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Trends in  
Southeast Asia

CHINA'S NEW MARITIME SILK ROAD:  
IMPLICATIONS AND OPPORTUNITIES  
FOR SOUTHEAST ASIA

ZHAO HONG

**ISEAS**

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INSTITUTE OF SOUTHEAST ASIAN STUDIES

# Trends in Southeast Asia

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## FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# China's New Maritime Silk Road: Implications and Opportunities for Southeast Asia

By Zhao Hong

## EXECUTIVE SUMMARY

- In 2013, Chinese President Xi Jinping unveiled plans for two massive trade and infrastructure networks connecting East Asia with Europe: the New Silk Road and the 21<sup>st</sup> Century Maritime Silk Road (“one belt one road”). The plans aim to reinvigorate the ancient Silk Roads with a modern network of high-speed rail, motorways, pipelines and ports stretching across the region.
- The idea of the New Silk Road and the New Maritime Silk Road was raised because China's domestic economy is experiencing structural changes that reflect a “new normal” of slower but better quality growth.
- More importantly, it signals a shift in China's strategic thinking and foreign policy towards prioritizing the relationship with neighbouring countries. Hence, it has many implications for Southeast Asian countries.
- China's extension of the New Silk Road diplomacy is driven by both economic and political considerations. It is eager to participate in the construction of ports and other related facilities in Southeast Asia and hopes that outward infrastructure investment will help boost production capacity in its iron, steel, aluminum and cement industries for export purposes.
- China sees a huge potential in upgrading infrastructure in Southeast Asian countries and is hence supportive of Chinese companies' participation in such projects. The competition among Chinese provinces for much of this business is likely to launch a new round of investment projects. Some of China's local governments have

been lobbying and organizing activities for preferential policies and financial support from the central government since the Maritime Silk Road initiatives were announced.

- Beijing's new Maritime Silk Road initiative poses an attractive vision of countries working together in pursuit of mutually beneficial cooperation. This initiative appears all the more seductive when it fits with the Master Plan on ASEAN Connectivity and President Jokowi's vision of maritime power. Nevertheless, there are a number of challenges that China will have to deal with.
- Indonesia is the largest country in Southeast Asia and shares many common interests and visions with China in the context of the New Maritime Silk Road initiative. The two countries can strengthen cooperation on transport infrastructure construction as well as on security.
- ASEAN countries badly need more infrastructure investment and perceive that multilateral and private sector organizations are not acting fast enough to meet their needs. However, while China has tried to reassure its neighbours that its rapid rise is accompanied by peaceful intentions, there is no guarantee that this will be the case in the long term. There exists a deep-rooted fear among Southeast Asian countries that China has plans that go beyond building roads, laying railways, upgrading ports and boosting trade.

# China's New Maritime Silk Road: Implications and Opportunities for Southeast Asia

By Zhao Hong<sup>1</sup>

## INTRODUCTION

In 2013, Chinese President Xi Jinping unveiled plans for two massive trade and infrastructure networks connecting East Asia with Europe: the New Silk Road (also known as the Silk Road Economic Belt) which reflects China's desire for stronger economic relations with Central Asia; and the 21<sup>st</sup> Century Maritime Silk Road which is perceived to be an attempt to strengthen relations with South and Southeast Asia, with an emphasis on maritime trade security. The plans aim to reinvigorate the ancient Silk Roads with a modern network of high-speed rail, motorways, pipelines and ports stretching across the region. The economic highway Beijing envisages follows three routes: one running from central China to Central Asia and the Middle East; a maritime route extending from its southern coast; and a third branching out from Yunnan and Guangxi to Southeast Asia. The idea of New Silk Roads was raised based on the fact that China's domestic economy has been experiencing structural changes reflecting a "new normal" of slower but better quality growth, which has potentially significant economic impacts on the region. More importantly, it signals a shift in China's strategy and foreign policy, revealing the priority being given to its relationship with neighbouring countries. Furthermore, this initiative appears to have many implications for Southeast Asian countries as

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<sup>1</sup> Zhao Hong is a Visiting Senior Fellow at the Institute of Southeast Asian Studies (ISEAS), Singapore. He would like to thank the two reviewers of this paper for their insightful advice.

it fits with the Master Plan on ASEAN Connectivity and Indonesia's newly proposed vision of maritime power.

## **CHINA'S NEW MARITIME SILK ROAD INITIATIVES**

The Maritime Silk Road begins in Quanzhou in Fujian province, passes through Guangzhou, Beihai and Haikou before heading south to the Malacca Straits. From Kuala Lumpur, the Maritime Silk Road heads to Kolkata, India and crosses the rest of the Indian Ocean to Nairobi, Kenya. From Nairobi, it goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean, with a stop in Athens before meeting the land-based Silk Road in Venice.<sup>2</sup> Together with the "Silk Road Economic Belt", the "Maritime Silk Road of the 21<sup>st</sup> Century" proposal forms a key part of China's new infrastructure diplomacy under the new Chinese government, its intention being to strengthen its relations with neighbouring countries through investment in infrastructure.

