to external capital and those that adjust their financial structures faster outperform other companies.

Beijing sees BRI in part as an externally oriented development program to boost China’s slowing economy and help it move up the global value chain through economic integration with neighboring countries (Ratanavararak, 2018; Sudana *et al.*, 2019). Chinese planners believe infrastructure development in BRI countries can open new markets and boost foreign demand for Chinese products, particularly in higher-end manufactured goods. BRI analysts mark, that China offers partner countries much-needed infrastructure financing, but also presents significant risks. Through BRI China also seeks to diversify its energy suppliers (Chernyaev *et al.*, 2020). As well as to develop ASEAN energy sector under public-private partnership (Wisuttisak and Rahim, 2018). Chinese engagement with BRI countries has largely been through infrastructure projects financed by Chinese policy and commercial banks rather than direct investment. Chinese lending poses debt sustainability

problems for a number of BRI countries while providing Beijing with economic leverage to promote Chinese interests, in some cases threatening the sovereignty of host countries.

#### **4. Discussion**

So, the Belt and Road Initiative is designed to foster and enhance connectivity throughout the world. China-Indochina Peninsula Economic corridor, or just CICPEC is supposed to rise connectivity between China and Southeast countries. It consists of several projects aimed at expanding ties between China and ASEAN countries. As for land transport, CICPEC seeks to connect Chinese cities (especially Kunming and Nanning) with cities located in Southeast Asian countries by the main land routes. The first is the Central route. It starts in Kunming, then goes to Vientiane and then to Bangkok, Kuala Lumpur and Singapore. The second one is the Eastern route. It connects Kunming with Hanoi via the Mengzi-Hekou railway, which began its operation in December 2014<sup>6</sup>. From Hanoi, the route will lead to Ho Chi Minh city. And at last the third is Western Route. It is designed to connect Kunming with Yangon via the Dali-Ruili railway<sup>7</sup> (Kaewkamol Pitakdumrongkit, 2019).

CICPEC does not consist only of the abovementioned routes. There are other infrastructure projects within CICPEC aimed at creating key regional trade and logistics centers. The 250-kilometer Bangkok-Nakhon Ratchasima railway is an example. After it is built, it will connect Bangkok and Nakhon Ratchasima (the commercial center of Thailand in its North-Eastern part); subsequently, the road will be built to Nong Khai (the border city of Thailand and Laos) and eventually to Laos. Other projects are designed to develop transport infrastructure to major economic centers such as Guangzhou and Hong Kong. CICPEC includes as well projects for the development of sea infrastructure, new economic zones, industrial parks and tourist destinations in South-East Asia. For example, the Melaka Gateway project in Malaysia includes the construction of a cruise passenger terminal, a commercial city-center, and a marine industrial Park<sup>8</sup>.

The Central route is the most realistic one among others. Some infrastructure objects have already been built or close to be completed. For example, the Kunming-Vientiane railway is under construction and is expected to be completed by 2021. The construction of the first part of the Bangkok-Nakhon Ratchasima railway line in Thailand was completed in December 2017 and the entire railway is going to be

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<sup>6</sup>Ge, Jieru, 2014. "Mengzi-Hekou Railway to start operation in December", *China Daily*, 3 November.

<sup>7</sup>*Business Times*, 2018. "A Primer on China's Belt and Road Initiative Plans in Southeast Asia", 2 April.

<sup>8</sup>Aisyah, Fara, 2018. "Cloudy future for RM40b Melaka Gateway", *The Malaysian Reserve*, 12 September.

completed in 2022<sup>9</sup>. For the Melaka Gateway project, which was launched in 2014, the authorities announced that 60% of the work has already been completed and it is expected to be completed in 2025. As Kaewkamol Pitakdumrongkit (2019) writes in her article: “China has signed memoranda of understanding with some ASEAN countries on the joint development of economic cooperation zones. The one is the Mohan-Boten economic cooperation zone, the first inter-ethnic economic zone that was created by China in Southeast Asia. In 2015, Beijing and Vientiane signed a Joint master plan for the development of the Mohan-Boten economic cooperation zone, in an attempt to create such a zone on the borders of China's Yunnan province and Laos's Luang Namtha province”. In addition, in 2013 Malaysia and China established the Kuantan Industrial Park (MCKIP) in Pahang, modeled on the Qinzhou industrial Park (CMQIP) in Guangxi province (Kaewkamol Pitakdumrongkit, 2019).

