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How Recipient Countries in Southeast Asia Manage 'Belt and Road Initiative' Projects

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Attendees at the Belt and Road Summit held in Hong Kong on 31 August 2022. Photo: ISAAC LAWRENCE/AFP.

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EXECUTIVE SUMMARY

- The agency exercised by BRI-recipient countries can affect the outcomes of BRI infrastructure projects. Host countries do exercise their bargaining powers to shape projects to meet their local economic and political needs better. How they do this hinges on the internal dynamics of their political institutions and the presence of political opportunities.

- A common motivator for sound management of BRI projects is economic growth, which is needed to support regime legitimacy. The imperative to tackle local concerns is another incentive.

- Recipient countries employ a range of approaches to bargain, including proactive proposals, 'strategic selection', tactical delays, and threats of cancellation. The utility of these approaches is contingent on capacity and mechanisms in place as well as available political space.

- Even when not all demands are met, the agency exercised by recipient governments has somewhat culminated in national and local needs being met more beneficially, at least in economic terms.

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INTRODUCTION

Next year marks the 10th anniversary of the 'Belt and Road Initiative' (BRI) since Chinese President Xi Jinping announced it in 2013. An official list shows that by mid-2022, China had signed over 200 BRI cooperation documents with about 150 countries and 32 international organisations, as well as established over 90 bilateral cooperation mechanisms within the BRI remit.[1] It is estimated that total foreign direct investments (FDI) from China to the countries engaged in the initiative exceeded US$90 billion between 2013 and 2018, chiefly focusing on infrastructure development.[2] By the end of 2021, China's non-financial investments in 57 BRI countries topped US$20.3 billion.[3]

Southeast Asia has captured a significant share of BRI projects.[4] Despite the COVID-19 pandemic, China has continued to make steadfast progress in BRI projects in Southeast Asia. Specifically, 95 BRI projects financed by China have remained active since January 2021.[5] In addition to existing hard infrastructure schemes, China has also focused on soft infrastructure, particularly health services and digital economy projects. Despite the slight change in its composition, the effects of the BRI are anticipated to remain controversial.

The BRI has rendered mixed results. While BRI investments have contributed to economic growth in some host countries,[6] their adverse impacts have also manifested simultaneously.[7] Social and environmental costs, especially loss of local livelihoods, land grabbing, and deforestation, have stood out as main negative repercussions. Other pitfalls have included economic unviability, huge debts owed to China, and a likelihood of falling into a 'debt trap'.[8] A global study recorded about 700 incidents of human rights abuses linked to more than 10,000 Chinese companies involved in BRI projects from 2013-2020.[9] Almost a third of these abuses occurred in Southeast Asia, specifically in Myanmar, Laos, Cambodia, and Indonesia.

Much has been blamed on China for the negative economic, social and environmental impacts of the BRI. Based on four case studies, this essay argues that host countries do have some agency to steer BRI projects to meet their development priorities and reduce the adverse impacts of such projects. In other words, BRI projects can be better managed by recipient countries in accordance with their local economic and political demands. This article discusses some of the enabling and disabling factors.

WHAT DETERMINES THE EFFECTS OF BRI PROJECTS?

Many factors contribute to the performance of BRI projects. On the investor side, Chinese firms involved in renewable energy projects and those listed in stock exchanges have been more responsive to complaints of abuses in host countries.[10] This is because investors in renewable energy are more committed to the agenda of 'green' BRI (set after 2019) and thus uphold their operation standards to address conflicts.[11] For companies listed on stock exchanges, the incentive to solve disputes is also high. A conflict would tarnish their corporate image and consequently their stock value. Other influencing factors include the function of

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NGOs (with unified vs conflicting agendas)[12] and the performance of affected communities (with cohesion vs. fragmentation).[13]

On the host-country side, BRI projects are more likely to have negative effects in countries with 'weaker governance and where Chinese investments are dominant'.[14] Some studies suggest that countries with weak political institutions or with authoritarian regimes have tended to facilitate China's ability to influence policies in its favour.[15] Host-country governments need to secure economic growth to sustain their legitimacy, and should therefore endorse projects with high growth potential and strive to manage such projects properly. Further to this economic rationale, political considerations are often at play: hard infrastructure projects provide concrete evidence to convince the electorate about growth and prosperity. Below are four case studies showing how different actors in recipient countries exercised their agency.

