Connecting Chongqing and Southeast Asia: Progress, Potential and Challenges

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EXECUTIVE SUMMARY

- As the key venture under the Sino-Singapore (Chongqing) Strategic Connectivity Demonstration Project, the International Land-Sea Trade Corridor (ILSTC) has raised high expectations since it was officially proposed in 2017.

- The ILSTC has gotten off to a positive start, with an increase in connectivity to more localities in China as well as in the volume of freight transport.

- Beyond China, it has the potential to promote connectivity and development in Southeast Asia and beyond from its starting points of Chongqing and Singapore.

- However, the initiative faces a number of challenges such as the lack of external cooperation and regional coordination mechanisms, difficult terrain conditions, and limited operational capacity.

- This corridor’s commercial sustainability will depend on the efforts not only of officials in China and Singapore, but other stakeholders as well such as those from the private sector.

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INTRODUCTION

As the key venture under the Sino-Singapore (Chongqing) Strategic Connectivity Demonstration Project, the third government-to-government (G-to-G) cooperation project between China and Singapore, the International Land-Sea Trade Corridor (ILSTC, previously known as the Southern Transport Corridor), has raised high expectations since it was officially launched in September 2017. The corridor seeks to reduce transaction costs for businesses by providing them with connectivity options, including highway, river, railway, and air links, to promote cooperation in the priority sectors of financial services, aviation, logistics and transport, and ICT.

The ILSTC has made some progress over the last two years, with the two countries expanding the breadth and depth of their cooperation, including connecting more transportation lines and increasing the scale of freight transport. Official statistics show that as of 30 June 2020, the ILSTC has been extended to 234 ports in 92 countries and regions around the world, including Singapore. With a steady increase in the participation, the construction of the ILSTC appears to have gotten off to a good start, although there remain a number of key challenges.

EVOLUTION OF THE ILSTC

The development of the ILSTC has gone through three stages: the exploration and gestation of the Southern Transport Corridor concept (from 1992 to February 2017), the proposal and acceleration of the Southern Transport Corridor project (from February 2017 to November 2018), and its official renaming as the ILSTC in November 2018.

The Chinese central government first proposed the construction of a southwest channel to the sea in 1992, which laid the foundation for the construction of the Southern Transport Corridor. In the second stage, the Southern Transport Corridor project was formally proposed in February 2017 when China and Singapore met at their inaugural Joint Steering Council meeting on this third G-to-G project, led by then Vice Premier Zhang Gaoli of China and then Deputy Prime Minister Teo Chee Hean of Singapore. In June the same year, Singapore leaders reiterated their support for the Belt and Road initiative, and thereafter senior-level delegations from Singapore visited the relevant provinces and regions of China several times. With such a flurry of activities, the construction of the Southern Transport Corridor began to accelerate. Some Southeast Asian countries – such as Vietnam, Laos, Cambodia and Thailand – also expressed interest in being part of the Southern Transport Corridor. In the third stage, as the project gained momentum, the term ‘Southern Transport Corridor’ was regarded as no longer adequate to describe and guide the scope of cooperation between China and Southeast Asia. Hence, the term was broadened and accorded more importance on 13 November 2018 when Singapore’s Prime Minister Lee Hsien Loong and Chinese Premier Li Keqiang witnessed the signing of a memorandum of understanding on the New International Land-Sea Trade Corridor, or the ILSTC.

Taking Chongqing as its operational centre, with Guangxi, Guizhou, Gansu, Qinghai, Xinjiang, and other western provinces as its key nodes, the ILSTC promotes multimodal transport via railway, shipping, highway, and other means of transportation, reaching Southeast Asian countries such as Singapore through the coastal border ports in the Beibu
Gulf in Guangxi (see Figure 1). Through this network, the ILSTC would provide a strategic connection between the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The main logistic networks of the corridor include:

(1) International rail-sea intermodal transport: Chongqing plays an important role as the corridor’s operational centre and logistics hub. Relying on the railway trunk line, goods can be transported from Alashankou and Horgos to Chongqing, then through Yu-Qian (Chongqing to Guizhou), Qian-Gui (Guizhou to Guangxi) channel to Beibu Gulf on the coast, and then onward to Southeast Asian countries such as Singapore and other countries in the world via the shipping route.