Mosyakov and Shpakovskaya (2018) also mark that the BRI projects and innovation development projects are not the only prospects that China can offer to the ASEAN countries. There is also an equally ambitious "3 plus X" plan, which was put forward in November 2017 at the China-ASEAN summit in Manila by Chinese Prime Minister Li Keqiang. The "3 plus X" format will affect many different areas, mostly focusing on three key issues: political security, economy and trade, as well as people-to-people exchanges. It is interesting that the previous plan, called "2 plus 7", which Li Keqiang proposed in 2013, referred only to strengthening strategic trust and promoting economic cooperation. The new plan also added a provision on political security (Mosyakov and Shpakovskaya, 2018).

Currently, Mie Oba (2019) points out, that several world powers, including the United States and China, middle powers, like Japan and some small powers, such as the Association of South East Asian Nations (ASEAN) member countries, are promoting their regional multilateral approaches by proposing and advancing various regional frameworks. The development of regional frameworks, for example, the TPP/CPTPP, Regional Comprehensive Economic Partnership (RCEP), AIIB, Belt and Road Initiative (BRI), and existing ASEAN-led regional architecture, indicate that each regional power is adopting the “institutional hedging” strategy to ensure that its interests are met and the regional order is sufficiently conducive to realizing its political and economic aims (Mie Oba, 2019). He and Feng (2020) suggest that China, in particular through its BRI, “might be a wild card in Indo-Pacific regionalism in the future”. The BRI appears to be an economic paradigm through which China supports investment in Eurasia and the Indo-Pacific region so as to create geostrategic neighborhood. China believe that peaceful and prosperous neighborhood will positively affect its northwestern and southwestern provinces. And prosperity can be reached by developed infrastructure. Bhavsar and

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<sup>9</sup>*Bangkok Post*, 2017. “*Thai-Sino rail contract bids to kick off by year end*”, *Bangkok Post*, 16 August.



Sangapurkar (2018) indicate that the impact of new construction subsector on the economic growth is greater than that of repairs and maintenance construction subsector in the long run.

Mingjiang Li (2020) analyses the BRI's impact on maintaining security ties with South-East countries. Li points out that China seeks to protect its commercial routes and to ensure stability and safety in the Indo-Pacific. Thus, to compete mainly with the United States, another key player in the Indo-Pacific region.

## 5. Result Analysis

China regards the ASEAN countries as a "priority for its diplomacy towards neighboring countries". China goes on to deepen their cooperation and to intensify their strategic partnership<sup>10</sup>. In 2018 at the China-ASEAN Summit, as Huang Xilian, the Chinese ambassador to Association of Southeast Asian, emphasizes, both sides adopted the China-ASEAN Strategic Partnership Vision 2030. It provides strengthening cooperation in five areas. At first, to integrate the Belt and Road Initiative into the Master Plan on ASEAN Connectivity 2025, and intensify the "3+X cooperation framework". Secondly, to indicate new points for cooperation such as the digital economy, e-commerce, smart cities and 5G. Thirdly, to develop people-to-people communication. Fourthly, to boost multilateralism: openness of economies, free trade and win-win results. Fifthly, to promote safety and stability in the region (Huang Xilian, 2019). So, China and the ASEAN are launching a new era of greater cooperation under the guidance of the Vision 2030 and BRI implementation, in particularly under China-Indochina Peninsula Economic corridor.

CICPEC is assumed to be will be economically beneficial to both China and the ASEAN countries, as it will strengthen trade and investment relations between countries in the region. It will also strengthen international entrepreneurship (Bogoviz *et al.*, 2018). From the Table 1, we can see the China's export and import share with ASEAN countries is steadily increasing. For the last 20 years of China-ASEAN relations it has doubled. And due to BRI implementation it is going to see the further rise.