On land connectivity between China and Southeast Asia, Chinese local governments play an important role. Yunnan Province and the Guangxi Autonomous Region, which border Vietnam, Laos and Myanmar, are two cases in point. Since the early 2000s, both Yunnan and Guangxi have prioritized inter-regional physical transport connectivity with ASEAN countries and initiated the Gateway Strategy and Pan-Beibu Gulf Economic Zone respectively. They aim to strengthen

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<sup>2</sup> The Philippines, the second largest Southeast Asian state by population, seems to be excluded from the Maritime Silk Road. Some Western scholars believe that China somewhat intentionally avoided the Philippines, implying that "the smaller countries around China need to accommodate themselves to the values and interest of China to avoid the loss of rights and privileges in the Community of Common Destiny sponsored by China", see "China's Two Silk Roads: Implications for Southeast Asia", by David Arase, *ISEAS Perspective*, #2, 22 January 2015. However, another document asserts that Beijing has also promoted a new Maritime Silk Road to connect China with ASEAN countries particularly Philippines, the eastern part of Indonesia, and Australia (Quoted from "ASEAN-China Connectivity Development", Research report submitted by Economic Research Centre (LIPI), November 2014).

their land connectivity with ASEAN through expressway and railway cooperation, and to build bilateral maritime and air connectivity through port, harbour-related and airport infrastructure cooperation.

Connectivity between Yunnan and Southeast Asia has been achieved. Apart from railway links (eastern line to Vietnam, central line to Vientiane in Laos, and western line to Myanmar), parallel oil and gas pipelines now run between Kyaukphyu port in Myanmar and Kunming. In the case of Guangxi, its proposed “Pan-Beibu Gulf Economic Zone” (mainly southwest China including an area of Yunnan, Guizhou, Chongqing and Sichuan and the northern part of the Indochina Peninsula covering the northern area of Vietnam, Laos and Thailand) and “Nanning-Singapore Economic Corridors” have played a very active role in promoting cross-border connectivity in the hinterland of Beibu Gulf.

President Xi Jinping also vowed in his speech to the Indonesian Parliament in October 2013 that “China will strengthen maritime cooperation with ASEAN and vigorously develop maritime partnership with ASEAN to build the Maritime Silk Road of the 21<sup>st</sup> century.”<sup>3</sup> The main emphasis was placed on stronger economic cooperation, including financial aspects, close cooperation on joint infrastructure projects (building roads and railways), and technical and scientific cooperation on environmental issues. This would involve port construction, port upgrading, development of logistic services and building free trade zones to boost trade and connectivity between international ports and inland waterways. Many people have therefore called it the “Chinese version of the Marshall Plan.”<sup>4</sup> But while the Marshall Plan was proposed by the U.S. in 1948 to aid economic reconstruction in Europe, the New Silk Roads, on the other hand, are meant to promote economic development in economically backward areas through cooperation, and will involve more than 60 countries. Thus, it bears more potential risks and is much more difficult to implement than the Marshall Plan.

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<sup>3</sup> Speech by President Xi Jinping to Indonesian Parliament <[http://www.asean-china-center.org/english/2013-10/03/c\\_133062675.htm](http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm)>.

<sup>4</sup> Shannon Tiezzi, “The New Silk Road: China’s Marshall Plan?”, *The Diplomat*, 6 November 2014.

As for funding, Xi Jinping announced at the APEC meeting in Bali in October 2013, the plan to establish the Asian Infrastructure Investment Bank (AIIB) that will fund and spearhead regional infrastructure development together with the China-initiated China-ASEAN maritime cooperation fund set up in 2010. Moreover, at the APEC meeting a year later, in October 2014, Xi Jinping further announced a US\$40 billion Silk Road fund which will be used to invest in infrastructure and natural resource development for China's neighbours.<sup>5</sup> The bank will focus both on upgrading port infrastructure and building new infrastructure in the region so as to accommodate the increasing demands generated from maritime trade cooperation. It also targets other maritime infrastructure including the manufacturing of marine product equipment. The AIIB will complement China's rapidly increasing bilateral development financing, and "channel more resources towards developing countries. It can do so in a way that is better suited to their needs, with fewer bureaucratic barriers and more flexibility than its more established counterparts."<sup>6</sup>

## **RATIONALE FOR CHINA'S INFRASTRUCTURE DIPLOMACY**

The New Silk Roads are both driven by different considerations. Economically, the plan signals a shift in China's strategy on development. After over three decades of high growth driven by massive investment and exports, China is now the world's second largest economy. However, China's economy also faces many problems, such as excess production capacity, serious pollution problems and unbalanced development in different regions. The new Chinese leadership under Xi Jinping and Li Keqiang has set an annual growth target of 7.5 per cent since 2012,

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<sup>5</sup> AIIB has 24 prospective funding members with China holding a majority stake. Among them are India, Singapore, Malaysia, the Philippines and Indonesia. The bank's headquarters are to be in Beijing, and its initial subscribed capital is to be about US\$50 billion. It is expected to be formally established by the end of 2015.

<sup>6</sup> Lee Jong-Wha, "China's New World Order", Project Syndicate, 12 November 2014 <<http://www.project-syndicate.org/commentary/china-global-governance-by-lee-jong-wha-2014-11>>.

embarking on a “new normal” of slower but better quality growth (Figure 1).<sup>7</sup>

But this transition to a slower and more sustainable growth model has created headwinds across many key sectors, including the massive steel industry and other infrastructure-related sectors such as aluminum, cement and coal. The previous government’s stimulus policies during the global financial crisis in 2008 — which generated over-investment in facilities ranging from steel mills to cement factories — have only added to the surplus in production capacity and undercut China’s productivity (Figure 2). China is hoping that outward infrastructure investment will help expand overseas markets for its enterprises and develop new bases for those sectors that have surplus outputs, in particular the iron, steel, aluminum and cement industries.