'STRATEGIC SELECTION' OF PROJECTS IN MYANMAR

Before the coup in 2021, the Myanmar government renegotiated BRI projects approved by the previous military regime to reduce costs and gain greater control.[16] The case in point was a deep-sea port and a related Special Economic Zone (SEZ) to be built in Kyaukphyu, at an initial cost of US$7.5 billion and US$2.7 billion, respectively.[17] The renegotiation was done by a new committee comprising relatively young and 'better-qualified' technocrats. The committee worked for two years with various Myanmar and Chinese institutions to reach a new agreement, which substantially reduced the scope of the port and its cost to US$ 1.3 billion.[18] Other key features of the new agreement included less borrowing from China and a reduced sovereign guarantee by the Myanmar government. Instead, the financing of the port was to be mainly through equity that would be raised by a Chinese-Myanmar consortium. The Myanmar government also succeeded in increasing its share of the projects from 15 per cent to 30 per cent and in securing funding through a 'land concession and landscape and excavation work', with a condition that the concession would not be transferred if the projects failed. Moreover, the new agreement divided the projects into three different elements—a port, a SEZ, and a residential area—with a provision that the subsequent component can only start if the preceding one proves commercially viable.

Three main reasons drove the Myanmar government to renegotiate the projects. First, there had been several protests by local communities against the projects over fears that the projects would not benefit villagers and would culminate in land grabbing and resource exploitation without fair compensation and a loss of livelihood.[19] Second, the original high costs of the projects and the need to reform the macroeconomic management for better growth urged the government to reconsider the projects. Finally, the huge borrowings from China plus the sizeable amounts of debt incurred by the earlier junta government raised concerns about Myanmar falling into a 'debt trap'. Hence, the imperative to address local concerns and facilitate economic growth played a big part in the renegotiation despite the power asymmetry between the two countries.

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Another mechanism employed by the Myanmar government to ensure that BRI projects meet its development priorities was a 'strategic selection' of projects.[20] This mechanism was executed under a memorandum of understanding secured with China, which allowed the Myanmar government to seek financing from international institutions, include international tenders, and choose projects it needs.[21] A high-level 'Implementation Steering Committee', chaired by the Head of State and with ministers as members, was specifically established to carry out this mechanism. The committee scaled down the number of BRI projects from thirty to nine priority ones in 2020.

Further, as an overarching coordination framework, the Myanmar government created a 'Project Bank', an apparatus to assess viability, suitability, and priority of proposed projects, both BRI and non-BRI.[22] This mechanism contains three phases: screening, appraisal and selection, and prioritisation. The screening phase scrutinises implementers' accountability, project rationale, and strategic alignment with development plans. The appraisal and selection stage examines sources of funding, affordability, and financial sustainability. In this phase, counterproposals from other companies and financial institutions are solicited to ensure the competitiveness of projects. Finally, projects are prioritised and endorsed based on social and environmental, financial and economic, risk, and national agenda indicators. Before the 2021 coup, this mechanism shaped bargaining with China and other investors/donors which ensured the selection of viable projects that meet its economic needs with minimal social and environmental negativities.[23]

INTERNAL PARTY DISCUSSIONS IN LAOS

Another case that exemplifies a recipient country's gainful bargaining with China is the Laos-China High-Speed Rail. The project links Laos' capital Vientiane and the northern town of Boten bordering the Yunnan Province of China.[24] This project was proposed by the Lao government in the early 2000s to take advantage of China's 'going-out strategy' at the time. In 2009, both countries started negotiations over the project. In 2012, when the Lao National Assembly approved the project, the government proposed to borrow US$6.8 billion from the Export-Import Bank of China to finance the project. Although the project was negotiated and approved before 2013, it was later classified as a signature BRI scheme by both governments.

The project had a high price tag, was potentially unsustainable financially, and lacked transparency. Under a Memorandum of Understanding signed in 2010, the two countries established the Laos-China Railway Joint Venture Company to manage the project. The Lao state railway owned only 30 percent of the company stake while Chinese state-owned firms owned the rest. Moreover, China's loan would be guaranteed by all of the income and assets of the railway, and two mining areas.

These controversial issues delayed the construction of the project until late 2016.[25] There were also disagreements between Laos and China over worker arrangements, social and environmental impacts, and loan details such as the interest rate. The issues were discussed and negotiated within Chinese authorities as well as the ruling Lao People's Revolutionary Party.

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For example, in 2011, the party postponed the project due to concerns over the terms of the contract which included the hiring of a massive number of Chinese workers. The lengthy gap between the MoU signing and the start of the construction was due to the difficult negotiation process with China and a tedious decision-making process within the Lao ruling party.

