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China's Two Silk Roads: Implications for Southeast Asia (Amended Version)

*By David Arase**

EXECUTIVE SUMMARY

- President Xi Jinping has announced initiatives that aim to restructure the Eurasian economy and geo-politics: the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The idea is to build a comprehensive trans-Eurasian network of economic connectivity that will help sustain China's growth momentum for decades ahead and draw the countries of Eurasia into the economic and geopolitical gravitational field of China.
- For Southeast Asia, which is part of this grand scheme, China has seven partnership initiatives based on its principles of mutual security and economic cooperation that, when implemented, will tie Southeast Asia more closely to China. Guangxi and Yunnan provinces will serve as the regional hubs for its Silk Roads in Southeast Asia.
- Through the implementation of its geo-economic and geo-political agenda China expects all surrounding Asian neighbors to join it in a "community of common destiny" in which they will have an asymmetric dependence on China, given that China will have much superior economic and military clout vis-à-vis each of them. If

fully successful the end result will be “the great rejuvenation of the Chinese nation” and the rebirth of a China-centred Asia.

- This approach to regional integration differs from ASEAN-style or EU-style regionalism. China promises prosperity in association with China’s continuing growth and development. But it will be a core-to-periphery structure of connectivity, regional decision-making and membership status, a sort of hub (Beijing) and spokes (other countries) arrangement. Three aspects of this regionalism merit attention, in view of China’s views on reciprocity, the inviolability of its core interests, and its refusal to settle disputes through international arbitration.
- First, the practice of reciprocity and “win-win” relationships between the core and the periphery: if others respect China, China will reciprocate with material benefits; but if others do not offer proper respect, China will find ways to punish them.
- Second, China will be prepared to use force to protect its core interests, including its territorial sovereignty, which is likely to include its territorial claims.
- Third, since China will not go to international tribunals to resolve sovereignty disputes, the question arises whether international law will have any role when China’s interests collide with those of its neighbours, and, if it does, who will adjudicate and apply international law if China will not let international tribunals to do so.
- Thus the smaller countries around China will likely face China’s power and authority without the protection of the full range of international legal norms and institutions when they have a dispute with China. They will need to accommodate themselves to the values and interests of China to avoid the loss of rights and privileges in the Community of Common Destiny.

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INTRODUCTION

In December 2014, Chinese Premier Li Keqiang attended a Shanghai Cooperation Organization meeting of prime ministers in Kazakhstan. He traveled on and met 16 other government heads at the third China-Central and Eastern European Leaders' Meeting in Serbia where he advertised a US\$10 billion Chinese credit line for infrastructure development, a US\$3 billion Chinese equity investment fund, and a deal to build a new railway link from Budapest through Belgrade and Skopje to the Greek port of Piraeus on the Mediterranean Sea. Li Keqiang then departed for Thailand where he signed a US\$ 10.6 billion financing deal to build the Thai segment of a railway that will connect Bangkok to China, and he pledged US\$3 billion at the Greater Mekong Subregion Economic Cooperation summit to finance infrastructure connectivity, Chinese machinery exports, and poverty reduction efforts.

The connection between these far-flung destinations is China's two Silk Road initiatives. Xi Jinping announced the Silk Road Economic Belt initiative during his tour of Central Asia in September 2013. This envisions efficient, high volume land connectivity between China and Europe—with links to all major sub-regions along the way. He announced the 21st Century Maritime Silk Road initiative during his visit to Indonesia in October 2013. This envisions Chinese participation in the development of major ports on the Eurasian rim between China and the Mediterranean Sea in order to promote maritime connectivity. China refers to this pair of initiatives as “One Belt, One Road” (*yidai-yilu*). Together, the two Silk Roads constitute a grand vision of Eurasian integration under China's leadership.