**Table 1.** China's export and import share with ASEAN countries.

Period	Import Share	Export Share
2001	7,94%	5,84%
2002	9,04%	6,19%
2003	11,47%	7,06%
2004	11,22%	7,23%
2005	11,36%	7,27%
2006	11,31%	7,36%
2007	11,35%	7,76%

<sup>10</sup>Huang Xilian. *Dynamic partnership promoting peace, stability and economic growth in East Asia China*. Daily Global 2019

<https://www.chinadaily.com.cn/a/201910/10/WS5d9e9db0a310cf3e3556fac6.html>

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2008	10,33%	7,99%
2009	10,61%	8,85%
2010	11,08%	8,76%
2011	11,07%	8,96%
2012	10,77%	9,97%
2013	10,23%	11,05%
2014	10,63%	11,61%
2015	11,56%	12,15%
2016	12,36%	12,08%
2017	12,82%	12,30%
2018	13,56%	12,79%

**Source:** Compiled by the authors upon Unctad Statistical review China  
<http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm> [accessed 15.06.2020].

CICPEC can also help Chinese companies to refocus trade deals from the USA towards Southeast Asian economies. The Asian development Bank (ADB) estimated the damage to the Chinese economy from the implementation Sino-American trade war - this will reduce Beijing's GDP by 1 percent over several years<sup>11</sup>. In this case, CICPEC proposes to change the vector of trade relations from the United States towards deepening its trade and investment ties in Southeast Asia and thereby mitigate the consequences of Washington's tariffs and other protectionist measures against the Chinese economy (Figures 5 and 6).

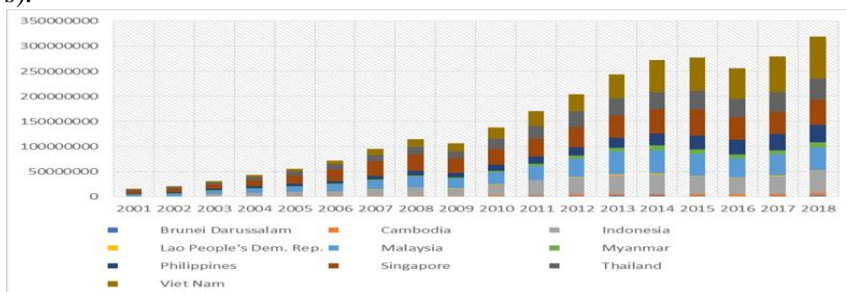
It is worth noting that China's exports to ASEAN outruns China's imports from ASEAN countries. But it has not been always. At the start of China-ASEAN relations China used to import more. From all ASEAN states Vietnam, Singapore, Indonesia, Thailand, Malaysia are the main trade partners to China. The role of Philippines has largely increased lately.

In order to stimulate trade agreements, within CICPEC, a number of cross-border economic zones have been created, such as the Friendship pass in Pingxiang. Pingxiang is a city in Guangxi province bordering Vietnam. Economic zone Friendship pass will create jobs for South-East Asian residents, so will solving the problem of employment in the region as well as gain benefits for Chinese enterprises as they will reduce their production costs by cheaper salary payments. Ensuring free flow of skilled labour among member states is a necessary step in ASEAN's effort to establish the ASEAN economic community (AEC) and to transform the region into a single market and production base (Aimsiranun, 2017).

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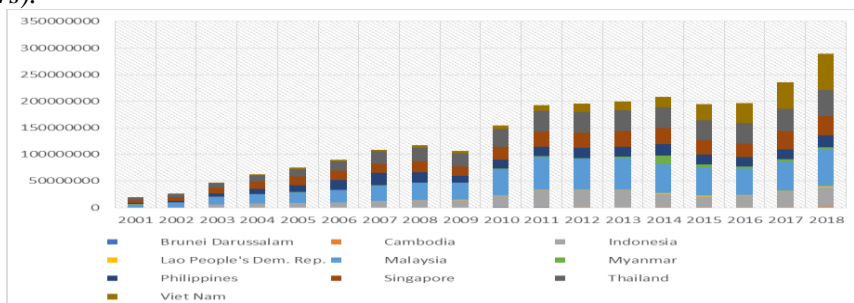
<sup>11</sup>ASIAN DEVELOPMENT BANK ADB. *Economics Working Paper Series. The Impact of Trade Conflict on Developing Asia* Abdul Abiad, Kristina Baris, John Arvin Bernabe, Donald Jay Bertulfo, Shiela Camingue-Romance, Paul Neilmer Feliciano, Mahinthan Joseph Mariasingham, and Valerie Mercer-Blackman No. 566 | December 2018  
<https://www.adb.org/sites/default/files/publication/471496/ewp-566-impact-trade-conflict-asia.pdf>