(2) Cross-border highway transport: By relying on the highway trunk line, goods from mainland Southeast Asian countries such as Vietnam, Myanmar and Laos can reach Chongqing and other interior provinces via the key border ports of Pingxiang (in Guangxi), Mohan or Ruili (in Yunnan) in western China and vice versa.

(3) International rail transport: The railway network in southwest China connects to the Pan-Asian railway network, which is jointly built by China and Southeast Asian countries. This forms a southeast international railway intermodal network, with Chongqing as its hub and connecting to mainland Southeast Asia.

More specifically, the ILSTC focuses on building the western maritime-bound trunk line and cross-border outbound trunk line. The western maritime-bound trunk line mainly comprises the rail-sea multimodal network from Nanpeng (Chongqing) – Guiyang (Guizhou) – Qinzhou (Guangxi) to Singapore. The cross-border outbound trunk line comprises cross-border highway channels and international railway intermodal transport. There are three cross-border highway routes being planned: an east route from Nanpeng (Chongqing) to Pingxiang (Guangxi) to Hanoi (Vietnam); a middle route from Nanpeng (Chongqing) to Mohan (Yunnan), then from Mohan to Vientiane (Laos), then Bangkok
As of 13 October 2019, a total of 12 provinces and cities in the west (Chongqing, Guangxi, Guizhou, Gansu, Qinghai, Xinjiang, Yunnan, Ningxia, Shaanxi, Sichuan, Inner Mongolia, Tibet), and two in the east (Hainan Province and Zhanjiang, Guangdong Province), have signed framework agreements with Chongqing to build the ILSTC. This brings the number of participants in the ILSTC project to 14 provinces, autonomous regions, and municipalities in China. At the same time, Vietnam, Laos, Thailand, and other countries have become increasingly aware of the benefits of building a more direct trade corridor and having closer trade relations, and have gradually participated in the construction of the ILSTC. Since the start of official operations on 25 September 2017, the rail-sea intermodal trains of the ILSTC have been adjusted from a monthly shift to a daily shift, and newer customised shifts can be added according to demand. As of 30 June 2020, a total of 1,966 rail-sea intermodal trains have been in operation, and the ILSTC has been extended to 234 ports in 92 countries and regions.

PROMOTING CONNECTIVITY BETWEEN CHINA AND SOUTHEAST ASIA

Amidst the ongoing Sino-US trade war, the United States has promoted the return of its manufacturing industry while some Southeast Asian countries have become attractive locations for the relocation of certain industries from China. The ILSTC fulfils the common interests of China, Singapore, and other Southeast Asian countries by promoting
the connectivity and common development of western China and ASEAN countries through the hubs of Chongqing and Singapore. It does so in three ways:

Firstly, the ILSTC complements China’s push to ‘open up’. China's uneven or unbalanced ‘opening-up’ has often been described as “strong in the east and weak in the west, strong in the sea and weak in the border”. With the vigorous development of new industries on China’s east coast, a considerable number of manufacturing industries will need to be moved from its original coastal industrial zones to its western region, which is set to become an important base for future industries. In addition to fulfilling domestic demand, western China will also perform the more important function of producing goods for export. The ILSTC provides a more direct and efficient trade route from western China to Southeast Asia. The rail-sea intermodal transport through Guangxi, in particular, will reshape the traditional route that extends from the Yangtze River eastwards towards Shanghai, and from there further extending around half of China’s coastline to Southeast Asia. The traditional logistics pattern, with Shanghai as the dragonhead and western China (where Chongqing is located) as the tail, has been altered with western China now having a leading role to play. The more convenient modes of transportation and adjustment of trade routes brought about by the ILSTC will provide western China with new development opportunities.