THE TWO SILK ROADS

This vision is inspired by China's rise to great power status and the transition back to structural bipolarity in the international system. China's neighbours are becoming ever more dependent on it for money, finance, and trade, while the rest of the world looks to Beijing to drive global economic growth. Judging from his speeches at Chinese Communist Party central leadership meetings and at international summits, Chinese President Xi Jinping is implementing an ambitious geo-strategic vision of a China-centric order in Asia and the long-term integration of Eurasia to serve China's growth and development needs. The two Silk Roads should be seen as a serious bid to realize a 21st Century “great rejuvenation of the Chinese nation” that will match the ancient glory of the Han and Tang Dynasties.

It should be noted that this strategic agenda is a work in progress rather than a pre-conceived master plan. That is, as previous Chinese leaders have done, Xi Jinping is providing a grand vision or agenda for China. The Chinese Communist Party and government must work to realize this agenda to the best of their ability. So, for the rest of Xi Jinping's years in power—expected to last until 2022—we will hear about the two Silk Roads at every meeting that Xi Jinping or Li Keqiang attends in Europe, Africa, the Middle East, and Asia.

Chinese-style Economic Integration

The West's approach to regional integration (e.g., NAFTA and the EU) is economic liberalization. It uses multilateral treaties to remove legal and institutional barriers to trade and investment, and to create legally binding rules, standards, and dispute resolution mechanisms to create a flat open space for private sector actors. In contrast, China's approach to regional integration centres on economic facilitation. This means boosting trade and investment by improving connectivity between markets by, for example, building more efficient transportation linkages, providing more trade and investment finance, and multiplying human exchange opportunities. China's aim is to create transcontinental economic corridors that radiate across the Eurasian landmass (the Silk Road Economic Belt) and along the maritime rim of Eurasia (the 21st Century Maritime Silk Road). The result will be to channel economic flows to or from China.

The infrastructure that constitutes the two Silk Roads is both hard and soft. Hard infrastructure is the steel, concrete, and machinery that goes into building railways, highways, ports, energy pipelines, industrial parks, border customs facilities, and special trade zones. Soft infrastructure refers to development finance institutions, international trade and investment agreements, multilateral cooperation forums, academic research, cultural exchange, tourism, etc., that constitute the social foundation for trade and investment flows.

Advancement of this agenda does not require China to manage multilateral treaty negotiations or create supranational bureaucratic organizations. It merely requires China to supply leadership in the form of initiating discussion, advancing cooperation proposals, lowering information and transaction costs for cooperation partners, and providing them with material incentives such as new infrastructure, credit, investment, and trade opportunities. Other things being equal, this should induce others to voluntarily cooperate with China's Eurasian integration project.

Benefits to China

China has a number of reasons to invest in the two Silk Roads. It has become a net importer of energy, industrial commodities, and food so it needs to secure access to new sources. China can now export higher value-added goods and services, including electronic parts, consumer durables, heavy equipment, and construction and engineering services, but it still lacks access to export markets.

Growing doubts about the US dollar motivate China to diversify the investment of its US\$3.9 trillion in foreign exchange reserves, and to plan for the internationalization of the RMB. So investment of foreign exchange reserves in overseas economic projects and productive assets is worth considering, and economic cooperation allows the promotion of RMB trade invoicing, trade settlement, and project financing across Eurasia.

The fact that the marginal productivity of domestic investment has fallen so low (in the macro-economy it now takes RMB5.0 of investment to produce RMB1.0 of GDP growth), may also make investment overseas more attractive.

China has struggled to promote development in its poor inland border provinces. As new, outward-looking gateways for Eurasian trade, these provinces have a chance at prosperity and a better quality of life.

The key border provinces are: Jilin Province facing the Japan Sea sub-region of Northeast Asia; Guangxi Province (working with Hainan and Guangdong) facing maritime Southeast Asia; Yunnan facing the Mekong River Subregion and the Bay of Bengal rim of the Indian Ocean; and Xinjiang facing Central Asia with onward linkages to the Caspian Sea region, the Arabian Sea region, the Black Sea region, the Mediterranean Sea region, and Eastern and Northern Europe. Each of these Chinese gateway provinces has begun hosting an annual international Expo and a wide range of other regular events to develop trade and investment with foreign partners.