**Figure 5.** China's export to ASEAN countries from 2001 to 2018 (thous. US dollars).



**Source:** Compiled by the authors upon Unctad Statistical Review China  
<http://www.stats.gov.cn/tjsj/nds/2019/indexeh.htm> [accessed 20.05.2020].

**Figure 6.** China's import from ASEAN countries from 2001 to 2018 (thous. US dollars).



**Source:** Compiled by the authors upon Unctad Statistical Review China  
<http://www.stats.gov.cn/tjsj/nds/2019/indexeh.htm> [accessed 20.05.2020].

In addition, CICPEC can help to solve the problem of financing ASEAN projects. According to the ADB, in the period from 2016 to 2030, Southeast Asia will need 2.8-3.1 trillion us dollars for the construction of infrastructure facilities. In other words, the region will need 184-210 billion us dollars annually. However, the ASEAN infrastructure Fund can only provide about \$ 485 million. This lack of funding is due to the slow commissioning of such transnational projects as the construction of the TRANS-ASEAN gas pipeline and the establishment of the ASEAN Power Grid (Kaewkamol Pitakdumrongkit, 2019).

Since CICPEC is aimed at strengthening the interaction between China and Southeast Asia, it will therefore contribute to the growth of the flow of mutual foreign direct investment (FDI), the development of transnational production networks and the expansion of trade. Initial construction projects, underwritten at first by soft loans, in time also provide opportunities for all Chinese firms to learn more about foreign markets and develop networks (with local firms and politicians) and thus lead to new market opportunities (Sutherland *et al.*, 2020). Analysis by the ASEAN+3 Macroeconomic research office demonstrated that Chinese FDI to ASEAN and ASEAN FDI to China will grow to approximately us \$ 500 billion and

us \$ 200 billion, respectively, by 2035. It is also expected that it will increase the volume of trade turnover between the countries: it is expected that by 2035, China will account for 22 % of total ASEAN trade, and accordingly, the share of ASEAN in the structure of China's trade will grow to 16%<sup>12</sup>. Given that trade and investment between China and ASEAN will evolve far in the region, the launch corridor CICPEC will strengthen these trends.

Studying the projects of ASEAN countries, it is clear that CICPEC is clearly beneficial for them. Lyapina, I. indicated in her work institutional effects in development of regional innovational infrastructure (Lyapina, I. at al., 2019). For example, infrastructure projects may allow Laos to access the sea, eventually transforming it from a land-locked state to a state with access to the coast due the development of transport infrastructure. To develop this idea, the China-Laos railway network could be expanded to connect to Thailand's Nong Khai province and the Map Ta Phut seaport as well as to connect the Northern region of Laos with the electric grids<sup>13</sup>.

Chinese firms such as Alliance Steel and Huawei Technologies have moved their manufacturing facilities out of China to the Kuantan Industrial Park (MCKIP) in Pahang, Malaysia, thereby concentrating their direct investment there. According to some Malaysian authorities, this industrial Park has created about 19,000 jobs and will further attract us \$ 7.3 billion in investment<sup>14</sup>. The Melaka Gateway Project will also attract additional Chinese investment, boosting employment and economic growth in Malaysia. Seeing the potential benefits of participating in CICPEC, Bangkok plans to link it with other countries around the world (Kaewkamol Pitakdumrongkit, 2019). The Eastern economic corridor is a special economic zone for high-tech industries such as smart electronics, robotics and aviation with the potential to attract \$ 50 billion in investment to the Thai economy<sup>15</sup>. Figure 7 illustrates the largest BRI Projects by estimated cost under CICPEC.