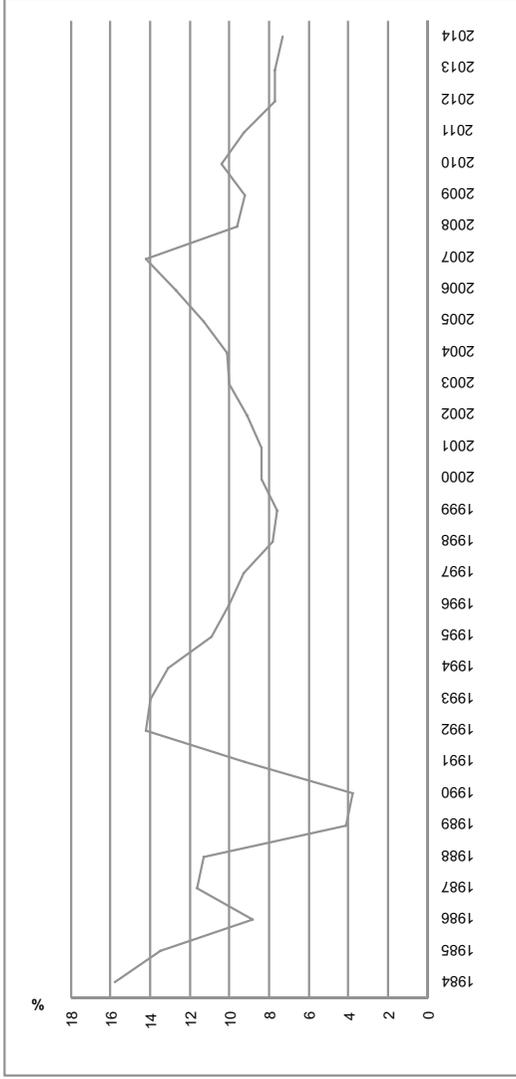
Absorbing foreign investments has been a major objective since 1978 when China started its economic reforms. After three decades of doing so, China’s strategy now is to encourage its own capital to flow out to its neighbours.<sup>8</sup> China’s OFDI (outward foreign direct investment) increased especially quickly after the global financial crisis in 2008. According to UNCTAD, annual outflow increased from US\$2.5 billion in 2002 to US\$56 billion in 2008. Since 2008, when global FDI declined because of the global financial crisis, China’s OFDI continued its growth to reach US\$84 billion in 2012, and in 2013 it reached US\$101 billion, nearly equal to the amount of its inward FDI of US\$123.9 billion (Figure 3). As a result, China has become a major source of global FDI. In 2013, China was the world’s third largest source of OFDI, after the U.S. and Japan. The share of China’s OFDI in the world total also grew from less than 3 per cent in 2008 to over 7 per cent in 2013. It is predicted that China’s outward investments will overtake inward ones as early as this year, as more Chinese move overseas. This will end more than two decades of net

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<sup>7</sup> President Xi Jinping, in his keynote speech at the Asia-Pacific Economic Cooperation (APEC) CEO Summit in Beijing on 9 November 2014, had publicly embraced this lower but more stable growth as the “New Normal”.

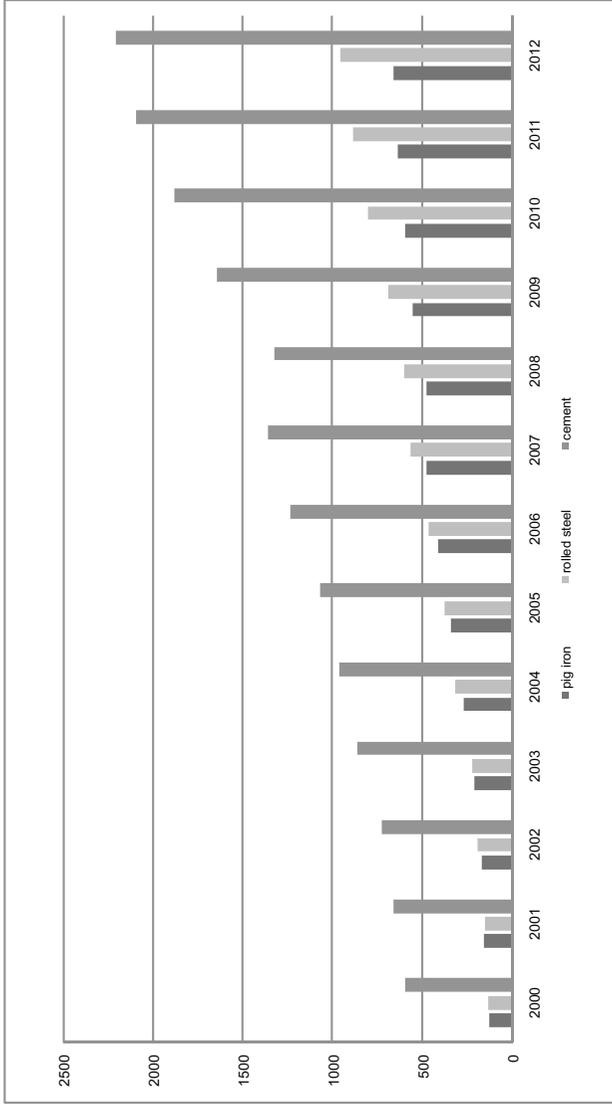
<sup>8</sup> “Policy banks to lead Silk Road infrastructure fund”, *China Daily*, 5 November 2014.