THE SILK ROADS AGENDA IN SOUTHEAST ASIA

At the 2013 China-ASEAN summit, Premier Li Keqiang introduced China's 2 + 7 Initiative. China's two fundamental principles of engagement with ASEAN are mutual security and economic cooperation. Based on these principles, China proposes seven ideas: a new China-ASEAN treaty of good neighbourliness and cooperation; an annual China-ASEAN defense minister meeting; a goal of \$1 trillion in trade by 2020; the Asian Infrastructure Investment Bank; more reliance on the RMB in central bank reserves, trade invoicing, and bank finance; maritime cooperation in the South China Sea; and cultural exchange. This framework strengthens Chinese influence over Southeast Asia.

On his trip to Malaysia and Indonesia in October 2013, Xi Jinping announced the 21st Century Maritime Silk Road initiative. Though the nearest target is maritime Southeast Asia, the agenda of expanding port access to support maritime trade extends across the Indian Ocean to the Persian Gulf, East Africa, and through the Red Sea into the Mediterranean.

Guangxi as a Maritime Silk Road Hub

In geo-economic terms Guangxi has a 637 km land border with Vietnam and has three deep seaports on the South China Sea that can be a main terminus for the Maritime Silk Road. Together with Hainan and Guangdong provinces, Guangxi supports the Pan-Beibu Gulf Economic Cooperation Forum and it hosts the annual China-ASEAN Expo in Nanning. Guangxi's main cooperation partners are Vietnam, Malaysia, Singapore, the Philippines, Indonesia and Brunei. Talk of a high-speed railway from Guangxi along the Vietnam coastline leading all the way to Singapore is eye-catching, but the Maritime Silk Road focus

is overseas port development and operation by Chinese firms to manage maritime trade with Southeast Asia.

Yunnan as a Silk Road Hub

Landlocked Yunnan has always been a remote and backward border province, but the Silk Road Economic Belt agenda now turns it into China's "strategic bridgehead" into Indochina. It borders on Vietnam, Laos, and Myanmar, and the province is a member of the Greater Mekong Subregion (GMS) Economic Cooperation Program. The GMS programme brings Yunnan into cooperation with Myanmar, Thailand, Vietnam, Laos, and Cambodia to manage a variety of Mekong River watershed issues. Kunming, the capital of Yunnan, is the hub of land transport corridors. An all-weather highway leads to Bangkok, and another leads to Hanoi. Planned electrified railways will link Kunming to Vientiane, Bangkok, Hanoi, Ho Chi Minh City, Kuala Lumpur, and Singapore.

Yunnan also serves as China's bridgehead to the Bay of Bengal and the wider Indian Ocean region. Myanmar is an indispensable partner in this plan. A high-speed rail link between Yunnan and Yangon is planned. More land corridors will link Kunming to Kyaukpyu on Myanmar's coastline. Kyaukpyu is a deep-sea port developed by Chinese firms. Oil and gas pipelines from Kyaukpyu to Kunming are roughly 1000 km long and can carry more than 22 million tons of oil and more than 420 billion cubic feet of natural gas per year. The pipelines bring China energy from the Middle East and Africa that bypasses the long route through the Malacca Strait and South China Sea. In addition, an 868-kilometre railway is to be built between Kunming and Kyaukpyu, as well as a highway.

Yunnan is looking beyond Myanmar to link up with Bangladesh and India. Planning to implement the Bangladesh-China-India-Myanmar Economic Corridor began in December 2013. The core element is a 2,800 km highway linking Kunming to Kolkata in India. Special customs, trade, and industrial zones along the route are intended to develop industry and build supply chains across China, Myanmar, Bangladesh, and India. The ASEAN Free Trade Area, the ASEAN-China Free Trade Area, and the ASEAN-India Free Trade Area agreements, as well as India's own Bay of Bengal initiatives, have created a low tariff environment for the BCIM corridor. This paves the way for, and will leverage the benefits of, Chinese investment in better connectivity.