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<sup>12</sup>Poonpatpibul, Chaipat, Li, Wenlong, Foo, Suan Yong, Xinyi, Simon Liu, Tang, Xinke, and Tanyasorn Ekapirak, 2018. "China's Reform and Opening-Up: Experiences, Prospects, and Implications for ASEAN", Working Paper, WP/18-03, ASEAN+3 Macroeconomic Research Office (AMRO), October.

<sup>13</sup>Business Times, 2018. "A Primer on China's Belt and Road Initiative Plans in Southeast Asia", 2 April.

<sup>14</sup>Aziz, Mohamad Azim Fitri Abd, 2018. "Opposition creates hate sentiment against BN with MCKIP", The New Strait Times, 30 April.

<sup>15</sup>Pongsudhirak, Thitinan, 2018. "China's Belt & Road impact on Thailand", Bangkok Post, 28 September; <https://www.prnewswire.com/news-releases/thailand-targets-to-connect-belt-and-road-initiative-and-ee-c-to-boost-investment-opportunities-in-asean-300702545.html>, on 22 March 2020.

**Figure 7. Largest BRI Projects by Estimated Cost under CICPEC.**



**Source:** Compiled by the authors upon <https://www.railway-technology.com/projects/east-coast-rail-link-ecrl-project/>, <https://melakagateway.com/introduction/>, <https://www.travelchinaguide.com/china-trains/laos/>, <https://www.railway-technology.com/news/srt-plans-to-postpone-signing-of-bangkok-nakhon-ratchasima-rail-deal/>, <https://reconnectingasia.csis.org/database/projects/preah-vihear-kaoh-kong-railway/30f0e054-f63c-404a-9fdf-773e87a8c6e5/>.

If all these designed projects will be completed a new reality will be created in the region. Southeast Asia might be turned into an area of China's economy proliferation linked to Beijing through capital and investment flows, goods and services flows, and infrastructure and innovation projects. But from the other hand Southeast Asian countries will increase the level of its economics, urbanization, living standards will be improved, that will led to social stability in the region.

Table 2 presents the information about dynamics of direct investment shares from China to the ASEAN countries. Objectives of real estate used to be among the main China's investment interest. In 2018 the priory changed for the sphere wholesale and retail trade. Construction concentrated as well Chinese funds. Less investment attention is paid to activities for the provision of services, financial and insurance activities and electricity and gas supply. But such field as professional, scientific and technical activities were firstly introduced as China's investment interest.

**Table 2. Dynamics of direct investment shares from China to the ASEAN countries (millions of US dollars).**

	2012		2015		2018
Activities in the field of real estate	1 907	Activities in the field of real estate	2 006	Wholesale and retail trade	3 604
Transportation and storage	1 715	Financial and insurance activities	1 801	Activities in the field of real estate	2 690
Activities for the provision of services	1 472	Production	742	Production	1 700
Wholesale and retail trade	1 319	Electricity and gas supply	554	Construction	950
Financial and insurance activities	524	Wholesale and retail trade	372	Financial and insurance activities	431
Undisclosed activity	481	Activities for the provision of services	293	Electricity and gas supply	283

Extraction of minerals	285	Extraction of minerals	275	Activities for the provision of services	268
Construction	268	Transportation and storage	170	Agricultural industry	211
Agricultural industry	59	Undisclosed activity	111	Food supply (non-Agricultural industry)	89
Information and communication	42	Construction	72	Professional, scientific and technical activities	82

**Source:** Compiled by the authors upon ASEAN-Stat <https://data.aseanstats.org/>.

It means that process of digitalization is under consideration upon BRI. China intends to create the “Digital Silk Road” and to integrate such digital sectors like telecommunications, Internet of Things, and e-commerce, media. The joint communique from the 2017 Belt and Road Forum spoke of “strengthening cooperation on innovation, by supporting innovation action plans for e-commerce, digital economy, smart cities and science and technology parks”.<sup>16</sup>