**Figure 1. China's GDP Growth, 1984–2014**



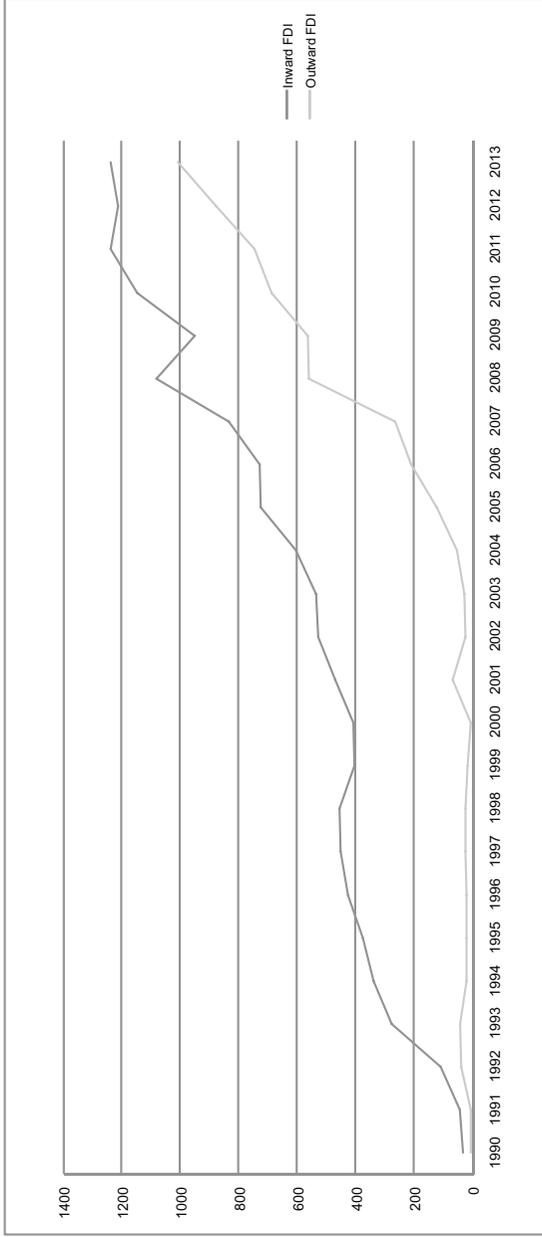
Source: China's National Bureau of Statistics.

**Figure 2. Output of Iron, Steel and Cement (million tons)**



Source: China's Statistical Yearbooks (2001–2013).

**Figure 3. China's Inward and Outward FDI (US\$ million)**



Source: UNCTAD Statistics.

flows to the country.<sup>9</sup> While further growth of China's OFDI is expected, it is likely to be more decentralized and market-driven, and its landscape will be further expanded and diversified.

China has US\$3.9 trillion in its foreign exchange reserves. In the past 10 years, a large part of its foreign exchange has been invested in U.S. Treasury bonds (by the end of 2013, China's holdings of US debt reached US\$1.27 trillion), which helped keep US interest rates low and support global economic growth. China has continued with its financial reform and is shifting from U.S. Treasury debt to other assets. It intends to make better use of its foreign exchange reserves to increase its economic returns and to serve critical geopolitical interests. *Financial Times* quoted a Chinese official saying that "this is a major change, the speed cannot be too fast, but we want a more constructive use of our foreign exchange reserves to be invested in global development projects, not just like a conditioned reflex to buy U.S. Treasury bonds. Anyway, we are usually making a loss from investments in U.S. government bonds. So we need to find ways to improve our return on investment."<sup>10</sup>

Against such a background, new government initiatives, such as the Maritime Silk Road, AIIB, and the Silk Road Fund may serve to diversify foreign reserves as well to encourage Chinese companies to invest and bid for contracts in countries along these planned routes. China sees a huge market in upgrading infrastructure in Southeast Asian countries and believes that participation in the construction of ports and other related facilities and connectivity in the region will directly benefit its large construction equipment business and economic growth.

Politically, it signals a shift in China's foreign policy direction. As China's economic power grows, economic and strategic considerations have elevated the importance of China's relations with its peripheral countries. There are three schools of thought with regard to policies relating to peripheral countries: the first is the "march west" approach which holds that China should actively develop relations with the

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<sup>9</sup> "China expands plans for World Bank rival", *Financial Times*, 24 June 2014.

<sup>10</sup> Ginch Josh.Noble, "China will reshape the world financial situation", *Financial Times*, 16 December 2014.

countries on its western periphery, thereby strengthening cooperation in the fields of energy and commodity channel constructions, cultural exchanges and combating the “three forces” (of terrorism, separatism and extremism).<sup>11</sup> The second is the “go south” approach which asserts that since Central Asia is within Russia’s sphere of influence, China’s “march west” would attract attention from Russia. As China does not yet have enough strength to confront the US in the east, a more desirable option would be to “go south”.<sup>12</sup> The third view advocates the “great peripheral” approach which holds that the geographic areas of China’s “great periphery” should cover Northeast Asia, Southeast Asia, South Asia, West Asia and the Pacific Region. China’s diplomacy should coordinate these “six plates” and integrate the two ideas of “maritime breakthroughs” and “positive march westward”.<sup>13</sup>

Since the start of the reform and opening up period, Chinese leaders have consistently prioritized stable, productive relations with developed economies of the West. The US, Japan and European countries have long offered the technological know-how and wealthy markets that China desperately needs to power its development. However, the global financial crisis in 2008 has left much of the developed world struggling in economic and political stagnation. Emerging markets especially in developing Asia appear poised to outpace the developed world as engines of demand and growth.

Although Chinese academics have debated the relative importance of China’s ties with its periphery over those with the US since at least 2011, only in 2013 did Chinese officials begin to refer to the periphery

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<sup>11</sup> 王辑思, “‘西进’, 中国地缘战略的再平衡” (‘march west’ - China’s geostrategic rebalancing’), 《环球时报》2012年10月17日 (*Global Times*, 17 October 2012).

<sup>12</sup> 赵可金, “走向南方可能是中国今后十年的战略重心” (“go south” might be China’s strategic focus in the coming decade), 《世界知识》2013年第24期 (*World Knowledge*, no. 24, 2013).