FINANCING THE GEOSTRATEGIC AGENDA

China's banking system and international financial flows remain under state control, and the national savings rate is around 40 percent of GDP. China runs a chronic current account surplus at around two percent of GDP. China's foreign exchange reserves have grown to US\$3.9 trillion, and there is a desire to invest it in more than just US Treasury bills.

China's Reform and Development Council is considering investing as much as \$800 billion over the next ten years in the two Silk Roads. This seems doable. In 2014, Premier Li Keqiang committed at least US\$94 billion in new government financing to specific projects and programmes at leadership meetings in Silk Road countries.¹ In addition, in October 2014, 21 Asian countries signed an MOU establishing the US\$100 billion Asian Infrastructure Investment Bank. And at the November 2014 APEC summit, President Xi announced a \$40 billion Silk Road Fund.

This tide of state-guided overseas capital investment began at the end of the 1990s when China articulated the “going out” policy. The idea was to channel domestic savings abroad to secure energy and raw materials.² As noted above, reasons to invest China's capital surplus overseas have only multiplied in recent years.

The result is a new era of Chinese “South-South cooperation,” which means that, China gives economic aid to meet China's own development needs while also serving the development needs of recipients. This “win-win” economic cooperation formula fits the two Silk Roads because countries along the routes tend to be developing countries that lack good infrastructure. The Asian Development Bank has estimated that developing Asia will need \$8 trillion in infrastructure development from 2010-2020 just to keep up with anticipated demand. Economic infrastructure is not a high priority among Western aid donors, and so China has found a special role to play in shaping the economic integration of Eurasia.

THE COMMUNITY OF COMMON DESTINY

The difference in economic scale between China and its neighbors creates asymmetric interdependence that favours China. And military superiority gives China additional leverage over neighbours. Now that China feels its status as a great power, Beijing is laying out a vision of regional order that fits its unique set of values and interests.

The Asian sub-regions surrounding China feel its gravitational pull most of all. China wants to dominate this near abroad not only to feel more secure, but also to fulfill the China Dream of a restored Sino-centric Asian order. Xi Jinping chose the term “Community of Common Destiny” (命运共同体—*mingyun gongtongti*) during his October 2013 tour of ASEAN members to express a vision of China-centred regional community.³ At the Chinese Communist Party Central Leadership Work Forum on Diplomacy Toward the Periphery held

¹ “The Chinese Premier's US\$140 billion trips abroad,” *China Development Gateway*, December 26, 2014. http://en.chinagate.cn/2014-12/26/content_34416924.htm

² Charles Wolf, Jr., Xiao Wang, and Eric Warner, *China's foreign aid and government-sponsored investment activities: Scale, content, destinations, and implications* (Santa Monica, CA: RAND National Defense Research Institute, 2013).

http://www.rand.org/content/dam/rand/pubs/research_reports/RR100/RR118/RAND_RR118.pdf

³ “China vows to build community of common destiny with ASEAN,” *Xinhua*, October 3, 2013, <http://news.xinhuanet.com/english/china/2013-10/03/c_132770494.htm>, accessed March 21, 2014.

on October 23-24, 2013, Xi explained that neighbours must link their economic future to China's rise. He then laid out the following framework:

- The use of China's advantages in economy, trade, technology and finance to build "win-win" cooperation with neighbours;
- Construction of the two Silk Roads;
- Trade and investment to create a new kind of regional economic integration;
- An Asian Infrastructure Investment Bank, internationalizing the use of the RMB, and regional financial stability;
- Using Chinese border areas as gateways to neighbouring countries;
- A new concept of security, based on mutual trust, reciprocity, equality, and coordination through enhanced cooperation mechanisms;
- Public diplomacy and people-to-people exchanges including tourism, technology, education, and provincial level cooperation.⁴

This approach to regional integration is different from ASEAN-style regionalism in important respects. China promises prosperity in association with its own continuing growth and development. But the core-periphery structure of connectivity, regional decision-making, and membership status differs from the kind of multilateralism that ASEAN has entertained. Based on key principles enunciated by China, we might infer the following points.