Eventually, the Lao government decided to proceed with the project using Chinese technical standards and equipment after China had agreed to improve the loan conditions (including interest rates) and increase the number of local workers.[26] The National Socio-Economic Development Plan (2016-2020) identified the construction of large-scale infrastructure projects as the top priority since the country was land-locked and desperate for better connectivity with the region and beyond.[27] Such a rail link would improve transport connectivity, attract investment, and stimulate growth in multiple sectors. Despite the concerns over the financial sustainability, economic viability, and other risks of the project, the ruling party endorsed the project because it needed economic growth to ensure its political legitimacy and survival.

The railway was completed and opened in December 2021. As of July 2022, about four million passenger trips had been made and five million tons of cargo (including around 840,000 tons of cross-border goods) transported using this railway.[28] Over 20 Chinese provinces have used the railway to export goods to over 10 regional countries, including Malaysia and Thailand.[29] The railway project's impact on Laos' economic growth has not been studied. The project has imposed significant financial burden on Laos, which is currently facing a huge budget deficit and a high level of public debt, standing at five per cent and 66 per cent of GDP respectively in 2021.[30] Specifically, the country has incurred a US$1.9 billion debt from the railway project, while the total public debt was US$14.5 billion (of which 50 per cent is to China) in 2021.[31]

OPPOSITION TO PROJECTS BY NATIONAL AND SUBNATIONAL BODIES IN INDONESIA

Another factor that influenced the design and implementation of BRI projects are the internal political tensions in a host country. This is reflected in the Jakarta-Bandung High Speed Rail (HSR) project in Indonesia.[32] This US$ 5.5 billion, 150-km railway scheme was proposed by the Indonesian government in 2015, with the construction starting in 2018. The financial structure of the project comprised 75% in loans and 25% in equity. The equity was to be shouldered by an Indonesia-China joint venture company (KCIC) which was 60% Indonesian-owned. The project was expected to generate 39,000 new local jobs with Chinese labour inputs being limited to experts and supervisors.[33]

The delay in the implementation of the project was a result of political opportunism and renegotiations as well as political clashes between national and subnational institutions. Japan had initially conducted a feasibility study on the HSR in 2009.[34] After President Jokowi won the election in 2015, the project was awarded to a Chinese state-owned enterprise, China Railway Group Limited (CREC), for two reasons. First, under the Japanese plan, the Indonesian government was to provide a financing guarantee which the Chinese plan did not require. Jokowi sought to diversify diplomatic and investment relations away from Japan,

which had been a top investor and donor since the 1980s, particularly in infrastructure and transportation sectors. This was because Japanese investment and aid programmes had strict and rigid conditions, especially concerning sovereign guarantee and completion dates.[35] Japan's strictness and inflexibility made China's non-conditionality and accommodative financing terms attractive to Jokowi. Second, the CREC promised that it would complete the project before Jokowi's re-election bid in 2019. This would have enabled Jokowi to fulfil his political pledge to improve infrastructure and win over his constituents' hearts for the re-election. In the event, the CREC failed to complete the project as promised; this did not affect the election results however, and Jokowi was re-elected.

Moreover, the project suffered from political tensions at both the central and subnational levels. While Jokowi's allies firmly supported the project, it was opposed by the then-Minister of Transportation and the military as well as the West Bandung Regent at the subnational level.[36] The Minister had complained that his ministry had not been sufficiently consulted on the project and only played an auxiliary role in the implementation since the Minister of State-owned Enterprises (a Jokowi ally) led the project. Furthermore, he raised concerns about the project's long-term feasibility (including safety and quality) rather than the cost-efficiency that Jokowi and allies endorsed. The former Minister of Transportation also had close ties with Japan and had been lobbying Japanese firms to improve Indonesia's public transportation system.[37]

This central-level opposition was intensified by the West Bandung Regent's calls for additional concessions from the KCIC (including more facilities, enlargement of an existing road, a new stadium, and free farming land for affected locals), all of which had not been included in the original negotiation between Indonesia and China.[38] While acknowledging that the project was crucial to the national economy, the Regent demanded that the benefits needed to be distributed fairly to his local constituencies. This demand made the central government accuse this subnational authority of stalling the project by delaying the issuance of local construction permits.

Another opponent to the project was the Indonesian military which perceived the Chinese venture to be posing a potential interference in Indonesia's internal affairs and carrying a national risk due to their communist ideology.[39] This perception stemmed from a long-held distrust of China for their role in supporting the communist movement in Indonesia in 1950s-1960s. Moreover, the military complained of the encroachment of the HSR into its land holdings at the Halim Perdanakusuma airbase in East Jakarta, which could potentially interfere with its ability to perform air transportation duties.[40] Hence, the Air Force Chief of Staff proposed relocating one of the HSR stations to another place.