<sup>13</sup> 祁怀高、石源华, “中国的周边安全挑战与大周边外交战略” (China’s peripheral security challenge and great peripheral diplomatic strategy), 《世界经济与政治》2013年第6期 (*World Economy and Politics*, no. 6, 2013).

as the “priority direction”.<sup>14</sup> At the Central Work Forum on Diplomacy to the Periphery in October 2013, President Xi noted that the “strategic objective” of diplomatic ties to the periphery is intended to “serve and support” the CCP’s desired “China Dream” of “national rejuvenation”.<sup>15</sup> He cited geographic proximity, natural environment, political relations, and robust economy and trade as reasons for the “extreme strategic importance” of China’s periphery. Xi also called for building a “community of shared interests” and a “community of shared destiny” which will provide the vision for realizing Asia’s economic potential and achieving more durable security for Asia.<sup>16</sup> China aims to bind its interests more closely with the countries at its doorstep. This approach can be expected to bring many opportunities for these countries to prosper alongside China. Beijing appears to have elevated the importance of diplomatic relations with its neighbours by placing emphasis on the quality of peripheral relations and inclusive development.<sup>17</sup>

Indeed, although the past few years have witnessed increasing economic integration between China and Southeast Asia, Beijing has found that its growing geo-economic dominance does not necessarily translate into concomitant geopolitical influence and mutual trust. This may be due to, for instance, China’s lack of soft power (on account of its different ideology and political system from that of mature democracies) and its neighbours’ lack of trust in China. The latter is largely due to the

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<sup>14</sup> Timothy Heath, “China overhauls diplomacy to consolidate regional leadership, outline strategy for superpower Ascent”, *China Brief*, Vol. xiv, Issue 24, 19 December 2014.

<sup>15</sup> Quoted from Timothy R. Heath, “Diplomacy Work Forum: Xi steps up efforts to shape a China-centred regional order”, *China Brief*, Vol. xiii, Issue 22, 7 November 2013.

<sup>16</sup> On 7 September 2013 in Kazakhstan, President Xi announced a new policy of building a “community of shared interests” with Central Asia, and on 3 October the same year, Xi proposed to build a “community of shared destiny” with Southeast Asia.

<sup>17</sup> 陈琪、管传靖, “中国周边外交的政策调整与新理念” (China’s peripheral diplomacy adjustment and new ideas), 《当代亚太》2014年第3期 (*Contemporary Asia-Pacific*, no. 3, 2014).

territorial disputes occurring in the South China Sea and China's rapid increase in military capability.<sup>18</sup> In this case, China needs to adjust its "economic-oriented" policy, and take into consideration the political and security demands of the peripheral countries.<sup>19</sup> Chinese analysts have observed that the best way for China to build its "international reputation" is by "taking on more responsibilities in international security" which means "providing the entire world and all regions with more public security goods".<sup>20</sup> Through policies such as the promotion of free trade agreements, infrastructure investment and the development of maritime cooperation, Beijing hopes to mend and improve its reputation in this respect.

Taking into account the maritime disputes in the South China Sea, Beijing's new Maritime Silk Road policy seems to be aimed at defusing tensions and mending estranged relations with claimant ASEAN members. Beijing seems to be cognizant of the limits of a heavy-handed approach to the South China Sea disputes and realizes that its policy in the disputes cannot be too assertive, otherwise its soft power and strategic influence in the region may be significantly compromised. This new thinking is revealed in Chinese Foreign Minister Wang Yi's annual speech on 11 December 2014, in which he adopted a softer tone than in

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<sup>18</sup> John Wong and Lye Liang Fook, "Reviving the Ancient Silk Road: China's New Diplomatic Initiative", *East Asian Policy*, Volume 6, No. 3, 2014.

<sup>19</sup> 陈琪、管传靖, "中国周边外交的政策调整与新理念" (China's peripheral diplomacy adjustment and new ideas), 《当代亚太》2014年第3期 (*Contemporary Asia-Pacific*, no. 3, 2014).

<sup>20</sup> Chinese leaders define the country's provision of "public goods" to the international community differently from the US. Wang Yi, for example, explained that China intends to set itself up as the "defender of the cause of world peace" and to "safeguard the goals and principles of the UN Charter." It also means that China intends to be a "vigorous promoter of international development" and to contribute to UN goals related to development and poverty relief, climate change, and other global and regional development issues. China believes that for most Asian countries, development means the greatest security and the master key to regional security issues. (See Timothy Heath, "China overhauls diplomacy to consolidate regional leadership, outline strategy for superpower ascent", *China Brief*, Vol. xiv, Issue 24, 19 December 2014)

2013, rolling back China's nationalistic rhetoric and signaling that China is slowly but heartily working to repair ties with its neighbours.<sup>21</sup>

## **OPPORTUNITIES FOR ASEAN COUNTRIES**

The ten ASEAN member states have been pursuing regional market integration through ASEAN Economic Community initiatives, which are set to be completed by the end of 2015. To realise this goal, a community of enhanced connectivity is essential because a well-connected ASEAN, from its transportation networks to its peoples, will contribute towards a more competitive and resilient region as it will bring peoples, goods, services and capital closer together. The Master Plan on ASEAN Connectivity (MPAC), adopted by ASEAN Leaders at the 17<sup>th</sup> ASEAN Summit in October 2010, is ASEAN's response to the region's need to be better connected physically, institutionally and in terms of people-to-people contact. The imperatives for enhancing connectivity among ASEAN member states are manifold. Within the region, connectivity is necessary to facilitate the realization of ASEAN integration, to accelerate ASEAN Community building and to reinforce ASEAN's position as the hub of the East Asia region. Enhanced ASEAN Connectivity is required to achieve competitive growth, enhance intra-regional trade, and attract investments especially for those member countries that are lacking in capital.