First, there is the practice of reciprocity in China's bilateral diplomacy. In China's view, if others respect China, this respect will be paid back. But if others do not respect China, China will find ways to punish them. The Philippines, Vietnam, and Japan disagreed with Chinese interpretations of history and territorial claims, and have suffered various forms of Chinese punishment such as reduced market access and diplomatic exclusion.

⁴“Xi Jinping: Let the Sense of Community of Common Destiny Take Deep Root in Neighbouring Countries,” Ministry of Foreign Affairs of the People's Republic of China, October 25, 2013. http://www.fmprc.gov.cn/mfa_chn/zyxw_602251/t1093113.shtml; This agenda was reaffirmed in a broader and more confident vision of Chinese great power leadership at a Central Work Meeting on Foreign Affairs in November 2014. See 习近平出席中央外事工作会议并发表重要发表 (“Xi Jinping attends the Central Work Meeting on Foreign Affairs to make an important speech,”) *Xinhua Online*, November 29, 2014. http://news.xinhuanet.com/politics/2014-11/29/c_1113457723.htm

Second, “the principled bottom line” (原则底线 *yuanze dixian*) corollary in China’s peaceful development means that China will fight before it sacrifices its “core interests.”⁵ These include Chinese Communist Party and government rule in China; the sovereignty and territorial integrity of the Chinese state; and the continuing stability and development of China’s economy.⁶ In other words, China reserves the right to use force if anyone denies Chinese territorial claims or other core interests.

Finally, in the name of sovereignty, China will not turn to international tribunals to resolve sovereignty disputes. It will instead make up its own mind over the justice of competing claims, and how to resolve them. In explaining China’s concept of the international rule of law, Foreign Minister Wang Yi stated: “Such principles as respect for sovereignty and territorial integrity, peaceful settlement of international disputes and non-interference in the internal affairs of others, as enshrined in the UN Charter, are the foundation stones upon which modern international law and conduct of international relations are built.”⁷ This definition avoids key norms such as state accountability to law, respect for human rights, and the resort to independent adjudication of disputes.⁸ With respect to international judicial institutions, Wang Yi warned: “[they] should avoid overstepping their authority... Still less should they encroach on the rights and interests of other countries under the pretext of ‘the rule of law’ in total disregard of objectivity and fairness.” This begs the question, who will apply international law with objectivity and fairness when China’s interests conflict with those of its neighbours?

The implication of reciprocity in Chinese bilateral diplomacy, the principled bottom line, and China’s insistence on the sovereign interpretation of rights beyond the reach of international

⁵ “Xi Jinping Explains the Principled Bottom Line in China's Peaceful Development,” *Xinhua Online*, January 30, 2013 (习近平阐明中国和平发展原则底线，新华网，2013年01月30日。
<http://www.chinanews.com/gn/2013/01-31/4535125.shtml>

Timothy Heath, “Diplomacy Work Forum: Xi Steps Up Efforts to Shape a China-Centered Regional Order,” *China Brief*, vol. 13, issue 22 (November 7, 2013).