Secondly, the ILSTC leverages Singapore’s strategic advantages and can provide new sources of growth for the country. Due to the slowing pace of global growth, Singapore's economic development appears to have gradually cooled since 2010. Continuous restructuring and upgrading are thus urgently needed to maintain stable economic growth. Singapore's involvement in the ILSTC would leverage its strategic advantages in re-export trade and services, consolidate its position as a global trading hub, promote economic upgrading and transformation, and explore new spaces for international trade.

Thirdly, the ILSTC fosters regional cooperation between China and ASEAN. The ILSTC is unique in that it is a cross-regional initiative jointly proposed by China and Singapore – countries which are not physically adjacent to each other. A project of this nature is not a traditional and direct form of bilateral cooperation, but a regional initiative that requires the support and coordination of several countries as well as several provinces and autonomous region in China. Singapore Prime Minister Lee Hsien Loong pointed out in April 2019 that the connectivity of the ILSTC includes not only logistics, but also financial services, information technology, and talent exchange. Through the Sino-Singapore (Chongqing) Strategic Connectivity Demonstration Project, Singapore and China can be seen as jointly providing a platform for the development of Southeast Asia. At the moment, there are great disparities in the level of development in the various Southeast Asian countries. The construction of the ILSTC will link China’s vast western inland areas with the dynamic Southeast Asian market, and help narrow the development gap within ASEAN as well as between the developed coastal provinces and less developed inland provinces in China. The ILSTC can also be regarded as part of existing efforts to improve connectivity between China and ASEAN, whether it is via rail-sea intermodal transport from Guangxi Beibu Gulf port to Southeast Asia, or the cross-border highway and railway transport from mainland Southeast Asia to Singapore.
CHALLENGES TO THE ILSTC

As the ILSTC continues to develop, issues such as adverse natural conditions, ineffective economic management, and the lack of regional coordination mechanisms are challenges that need to be overcome.

From China’s perspective, there is a need to set up a comprehensive and efficient inter-departmental and cross-provincial coordination mechanism to facilitate cooperation on the ILSTC within China. Decentralised implementation has resulted in duplicate construction and wastage of resources. For example, in western China, different provinces and localities have created multiple overlapping rail-sea transportation lines. Worse still, to entice businesses to use these transportation lines, the relevant authorities compete to offer subsidies to use these lines, often leading to intense price wars. For the land route from western China to Hai Phong Port in Vietnam, for instance, subsidised quotations can be as low as US$1,250 per TEU or even US$900 per TEU, when actual costs are around US$1,400 per TEU.29

This debilitating vying for users at such low prices not only leads to wastage of resources, but also confusion and doubt among businesses plying the route. More importantly, such price wars raise the question of sustainability – how long can local authorities afford to provide such subsidies? When these subsidies are no longer forthcoming, businesses may not find it attractive to use those routes. The commercial viability of such routes would then be affected, thus undermining the original purpose of the ILSTC of reducing the transaction costs for businesses.

From an international perspective, it is also necessary to establish a strong coordination and cooperation mechanism to support the ILSTC. Although China has signed strategic cooperation agreements with many relevant countries, the ILSTC involves numerous international and domestic sectors, including railways, maritime affairs, customs, commerce, diplomacy, and many other fields. China and the countries along the route need to carry out coordinated planning, and collectively resolve outstanding implementation issues. Such a system or mechanism is still lacking.