ASEAN, however, faces several challenges in regional market integration and connectivity development. Both the Philippines and Indonesia, for example, still perform poorly in eliminating stumbling blocks to investments. They ranked 138<sup>th</sup> and 128<sup>th</sup> respectively out of 185 countries in the World Bank's 2013 Ease of Doing Business Index.<sup>22</sup> In 2013, FDI inflow to the Philippines rose by 20 per cent to US\$3.86

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<sup>21</sup> Nathan Beauchamp-Mustafaga, "China's foreign policy in 2014: a year to harvest partnerships and the Silk Road", *China Brief*, Vol. xiv, Issue 24, 19 December 2014.

<sup>22</sup> Quoted from Julius Cekar, "ASEAN market integration a tough call for members", *AsiaTimes online*, 8 May 2013.

billion. However, this figure is dwarfed by Indonesia's US\$18.5 billion, Malaysia's US\$12.3 billion and Thailand's US\$12.95 billion.<sup>23</sup> Indonesia is among the region's top destinations of FDI due primarily to its huge domestic market. However, FDI inflows could have been higher given the country's huge domestic market and rich natural resources.

High transportation and logistics costs between and within member countries are impediments to FDI inflows. As Table 1 shows, the Logistics Performance Index released by the 2014 World Economic Forum reveals that, out of 155 countries, the Philippines and Indonesia are ranked 95<sup>th</sup> and 72<sup>nd</sup> respectively, lagging behind Singapore (5<sup>th</sup>), and Malaysia (20<sup>th</sup>), but ahead of Vietnam (112<sup>th</sup>), Laos (66<sup>th</sup>), Cambodia (109<sup>th</sup>) and Myanmar (138<sup>th</sup>). Substandard port facilities and infrastructure have resulted in high regional maritime transport costs for many ASEAN countries and impeded their external economic cooperation. The extraordinarily high costs of transporting goods domestically makes it cheaper for Indonesians to consume foreign rather than domestic goods. In this respect, the economy can be said to be a collection of weakly integrated economies rather than a unified market.<sup>24</sup> Maritime transport is the most important mode of transportation in terms of traffic volume in international trade. However, many ASEAN countries, with the exception of Singapore and Malaysia, rank poorly in the quality of port infrastructure. Most of the gateway ports of ASEAN member states are already "fairly full" which means that investment in capacity expansion would have to be made.

The development divide among ASEAN members has frequently been cited as a challenge to the region's economic integration, and ASEAN leaders have admitted that more work is required on domestic reforms, infrastructure and intra-regional connectivity within Southeast Asia and its sub-regional groupings. ASEAN has sought to achieve inter-island connectivity through its plans of developing a "nautical highway system" or proposed "ring shipping route" in maritime Southeast Asia as

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<sup>23</sup> UNCTAD data centre <<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>>

<sup>24</sup> Makarim Wibisono, "Indonesia and global competitiveness", *The Jakarta Post*, 10 October 2011.

**Table 1. ASEAN Countries' Position in the Global Logistics Performance Index**

	Quality of overall infrastructure	Quality of roads	Quality of railroad infrastructure	Quality of port infrastructure	Quality of air transport infrastructure	Quality of electricity supply
Singapore	5	6	n/a	2	1	6
Malaysia	20	19	12	19	19	39
Brunei	39	35	n/a	49	55	59
Thailand	76	50	74	54	34	58
Indonesia	72	72	41	77	64	84
Philippines	95	87	80	101	108	87
Vietnam	112	104	52	88	87	88
Lao	66	68	n/a	129	82	64
Cambodia	109	93	98	97	106	110
Myanmar	138	134	94	125	137	117

Source: World Economic Forum, *The Global Competitiveness Report 2014-2015*.

a part of the Master Plan on ASEAN Connectivity.<sup>25</sup> They would need to construct new large-capacity ports to boost economic growth and increase their cross-border maritime trade with China and other countries. According to the Asian Development Bank (ADB), Asian countries will need to invest US\$8 trillion in national infrastructure and another US\$290 billion in inter-regional infrastructure construction between 2010 and 2020 to realize optimal growth. For individual Southeast Asian countries, Thailand, Malaysia, Indonesia and the Philippines will need up to US\$550 billion in investment between 2013 and 2020; the railroad sector alone will need US\$119 billion investment, accounting for 22 per cent of total projected investment needs.

However, many ASEAN countries do not have enough financial resources to invest in these projects. Mega-scale infrastructure projects tend to have difficulty in attracting private investment as the construction of large-scale projects usually takes a long time and is subject to high financial and political risks. ASEAN is aware that it needs foreign capital for its infrastructure modernization, as stated in its Master Plan: “ASEAN will further strengthen partnership with external partners, including Dialogue Partners, multilateral development banks, international organizations and others for effective and efficient implementation of the Master Plan”.<sup>26</sup>

The ADB, founded in 1966, is a major multilateral banking organization for funding local projects. However, its operations are largely focused on addressing growing income and social disparities, enhancing resource management, investing in innovation, and responding to requests for emergency support. For example, in 2013 the primary sectors in Southeast Asia receiving ADB lending support were public sector management (50 per cent), transport (15 per cent), and energy (10 per cent).<sup>27</sup> The ADB cannot adequately meet these infrastructure

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<sup>25</sup> ASEAN Secretariat, “Master plan on ASEAN Connectivity”, <<http://www.mfa.go.th/asean/contents/files/asean-media-center-20121203-182010-779067.pdf>>.