[http://www.jamestown.org/single/?tx_ttnews\[tt_news\]=41594&no_cache=1#.VJGRfqbdVRA](http://www.jamestown.org/single/?tx_ttnews[tt_news]=41594&no_cache=1#.VJGRfqbdVRA)

⁶ In 2009, speaking at the US-China Strategic and Economic Dialogue, State Councilor Dai Bingguo defined China's core interests in the following way: 中国的核心利益第一是维护基本制度和国家安全，其次是国家主权和领土完整，第三是经济社会的持续稳定发展。[首轮中美经济对话:除上月球外主要问题均已谈及, 中国新闻网, 2009年07月29日 09:29 (“First Round of the US-China Economic Dialogue: Other Important Issues Discussed Besides the Moon,” *China News Online*, July 29, 2009, 9:29am]. <http://www.chinanews.com.cn/gn/news/2009/07-29/1794984.shtml>

⁷ “Full text of Chinese FM's signed article on int'l rule of law,” *Xinhua*, October 24, 2014.
<http://en.people.cn/n/2014/1024/c90883-8799769-2.html>

⁸ The UN's definition of the international rule of law starts off this way: “a principle of governance in which all persons, institutions and entities, public and private, *including the State itself*, are accountable to laws that are publicly promulgated, equally enforced and *independently adjudicated*, and which are consistent with *international human rights norms and standards...*” (italics added). “What is the rule of law?” United Nations Rule of Law website.
http://www.unrol.org/article.aspx?article_id=3

jurisdiction is that smaller countries will face China's power and authority without the protection of the full range of international legal norms and institutions when disputing China. They will need to accommodate themselves to the values and interests of China in order to avoid the loss of rights and privileges in the community of common destiny.

THE NEW (EUR) ASIAN SECURITY CONCEPT

On May 21, 2014, Xi Jinping proposed the New Asian Security Concept to the 26 member states of the Conference on Interaction and Confidence Building Measures in Asia (CICA). In a clear challenge to the global strategic role of the US, he asked CICA members to reject Cold War era military alliances as the basis of regional security, and asserted that, "it is for the people of Asia to run the affairs of Asia, solve the problems of Asia, and uphold the security of Asia."⁹ Instead of regional stability resting on US security alliance guarantees, Xi proposed development as the new foundation of Asian security, saying, "for most Asian countries, development means the greatest security and the master key to regional security issues."

The scope of security would include both traditional and non-traditional security, as well as economic development, but would not include military alliances. The geographic scope of the proposed security sphere is actually Eurasian because the CICA membership includes Russia, Kazakhstan, India, Iran, Iraq, and Turkey, among others. China does not offer military alliances or security guarantees. Instead it offers to develop CICA into a multilateral forum to discuss economic and security relations. The notion is that economic interdependence brings peace, and there is a hint that China's neighbours would do better in the long run if they put aside any feelings of threat and insecurity caused by China's rise to benefit from close economic association with China.

Given the well-known weaknesses of informal multilateral cooperation forums, CICA will not give anyone a hard security guarantee, nor will it be the first place anyone in dire need will go to seek help. But for China the point would be to elevate itself to de facto leadership by defining the US and its traditional security role in Eurasia out of existence. China seeks leadership status in an informal Eurasian security community—without the entanglements of formal treaties, obligations to fully uphold the international rule of law, or US military alliances.

CONCLUSION

Beijing's Eurasian geo-strategic vision makes a great deal of sense for China if one assumes that its fast paced economic growth and development will be maintained. China will gain

⁹ "Statement by H.E. Mr. Xi Jinping" Conference on Interaction and Confidence Building Measures in Asia. May 21 2014: http://www.s-cica.org/page.php?page_id=711&lang=1

increasing economic, military, and political leverage over neighbours, which it can use to preside over an Asian sphere of influence and command the resources of Eurasia and neighbouring Africa. China's concept of regional community is simple and easy to manage—for China. It relies on Beijing's ability to finance the construction of trans-Eurasian economic corridors to facilitate its trade and investment, and to incentivize economic cooperation with China. It plays on China's geographical centrality, ability to export prodigious quantities of capital, prowess in engineering large-scale physical infrastructure projects, and capable diplomacy.

A quick look at what China has done so far shows that this approach is extending China's economic and strategic access both across and around the Eurasian land mass. The impact of this could be lasting, and will affect other ongoing efforts to build a new international order.

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