Improving the facilities along the ILSTC is also difficult, and efforts in this direction are constrained by natural conditions and factors. Since the ILSTC crosses different climates and natural zones, there have been difficulties in building new facilities or upgrading existing facilities. On one hand, China’s infrastructure is in need of improving. At present, the railway route linking Chongqing and Guangxi is of a low standard, and involves many detours. It is also a general line that operates both passenger and freight carriages with its inherent limitations.30 The speed along the route is about 80km/h, which is insufficient to meet the rapid growth of passengers and the ILSTC’s freight transportation demand. There is still potential to increase speeds to the maximum 120km/h. Furthermore, Qinzhou port, the main outlet port of the ILSTC, is only serviced by a limited number of maritime transportation routes, has comparatively high shipping costs, and lacks channel capacity, which often results in ‘blockages’. In addition, the ILSTC’s rail-sea intermodal trunk line passes through the Beibu Gulf area. The sea fog, accompanied by drizzles that occur in the area from December to April, affects stable operation of the rail-sea intermodal transport to a certain extent.
Connections between national highways and railways are also part of the ILSTC. However, the necessary infrastructure has not been repaired or even built in some countries, and effective docking cannot be achieved at all. Mainland Southeast Asia, for instance, is particularly susceptible to tropical monsoons. From May to October every year, the whole region enters the rainy season. Due to recent global extreme weather, devastating flood- and drought-related disasters are now occurring more frequently. These disasters paralyse road and railway transportation. In addition, the area spanning the corridor is mountainous and hilly, and the complex geomorphological conditions have increased the difficulty of corridor construction and daily maintenance. The ILSTC cross-border highway transportation centre line from Mohan (Yunnan) to Vientiane (Laos), for instance, has approximately 80 per cent of the route located along mountainous terrain and plateaus, passing through tunnels, bridges, and culverts along the way. Landslides, mudslides, and other natural disasters often occur during the rainy season, causing frequent interruption and serious damage to the transportation infrastructure.

The corridor’s operation capacity also needs to be improved. Firstly, the corridor has to pass the test of commercial viability. The southern route of the ILSTC, from Chongqing via the Beibu Gulf to Southeast Asia, is still in its infancy, and there are still some difficulties related to the promotion of the route and the organisation of cargo, especially return cargo. For now, the volume of outgoing goods from China to Southeast Asia far outweigh the return inflow of goods from Southeast Asia to China. Taking into account this economic reality, the liner companies will need to adjust their voyage supply capacity correspondingly. Hence, the current density of liner routes linking the Beibu Gulf to major ports in ASEAN countries is relatively low. Another related challenge is that the average shipping space utilisation rate of docking bays along the Beibu Gulf-Singapore route is rather low; in 2018, it stood at a meagre 1.48 per cent. As a result, enterprises which ply this route are under commercial viability pressure because of the lack of goods on the return trip from Southeast Asia.

Secondly, operational costs can be optimised. The freight rate of the ILSTC railway is more than 15 per cent higher per TEU/km than that of the China-Europe and Chongqing-Ningbo railways, with transit costs being also higher. Thirdly, the ILSTC’s service network, which includes trade links, supply chain management and financial service provided by shipping companies and freight forwarding companies, can be improved. In particular, while cooperation with third-party players, such as Southeast Asian shipping companies and freight forwarding companies are already quite well established, these service networks are mainly confined to Southeast Asia. It is thus necessary to establish and nurture a more comprehensive service network spanning more countries to improve the level of connectivity.

