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Can China's OBOR Initiative Synergize with AEC Blueprint 2025?

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EXECUTIVE SUMMARY

- The AEC Blueprint 2025 envisions greater integration of ASEAN into the global economy while maintaining ASEAN's central role in East Asian regional cooperation.
- But given the wide development gaps between member countries, there is much uncertainty about ASEAN's ability to realize its ambitious goals.
- In this context, China's OBOR initiative, which was first proposed to serve its diplomatic interests in countries at its western periphery and develop infrastructure connectivity with Southeast Asian countries, is geared towards stimulating East Asian regional economic integration, and can therefore provide extra momentum for the AEC.
- The OBOR initiative and AEC Blueprint 2025 can potentially achieve synergy both at the national and the regional levels. China has the potential to transfer some of its high-quality production capacity to CLMV countries, while OBOR can complement and synergize with the AEC Blueprint for enhanced connectivity and sectoral cooperation.

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INTRODUCTION

The ASEAN Community was officially launched at the end of 2015, together with the ASEAN Economic Community (AEC) Blueprint 2025. The latter envisions ASEAN as a competitive and globally-connected region, which also has a voice in global economic fora. But given the wide development gaps within ASEAN, combined with its extremely weak institutional base and its weakening leadership role in East Asian economic cooperation, there is much uncertainty about whether ASEAN can realize its ambitious target of becoming a single market and maintaining its centrality.

As trading partners, China has since 2009 been ASEAN's largest, while ASEAN has since 2010 been China's third largest. China further vowed to deepen China-ASEAN relations at the 13th China-ASEAN Expo and China-ASEAN Business and Investment Summit held in Guangxi on 11 September 2016. Chinese Vice-Premier Zhang Gaoli pledged that "China will firmly support the building of ASEAN Community, support ASEAN's central role in regional cooperation, and support ASEAN to play a greater role in international and regional affairs".¹

But for ASEAN, the most pressing question is how China and its initiatives can assist ASEAN member countries achieve their development priorities. In other words, to what extent can the OBOR initiative synergize with the AEC Blueprint 2025, provide new momentum for AEC and strengthen ASEAN's central position within the new wave of regional economic integration in Asia Pacific?

CHALLENGES FACING THE AEC 2025 VISION

Based on the overall vision articulated in the AEC Blueprint 2015, the AEC Blueprint 2025 envisions a deeply integrated and highly cohesive ASEAN economy. It seeks to increase ASEAN's competitive edge by moving the region up the global value chain, and to enhance ASEAN's role globally.²

But ASEAN members still face a number of critical challenges, including internal divisions and weak regional cooperation. Good infrastructure is desperately needed for the smaller and poorer members of ASEAN to attract foreign direct investment (FDI), so as to catch up with their ASEAN fellows. Hence, it is not surprising that the AEC 2025 vision continues to call for transport cooperation in terms of greater connectivity, efficiency, integration, safety and sustainability.

Many observers agree that due to strains in internal cohesion and to the lack of capacity to lead its own regional integration agenda, there is great uncertainty as to whether ASEAN can realize the single market it envisages. Kung Phoak believes, for example, that "the biggest challenge to ASEAN's unity and centrality is the unevenness of economic

¹ 张高丽 [Zhang Gaoli], "深入推进二十一世纪海上丝绸之路建设, 共筑更紧密的中国-东盟命运共同体" [Further Promote the Construction of 21st Maritime Silk Road and Build a Closer China-ASEAN Community of Destiny], 《人民日报》 [People's Daily], 12 September 2016.

² ASEAN Secretariat, "ASEAN Economic Community Blueprint 2025", ASEAN, November 2015.

development within the group”.³ Elodie Sellier, in turn, claims that “given the wide development gaps between countries, combined with the lack of solid and inclusive institutional structures and agencies to govern the newly formed markets under the AEC, ASEAN as an entity is likely to emerge as a chain of disparate markets, divided between modern developed economies (ASEAN-6) and less developed countries (CLMV)”.⁴

ASEAN faces the difficult challenge of enhancing its centrality in regional economic cooperation. It started taking the lead on regional issues in the early 1990s, and by proposing the ASEAN+3 cooperation after the 1997 Asian financial crisis, it created a functional platform for East Asian cooperation. This functional centrality was strengthened further when a series of ASEAN+1 Free Trade Agreements (FTA) were signed and enforced. These FTAs/CEPs (comprehensive economic partnership) lay the foundation for ASEAN’s centrality in global and regional engagement.