The bargaining by the West Bandung Regent and the opposition by the military made local land acquisition for the project challenging and lengthy since these entities held decentralised powers to approve it. In short, the Regent and the military leveraged their bureaucratic control over land issues to bargain with the national government.

The dissent by the military was exploited in his presidential campaign by opposition leader Prabowo, a former special forces general.[41] Targeting the HSR as not being in line with

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Indonesia's national interests, this politician promised to thoroughly review, renegotiate or annul the project if he won the election. However, he lost.

Although it was not clear if all the demands were met by the central government, these political contestations surrounding the project reflected the agency and tensions among actors in Indonesia's administrative system. Subnational institutions' enhanced powers, backed by local constituencies, enabled them to bargain with national bodies for better local benefits from the project. The country's history also played a role in the military's opposition to the project. Finally, the space for opposition politics at the central level provided opportunities for challenging the government to improve the deal and implementation of the project, making the government rethink the project deal and implementation.[42] This indicates that BRI projects are prone to the agency of internal politics and power play in host countries, which affects the project process and implementation.

RENEGOTIATIONS OF PROJECTS BY NEW GOVERNMENTS IN MALAYSIA

A BRI project that was affected by changes in the host country's political regime was the East Coast Rail Link (ECRL) project in Malaysia.[43] This was launched in 2016 when then-Prime Minister Najib Razak visited China. The building contract was awarded to China Communication Construction Company Ltd. (CCCC), while the financing was secured from the Export-Import Bank of China (China Exim Bank). In the project, China would undertake the detailed engineering and design of the railway, procure materials and equipment, as well as finance and build the 688-km rail link.[44] Once in full operation, the project was expected to contribute around 2.7 per cent to economic growth of the country.[45]

The railway would link the East coast states of Kelantan, Terengganu, and Pahang to Port Klang in the Greater Kuala Lumpur area. The project was controversial due to its high estimated cost of US$13.1 billion (RM65.5 billion), lack of transparency, and its link to Najib's 1MDB corruption scandal.[46]

The ECRL also suffered from subsequent changes in the federal government. Najib's Barisan Nasional (BN) government well-supported the project and lauded it as one that would accelerate development along the planned stations. After the Pakatan Harapan (PH) coalition defeated the BN in the 2018 elections, the new Prime Minister Mahathir Mohamad suspended the ECRL and two China-related pipeline deals.[47] The new government had initially wanted to cancel the ECRL because of its huge cost and its link to the 1MDB scandal. But the penalty cost stipulated in the original agreement—at RM21.78 billion—was too high.[48] Thus, it decided to renegotiate the project with China. In 2019, the Malaysia Rail Link signed a Supplementary Agreement with the CCCC, which substantially reduced the project cost from RM65.5 billion to RM44 billion.[49] The new agreement also changed the project's southern alignment, i.e. bypassing Bentong and Gombak and instead rerouting the southern Section C (from Mentakab to Port Klang) through Negeri Sembilan. The total length of the rail link was thus reduced from 688 km to 640 km. Moreover, the CCCC was required to repay RM3.1 billion to Malaysia due

to the abandonment of the northern extension of the project. The completion date was changed to December 2026.

The project hit another change in 2020 when the Muhyiddin Yassin-led Perikatan Nasional (PN)-Plus government toppled the PH government following Mahathir's resignation. While the new Muhyiddin-led government proceeded with the ECRL, it reviewed Section C, reverting it to the original northern alignment.[50] This would reverse the renegotiated deal reached by the preceding regime. In December 2021, the Transport Minister confirmed that the project would proceed with a revised northern alignment.[51] Previously, the Selangor government (still controlled by PH) had insisted that the southern alignment, which would run longer through Selangor, was better because it would be cheaper and generate more economic gains and incur fewer socio-environmental costs.[52] However, after the federal government had settled several issues related to the northern alignment, including environmental concerns,[53] the Selangor government stopped opposing the project.[54]

The ECRL case indicates how political changes and project governance can alter and disrupt the design and execution of BRI projects.[55]

CONCLUSION

BRI-recipient countries approve projects for their potential contribution to economic growth and do make efforts to manage the projects soundly, given that the projects' viability and positive impact on economic growth are important for political legitimacy. This is particularly true when a new government inherits a poorly-functioning economy from the preceding regime, as in the Myanmar case. When NLD took control of the Myanmar government, the economy was not healthy in part due to existing huge debts to China and the new government wanted to better manage the economy to boost growth. This was a key factor that influenced the renegotiation of the project. In the Indonesia case, the political opportunism tended to focus on starting and finishing the HSR project in time for elections as well as demanding more benefits for or realigning routes that benefited local constituents. The pressure to address local concerns induced recipient governments to bargain.