Chinese e-commerce giants like Alibaba and JD.com have linked their global expansion to BRI, identifying countries along the Belt and Road as among the most important markets for their expansion plans<sup>17</sup>. Alibaba has gone a step further, partnering with regional governments to facilitate crossborder e-commerce for small and medium-sized enterprises. It launched the world’s first digital free-trade zone in Malaysia in November 2017, followed by a second one in Thailand in April 2018<sup>18</sup>. The digital free-trade zones provide a one-stop shop for small- and medium-sized enterprises to access foreign buyers and suppliers, logistics services, customs clearance, trade finance, and payment platforms. The Chinese and Filipino governments have partnered to create a new smart “city within a city” called the New Manila Bay City of Pearl<sup>19</sup>. Alibaba and Malaysia signed a deal in January 2018 to deploy its smart city platform City Brain in Kuala Lumpur; the platform leverages big data collection and processing capabilities, cloud computing, and artificial intelligence to improve traffic operations and emergency services response. On the whole, while the BRI is expected to yield positive benefit to China and Asia, there are risks and challenges to be watched closely.

<sup>16</sup>Xinhua, “Full Text: Joint Communique of Leaders Roundtable of Belt and Road Forum,” May 15, 2017. [http://www.xinhuanet.com/english/2017-05/15/c\\_136286378.htm](http://www.xinhuanet.com/english/2017-05/15/c_136286378.htm)

<sup>17</sup>Celia Chen, “Who Is Richard Liu? Chinese Billionaire Seeks to Raise Profile as JD.com Expands outside China,” *South China Morning Post*, January 26, 2018; Rachel Brown, “Beijing’s Silk Road Goes Digital,” *Council on Foreign Relations*, June 6, 2017.

<sup>18</sup>Alex Capri, “China’s Major Tech Firms Will Dominate Southeast Asia’s Emerging Markets: Who Wins and Who Loses?” *Forbes*, May 3, 2018 Alibaba Group, “Alibaba Turns eWTP into Reality with Creation of First Overseas E-Hub,” March 22, 2017.

<sup>19</sup>HSBC, “Smart Cities Are Taking over, and over 50 Percent of Them Are in China,” *CNBC*, March 29, 2018; April Espejo, “City of Pearl: China Builds Massive Belt and Road Metropolis in the Philippines,” *CGTN*, September 18, 2017; Pamela Ambler, “Rising Tide: Small Businesses May Profit Most from China’s Belt and Road Projects,” *Forbes*, September 12, 2017.

First, given the scale of China's lending to Belt and Road countries for infrastructure projects, financial risk could increase if projects are not well conceived or thoroughly planned. (Sarah, 2017). Then authorities in Laos, Cambodia and several other countries have pointed to environmental damage and droughts caused by Chinese hydropower projects along the Mekong river. As well as Myanmar authorities are concerned about the total deforestation and are trying to change the conditions for the construction of the port for \$ 10 billion. Last November, Nepal suspended plans for China to build two dams for hydroelectric power plants (Lebedeva N.B. 2019). Distributional effects of foreign direct investment on poverty in Vietnam is under concern as well (Ngo, 2019).

Southeast Asian countries are increasingly concerned about Beijing's ability through BRI projects to create debt trap problems for them in developing Asia. This perception was revealed in a 2019 survey by ISEAS, which revealed that 70% of ASEAN respondents agreed that their governments should be careful when making deals with Beijing in order to avoid falling into the trap of unsustainable debt<sup>20</sup>. This anxiety about the BRI has increased as ASEAN politicians have watched the situation unfold in Sri Lanka and Laos. Significantly, so as to avoid defaulting on its loans, the Sri Lankan government granted a 99-year lease to the port of Hambantota (a project funded by Chinese loans) to Beijing at the end of 2017. As a result, the Chinese state-owned enterprise such as Merchants Port Holdings will control this port (Kaewkamol Pitakdumrongkit, 2019).

To sum up, these cases have demonstrated that BRI participants can not only become debtor countries, but also lose sovereign control over their territory. Sri Lanka's debt burden forced its government to surrender control of its own seaport for 99 years while a land concession in Laos indicated Beijing's Ability to dictate certain BRI terms in its favor. In Table 3 SWOT-analysis is given for BRI implementation, which summarizes its strong and weak points, opportunities and threats.