But the momentum began to decline in the late 1990s, and especially after 2010 with China shifting towards being an active driver of the regional and global economy. By the time the Trans-Pacific Partnership (TPP) and the OBOR initiative were being discussed, ASEAN centrality in regional cooperation had weakened. Hence, the AEC Blueprint 2025’s expressed attempt to “Reinforce ASEAN centrality in the emerging regional economic architecture by maintaining ASEAN’s role as the centre and facilitator of economic integration in the East Asian region”.

According to the Blueprint, ASEAN needs to go beyond focusing on reducing barriers and building infrastructure connectivity. Instead, the member countries needs to foster regional economic integration by focusing not only on freer movement of goods and capital, but also on better policy coordination and improved mechanisms for cooperation.

In this regard, ASEAN should become more integrated with the Chinese economy and other big powers through the OBOR initiative and other cooperation frameworks (including the TPP and the Regional Comprehensive Economic Partnership (RCEP)) so as to further participate developing regional and global economic governance. These interactions may aid the emergence of ASEAN as a world economic power, and enhance its role and voice in global economic fora.

CAN OBOR SYNERGIZE WITH AEC BLUEPRINT 2025?

In discussions of the OBOR initiative, many new policy-relevant concepts have been raised. The term “synergy” (对接) or “strategic connection” is one of them. For example, concerning recent Sino-Russian relations there are suggestions of “synergy of China’s Silk Road Economic Belt and the Russia-led EAEU (Eurasian Economic Union)”;⁵ in China-EU relations “synergy of OBOR and European Strategic Investment Plan (Jean-Claude

³ Kung Phoak, “Is China a Threat to ASEAN Unity?” *East Asia Forum*, 3 June 2015.

⁴ Elodie Sellier, “The ASEAN Economic Community: The Force Awakens?” *The Diplomat*, 12 January 2016.

⁵ The two countries will hold a second round of talks in October 2016 on an economic cooperation agreement between China and the EAEU. If successful, such a deal would mark a major success in linking together the EAEU with China’s OBOR initiative.

Juncke)” is mentioned;⁶ while Sino-Indian relations have brought force the idea of “synergy of OBOR and India’s ‘Mausam Project’ and the ‘Spice Route’”.⁷ These examples show synergy to be a concept generated by China’s recent style of formulating its foreign, economic and diplomatic policies, and extends from Beijing’s approach in promoting the OBOR initiative.

The Vision and Action on OBOR issued by the Chinese government in March 2015 shows a significant evolution in China’s approach, in stressing that OBOR should promote policy coordination, infrastructure connectivity, financial integration and mutual understanding among the people along the route. Therefore, it “should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the Belt and Road”.⁸

An important component of Vision and Action is getting the OBOR initiative to synergize with the development strategies and plans of countries along the Belt and Road. This is best achieved via policy coordination, consultation and collaboration, and indicates an adjustment of China’s approach in order to better resolve the conflicts and contradictions between OBOR and the relevant countries’ own strategies or programmes.

In China’s official documents, “synergy” sees China taking the “initiative” to approach other countries or country groups which then respond, evaluate and avail themselves of the opportunities arising from the initiative. This is meant to be an interactive process, and as Kung Phoak stated, “ASEAN member states will need to adjust their policies to reflect those potential interests in a realistic manner, although many believe that ASEAN members cannot be too dependent on China”.⁹

At the national level, China hopes to strengthen policy coordination with individual ASEAN countries in relation to production capacity. It has the potential to transfer some of its high-level production capacity to Southeast Asian countries, especially to CLMV, and sees this as a way of dealing with its surplus in production capacity while also meeting the demand for more investment and technology in Southeast Asia.

Some synergies at the national level have been very evident. These include the construction of the Sino-Laos and Sino-Thai railways projects, and several industrial parks jointly developed by China and Malaysia, China and Thailand, China and Cambodia, and China and Vietnam which have been effectively linked up with local development projects and plans. Now China needs to ‘digest’ these countries’ growing industrial production by

⁶张骥、陈志敏 [Chen Zhimin], “‘一带一路’倡议的中欧对接：双层欧盟的视角” [China-EU Cooperation Under the ‘One Belt One Road’ Initiative: From a Two-level EU Perspective], 《世界经济与政治》 [World Economics and Politics], no. 11, 2015.