<sup>26</sup> Ibid.

<sup>27</sup> ADB Annual Report 2013, p. 33.

needs. As ADB President Nakao Takehiko said: “ADB has about US\$13 billion of new lending, new approval each year, but we estimate the infrastructure needs of Asia and Pacific are US\$8 trillion for 10 years, US\$800 billion each year”.<sup>28</sup> The World Bank also acknowledged that its fund for global infrastructure is limited; its President Kim Yong Kim announced that the infrastructure needs in developing countries started at US\$1 trillion a year, and this figure greatly exceeded private-sector investment of about US\$150 billion a year.<sup>29</sup> Thus, China with its total foreign reserves of around US\$4 trillion and total OFDI of US\$100 billion in 2013 has a potentially significant role to play in Southeast Asia’s infrastructure sector.

China sees a huge market in upgrading infrastructure in Southeast Asian countries and is hence supportive of Chinese companies participating in ASEAN’s infrastructure development projects including connectivity and port building. The competition among Chinese provinces for much of this business and the business infrastructure that goes with it are likely to launch a new round of investment projects associated with this initiative. Some of China’s local governments have been lobbying and organizing activities for preferential policies and financial support from the central government since the Maritime Silk Road initiatives were announced. In November 2014, Guangdong hosted the first international expo for the Maritime Silk Road with representatives of more than 40 countries attending the event. The Fujian government has announced the setting up of a 10 billion RMB fund to strengthen its economic and infrastructure linkages with ASEAN.<sup>30</sup> With this fund, Fujian province seeks to reinforce its importance with reference to the ancient Maritime Silk Road. In particular, Quanzhou, a port city in Fujian is already recognized by UNESCO as one of the two key starting points (the other

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<sup>28</sup> “ADB will be ‘very happy’ to work with China’s Asia infrastructure bank”, Reuters, 2 May 2014.

<sup>29</sup> “World Bank welcomes China-led infrastructure bank”, Reuters, 8 July 2014.

<sup>30</sup> John Wong and LYE Liang Fook, “Reviving the Ancient Silk Road: China’s New Diplomatic Initiative”, *East Asian Policy*, Vol. 6, No. 3, Jul/Sep 2014.

one is Ningbo in Zhejiang province) of the ancient Maritime Silk Road in China.

In turn, Guangxi is perceived as the gateway to China-ASEAN cooperation and presently, ASEAN is Guangxi's largest trade partner. The Guangxi government seeks to further expand its economic ties by tapping into the Maritime Silk Road and is attempting to make Guangxi an important part of this initiative. China's initiatives could add new dynamics for boosting the development of the Beibu Gulf Zone and link China's vast inland central and western regions to global maritime trade through the South China Sea and Indian Ocean.<sup>31</sup>

## **CHINA'S ROLE IN JOKOWI'S MARITIME POWER VISION**

Indonesia is the largest country in Southeast Asia and shares many common interests and visions with China in the context of the New Maritime Silk Road initiative. In his inaugural ceremony on 20 October 2014, President Joko Widodo (Jokowi) stated that he wanted to revive the historical position of Indonesia as a maritime power and develop it into a global maritime centre in ten years. Recognizing Indonesia's status as the world's largest archipelagic state and its location at the crossroads of the Indian and Pacific Oceans, Jokowi's strategic move to locate Indonesia as the global maritime nexus will promote connectivity between the Pacific and Indian Oceans, thereby positioning Indonesia as the pivotal country promoting stability in the Indo-Pacific region. Maritime policy will be a top priority for Jokowi's first few years in office, which offers China great opportunities for cooperation.

The first aspect of cooperation could be on transport infrastructure construction. The idea of building Indonesia up as a global maritime axis is not new. In 2010, the transport department of Indonesia set up an ambitious Archipelago Belt project which comprised mainly of three

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<sup>31</sup> Yu Hong and Lim Wen Xin, "The Guangxi Beibu Gulf Economic Zone and China's Maritime Silk Road in the 21<sup>st</sup> Century", *East Asian Policy*, Vol. 6, No. 3, Jul/Sep 2014.

imaginary belts – the Northern Archipelago belt, and the Middle and Southern Archipelago belts – that combine national arterial roads and connect different parts of Indonesia.<sup>32</sup> Jokowi first mentioned the idea of a maritime “toll road” during the presidential debate in May 2014. What he meant was a connection between the port of Sorong and the rest of western Indonesia that would promote interaction between them. This reflects the main idea of the Masterplan of the Acceleration and Expansion of Indonesia Economic Development which has identified Kuala Tanjung Port and Bitung Port as future International Hub Ports catering to the western and eastern parts of Indonesia respectively (Figure 4).<sup>33</sup>

One key objective of Jokowi’s idea of Indonesia as a global maritime power is to enhance inter-island connectivity and upgrade port infrastructure within the Indonesian archipelago, which encompasses thousands of islands and spans almost 6 million square kilometres. Many of these islands remain unconnected to their neighbours. Similarly, Indonesia’s port infrastructure has suffered from neglect and financial constraints over the years. Many of the ports are in bad shape and impede the country’s internal and external maritime commerce in the form of revenue losses, time-lags, procedural delays and inadequate port facilities.<sup>34</sup> That will require a lot of infrastructure investment. Indonesia needs to invest an estimated US\$6 billion to expand five major ports in north Sumatra, Jakarta, east Java, south Sulawesi and Papua to serve large vessels and build feeder lines for smaller ports.<sup>35</sup> In order to attract more foreign capital, Jokowi used his APEC summit speech to implore foreign investors to provide the funding required for vital upgrades to