**Table 3.** *SWOT- analysis for BRI implementation.*

<b>STRONG POINTS</b>	<b>WEAK POINTS</b>
1. Territory closeness (neighbors)	1. High interest rates on China's credits to ASEAN countries
2. Close political and social ties	2. Long negation processes on possible contracture objects
3. Mutual interests for the region development	3. Lack of trust to China's BRI
4. Sufficient financing	4. Low economic, political and social development of some ASEAN countries
5. Developed trade agreements	
6. Developed investment links: some infrastructure objects have already been constructed	
7. Cheap human resources for China's projects	
8. Jobs creation for ASEAN people	
9. Mutual free trade zones	

<sup>20</sup>Tang Siew Mun, Moe Thuzar, Hoang Thi Ha, Termsak Chalempalanupap, and Pham Thi Phuong Thao, 2019. "Survey Report State of Southeast Asia: 2019", in *ASEAN Focus, Issue 1/2019, Institute of Southeast Asian Studies, Singapore, January, p. 11.*

<b>OPPORTUNITIES</b>	<b>THREATS</b>
1. Economic rise for some ASEAN countries due to improved infrastructure facilities in the region	1. Possibility not to return investment funds back (Risk for China)
2. Standard of living in ASEAN countries will improve so they will buy more China goods	2. Less investment profitability in comparison with the other BRI projects
3. US-China trade wars might have a positive effect on strengthening links between China and ASEAN	3. Debt-threat for ASEAN nations which can lead to political dependence and lost sovereignty
4. Through developed Railway infrastructure China will have the access to South China Sea	4. World Crisis

*Source: Compiled by the authors.*

## 5. Conclusion

China-ASEAN partnership is considered to be important, substantial and beneficial. It has become a driving force for economic development, cooperation and stability in East Asia (Huang, 2019). Economic landscape of the region is flourishing due to increased trade volumes and investments. Both China and ASEAN countries gain benefits from BRI.

Nevertheless, there are some drawbacks. Critics often claim that China is using its massive Belt and Road Initiative as a form of "debt-trap diplomacy" to exert control over the countries that join the transnational infrastructure investment scheme. However, in fact, BRI may hold a different kind of risk - for China itself. At the recent BRI summit in Beijing, Chinese President Xi Jinping seemed to acknowledge the 'debt-trap' criticism. In his address, Xi said that 'building high-quality, sustainable, risk-resistant, reasonably priced, and inclusive infrastructure will help countries to utilize fully their resource endowments.' This is an encouraging signal, as it shows that China has become more aware of the debt implications of BRI. A study by the U.S.-based Center for Global Development concluded that eight of the 63 countries participating in the BRI are at risk of 'debt distress'. But as John Maynard Keynes memorably put it, "If you owe your bank a hundred pounds, you have a problem. But if you owe your bank a million pounds, it has." In the context of the BRI, China may turn out to be the banker who is owed a million pounds (Huang, 2019).

Unsurprisingly, some BRI partner countries are now demanding to renegotiate terms, and typically after the projects have started. China may be forced to offer ever more favorable concessions to keep the projects on track. In mid-April, for example, Malaysia announced that a major BRI rail project, put on hold by the government after last year's election, would now go ahead "after renegotiation." According to media reports, the costs of construction were reduced by as much as one third. Other BRI countries will probably also ask for debt forgiveness and write-offs, the costs of which will ultimately be borne by Chinese savers.



Nevertheless, China remains the main trade partner for some ASEAN nations so they have less possibilities to stand up China. It is confirmed by the policy of Philippines' President who in order not to escalate contradictions with China distances his external policy as much as possible from the United States. At the same time some experts noted, that China's purely economic benefit from trade relations with the ASEAN countries used to be not so great. China for quite a long time maintained a trade deficit with them (Dikarev, 2018). This is approach can be explained by not only economic, but also political priorities. Therefore, the standards of the Belt and Road Initiative are not about dependence, but about "win-win" position for all the participants.

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