Internal political dynamics, such as change in government and opposition politics, also enabled project renegotiations for better conditions and benefits at both national and local levels, at least in economic terms. Proactive proposals, 'strategic selection', tactical delays, and threats of cancellation have been the key approaches that host governments employed to exercise their agency. However, in so doing, these governments have tended to focus on the economic aspect of projects and paid less attention to social and environmental impacts in some cases. In conclusion, while the bargaining power of recipient countries is relative, and not absolute, vis-à-vis China, it can make positive changes to projects, particularly in economic terms.

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ENDNOTES

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[3] Wang Zheng, "Assessing the Belt and Road Initiative in Southeast Asia amid the COVID-19 Pandemic (2021-2022)," *ISEAS Perspective 2022/57,* 26 May 2022, https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2022-57-assessing-the-belt-and-road-initiative-in-southeast-asia-amid-the-covid-19-pandemic-2021-2022-by-wang-zheng/.
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[8] Kong Tuan Yuen, "The Belt and Road Initiative in Southeast Asia and Responses from ASEAN Countries," *China: An International Journal*, Vol. 17, No. 4 (November 2019), 24-33.
[9] Business and Human Rights Resource Centre, "Going out responsibly: The human rights impact of China's global investments," 2021, https://media.business-humanrights.org/media/documents/2021_BHRRC_China_Briefing.pdf.
[10] ibid
[11] A bulk of Chinese overseas energy investments are in renewable energy (solar, wind, hydro). The share of renewable energy in the overall energy investments rose from 38% in 2019 to 57% in 2020. See Christoph Nedopil Wang, "China Belt and Road Initiative (BRI) Investment Report 2020," 2021, https://green-bri.org/china-belt-and-road-initiative-bri-investment-report-2020/?cookie-state-change=1661751301347.
[12] NGOs aiding affected communities to fight companies can have diverse or conflicting agendas and approaches. Some NGOs use peaceful approaches (such as negotiations and legal means), while others prefer confrontational approaches (such as protests). Sometimes, these differing approaches can divide communities and weaken their collective action. See Human Rights Watch, "Underwater: Human Rights Impacts of a China Belt and Road Project in Cambodia," 2021, https://www.hrw.org/sites/default/files/media_2021/08/cambodia0821_ web.pdf; Personal communication with a Cambodian NGO Director (20/07/2022).
[13] Affected communities can be divisive, with some wanting quick compensation regardless of fairness and others wanting a fair compensation and prolonging their struggle. When communities are fragmented, they lose to companies. See Diana Suhardiman, Kanokwan Manorom, and Jonathan Rigg, "Institutional bricolage (re)shaping the different manifestations of state-citizens relations in Mekong hydropower planning," *Geoforum*, Vol. 134 (August 2022), 118-130.
[14] Business and Human Rights Resource Centre, "Going out responsibly: The human rights impact of China's global investments," 2021, https://media.business-humanrights.org/media/documents/2021_BHRRC_China_Briefing.pdf.
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[21] Linda Calabrese and Yue Cao, "Managing the Belt and Road: Agency and development in Cambodia and Myanmar," *World Development,* Vol. 141 (May 2021), 105-297.
[22] ibid
[23] Yet, if this institution still works or has been changed after the coup is not known. Meanwhile, the junta government has approved more BRI projects after the coup (see Business and Human Rights Resource Centre, 2021). In May 2021, the government restructured the SEZ management committee to move the project forward. See Dipanjan Roy Chaudhury, "Myanmar junta expedites work on China funded Kyaukphyu port," *The Economic Times*, 09 August 2021, https://economictimes.indiatimes.com/news/international/world-news/myanmar-junta-expedites-work-on-china-funded-kyaukphyu-port/articleshow/85167272.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst.
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[26] The details of loan terms and the increased number of local workers were not publicly disclosed, but it was reported that the original interest rate of three per cent had been reduced. The demand for local workers was estimated at over 7,000 people. In 2017, over 3,000 people were employed, earning US$200-800 a month (see Roseanne Gerin, 2017).
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[33] As of mid-August 2022, the construction had been about 70 per cent completed and China had shipped the first trains to Indonesia. The project is expected to be fully operational in June 2023. See Xinhua, "China begins shipment of high-speed trains to Indonesia," *Xinhua*, 21 August 2022, https://english.news.cn/20220821/c8f6b7998a43472ca865e8350480c413/ c.html.
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[53] The agreed alignment will not encroach into the Klang Gates (Gombak) Quartz Ridge—which will be listed as a United Nations heritage site–-and will not be built near the Batu Dam, which supplies water to Selangor residents (see Hazlin Hassan, 2021).

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