OUTLOOK

With the participation of Singapore, China, and other countries, as well as provinces and autonomous regions adjacent to the ILSTC, the corridor seems to have gathered more political support and momentum. This has raised expectations of the prospects and success of the ILSTC. However, whether the corridor can make continued progress and be sustainable in the long run will require the unremitting efforts of not only the leaders and officials directly involved, but also the active participation of the private sector.
3 The concept of New International Land-Sea Trade Corridor (then known as the Southern Transport Corridor or STC) was first proposed at the China-Singapore (Chongqing) Strategic Connectivity Demonstration Project’s first Joint Steering Council meeting in February 2017. The STC, however, did not attract much external interest at that time. On 20 September 2017, at a meeting with Prime Minister Lee Hsien Loong, President Xi Jinping expressed hope that the China-Singapore (Chongqing) Strategic Connectivity Demonstration Project will proceed smoothly, and this will motivate other countries to participate in the construction of the New International Land-Sea Trade Corridor at the regional level. This was a clear statement of support for such a corridor. In addition, since the start of official operations on 25 September 2017, the rail-sea intermodal trains of the International Land-Sea Trade Corridor have been adjusted from a monthly shift to a daily shift.
4 The southwest channel to the sea mainly focuses on the construction of a road network from Chongqing, Guizhou and Guangxi Beibu Gulf and the building up of a port cluster in the Beibu Gulf to promote the opening of Western China. See (also): “Opening up in coastal and border areas, construction of southwest sea passage, fight against poverty - a review of the important instructions of the CPC Central Committee and the State Council on Guangxi’s development strategy since the reform and opening up”, Inheritance, 2013 (11): 8-9.
7 From late August till early September 2017, Chan Chun Sing, then Minister in the Prime Minister's Office of Singapore, led a delegation to Chongqing, Nanning and Guiyang, and witnessed the signing of a cooperation framework agreement by the four western provinces and autonomous regions on jointly building the Southern Transport Corridor of the Sino-Singapore (Chongqing) Strategic Connectivity Demonstration Project. See “City cooperation to connect points into networks will enhance China-ASEAN connectivity”, Xinhua News Agency, 10 September 2017, http://www.scio.gov.cn/31773/35507/35510/35524/Document/1563201/1563201.htm.
10 Santisouk Simmalavong, Vice Minister of Laos’ Ministry of Public Works and Transportation, believes that the ILSTC jointly built by China and ASEAN plays an important role in land-sea trade, tourism, and cultural exchanges. See “Central Government of the People's Republic of China Jointly Building the ILSTC: A Summary of the 10th Pan-Beibu Gulf Economic Cooperation

11 Chhuon Darai, State Secretary of Cambodia Ministry of Commerce, believes that the development of trade and investment between China and ASEAN through connectivity projects such as transportation infrastructure construction can greatly promote personnel exchanges and tourism, which will spur the development of the Belt and Road Initiative. See “Central Government of the People’s Republic of China Jointly Building the ILSTC: A Summary of the 10th Pan-Beibu Gulf Economic Cooperation Forum”, Central Government of the People’s Republic of China, 28 May 2018, http://www.gov.cn/xinwen/2018-05/28/content_5294125.htm.


21 Freight trains from Lanzhou (New Area) to Thailand via Chongqing in the ILSTC were launched on 15 March 2019. See “Freight trains in the ILSTC have been launched”, Gansu Daily, 18 March 2019, http://lz.gansudaily.com.cn/system/2019/03/18/017154778.shtml; The Chinese and Thai governments issued a joint press statement on 5 November 2019 agreeing to make the China-Thailand railway a successful and high-quality example of Belt and Road cooperation. They further agree to speed up the implementation of the Memorandum of Cooperation on the Nong Khai-Vientiane railway link, speed up the completion of China-Laos-Thailand railway, explore mutually beneficial cooperation under the framework of the ILSTC, and promote regional connectivity and development. See “Joint Press Statement by the Government of the People’s


27 Singapore’s economy clocked growth rates of 3.1 per cent, 1.9 per cent, and 2 per cent in the years 2014 to 2016, respectively. While this rebounded to 3.5 per cent in 2017, the growth rate declined to 3.2 per cent in 2018. See Zhang Lei and Luo Mei, “Singapore: Economic Review of 2017 and Prospect of 2018”, Crossroads: Southeast Asian Studies, 2018(1).


30 The mixed passenger and freight railway, mainly built on general-speed lines, refers to the railway system that operates both passenger trains and freight trains. The advantage of the mixed passenger and freight railway lies in its cost-effective transportation, while the disadvantage is that the dispatching may be more difficult and that precious time may be lost due to parking and coordination issues involving the different carriages. When there is a large freight demand, it is difficult to achieve orderly and efficient transportation via the mixed passenger and freight railway. See “Code for design of Railway Alignment (TB10098-2017)”, National Railway Administration of the People’s Republic of China, Beijing, October 2018.

31 China exports more than 240 varieties of goods along this corridor, such as automobile and motorcycle parts, building materials, mechanical equipment, etc. Imported goods include clothing, agricultural and sideline products, minerals, etc.


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