⁷ Zhao Hong, “China’s One Belt One Road: An Overview of The Debate”, *Trends in Southeast Asia*, no. 6 (Singapore: ISEAS Publishing, 2016).

⁸ “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

⁹ Kung Phoak, “Why ASEAN should Embrace Chinese Initiatives”, *East Asia Forum*, 2 October 2015.

importing more of their manufactured products, since only when these countries participate in China's big consumption market, can the OBOR be sustainable.

At the regional level, OBOR can also synergize with and complement the AEC vision. The essence of the initiative, after all, is apparently to promote regional and cross-continental connectivity between China and Eurasia. The Vision and Actions of OBOR stresses that connectivity covers five major areas: policy coordination, infrastructure construction (including railway and highways), unimpeded trade, financial integration and people-to-people ties.¹⁰ OBOR-AEC synergy will involve the Initiative for ASEAN Integration Work Plan, the Master Plan on ASEAN Connectivity, and the new Masterplan of ASEAN Connectivity in 2025.

WILL OBOR CHALLENGE ASEAN CENTRALITY?

ASEAN centrality was formed in the process of East Asian economic cooperation. Given China's and Japan's differences in envisioning the ideal regional order, competition between the two for regional leadership is likely persist for some time. However, this is unlikely to affect ASEAN's leading role as the centre and facilitator of East Asian economic integration.¹¹ However, since the role requires ASEAN to upgrade its internal integration, widen its market scale and enhance its capacity to lead. It cannot avoid exploring ways for its member states to take full advantage of China's initiatives.

Through infrastructure and better transnational market arrangement, OBOR has the potential to stimulate regional economic growth and be a framework for regional economic integration encompassing the entire Eurasian region. In the short term, investment in infrastructure has a strong economic spill-over effect in the local economy. Makmun calculates that in Asia every US\$1 investment in infrastructure can result in US\$3 to \$4 being invested in other economic sectors, and every US\$1 billion investment in the infrastructure sector can create 18,000 employment opportunities.¹²

More importantly, OBOR can create long-term benefits, and enhance ASEAN member countries' participation in Global Value Chains. These chains are essentially the practice of vertical integration in which the various stages of production get located across multiple countries in order to minimise marginal costs.¹³ Regional infrastructure connectivity may integrate ASEAN countries, especially CLMV countries into a wider range of regional growth mechanisms, prompting them to develop global value chain-oriented policies. The success of these policies can be measured in terms of increased trade efficiency and reduced transaction costs.

¹⁰ "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

¹¹ Mie Oba, "TPP, RCEP, and FTAAP: Multilayered Regional Economic Integration and International Relations", *Asia-Pacific Review* 23, no. 1 (2016): 100–114.

¹² Makmun Syadullah, "Prospects of Asian Infrastructure Investment Bank", *Journal of Social and Development Sciences* 5, no. 3 (September 2014): 155–167.

¹³ Daniel Wu, "Are Global Value Chains the Kickstart that AEC Needs?" *East Asia Forum*, 27 April 2016.

At present, synergy between OBOR and Southeast Asian development plans at the national level seems to be developing well. Many railway construction projects and jointly-run industrial parks appear within a bilateral cooperative framework. However, there are serious concerns that China’s bilateral approach lends structural advantage to China to set the terms and shape the economic and political future of some ASEAN countries, and this in turn may affect unity within ASEAN.

OBOR could therefore at the same time as it brings benefits, also erode ASEAN unity and undermine its consensus principle. To countermand this, ASEAN needs to arrive at a collective position on how to handle the OBOR initiative.

CONCLUSION

The OBOR initiative has evolved: from infrastructure connectivity to “policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people ties”; and from inviting related countries to join the initiative to stressing strategic synergy and connection with local development plans. As a model, it stimulates economic integration between China and its peripheral neighboring countries.

China and ASEAN have great potential for cooperation. But in order to realize strategic synergy between the OBOR initiative and the AEC vision, it is important for China to have policy consultation, coordination and collaboration with ASEAN in addition to bilateral policy cooperation for infrastructure construction and production capacity cooperation, even if this appears difficult in the current situation. Moving in that direction can bring new momentum to the realizing of the goals of the the AEC Blueprint 2025 and strategically improve China-ASEAN relations.

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