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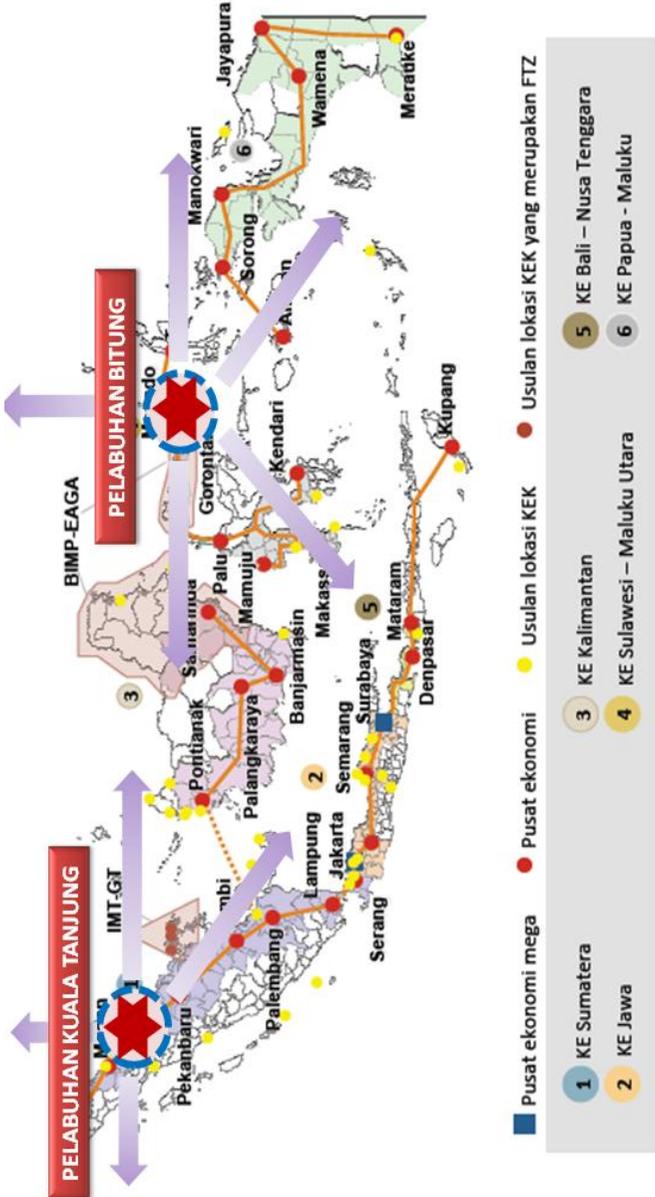
<sup>32</sup> “Archipelago belt aims to connect nation”, *Jakarta Post*, 30 May 2014.

<sup>33</sup> Quoted from Agus Syarif Hidayat, S.E, M.A., etc, “ASEAN-China connectivity development”, Final Report, 20 November 2014, submitted to the Embassy of the PRC in Indonesia by Economic Research Center – LIPI.

<sup>34</sup> Vibhanshu Shekhar and Joseph Chinyong Liow, “Indonesia as a maritime power: Jokowi’s vision, strategies, and obstacles ahead”, <<http://www.brookings.edu/research/articles/2014/11/indonesia-maritime-liow-shekhar>>.

<sup>35</sup> “Jokowi plans \$7.8b port expansion”, *Straits Times*, 8 November 2014.

Figure 4. Two Future Important International Hub Ports in Indonesia



Source: Coordinating Ministry of Economic Affairs, 2014.

the country's ports. China could play a more active role in this regard as China is Indonesia's second largest trading partner, its top source of foreign tourists, and a growing important investor.

The second aspect of cooperation pertains to regional security and stability. Indonesia's attempt to become a maritime power includes a security dimension. The growing militarization of maritime space in both the Indian and Pacific Oceans, and an escalation of hostility in the South China Sea have reinforced Indonesian fears of external security threats and regional instability. While Indonesia's defense budget has risen over the past few years, the 2014 allocation of around US\$8 billion is still merely 0.9 per cent of GDP, which is far below its own intended target of 1.5 per cent of GDP by the end of 2019.<sup>36</sup> Indonesia's navy still lacks capabilities in areas critical to policing Jakarta's extensive maritime area, including anti-submarine warfare and maritime reconnaissance.

While the South China Sea issue is important to Indonesia, Jakarta would still prefer not to let this single issue get in the way of burgeoning Sino-Indonesian ties. While welcoming the US' rebalancing towards Asia, some in Indonesia have raised concerns that Washington has placed too much emphasis on the military dimension of this strategy. From Jakarta's perspective, the importance Washington attaches to Indonesia and ASEAN should not simply be derivative of China's rise but instead be based on the intrinsic value of the country and subregion.<sup>37</sup> As the largest country in Southeast Asia and the world's largest Muslim-majority nation, Indonesia has sought to enhance its international footprint, particularly in key bilateral relationships, and would like to act as an intermediary between the parties involved in the territorial disputes in the South China Sea. In the presidential debates during the campaign, Jokowi underlined the position that Indonesia had no disputed claims in the area, and it should only intervene if it could propose a solution to the

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<sup>36</sup> Prashanth Parameswaran, "Indonesia avoids open territorial dispute, despite concerns", *ChinaBrief*, Vol. xiv, Issue 13, 3 July 2014.

<sup>37</sup> Dewi Fortuna Anwar, "An Indonesian perspective on the U.S. rebalancing effort toward Asia", NBR Commentary, 26 February 2013 <[http://nbr.org/downloads/pdfs/outreach/Anwar\\_commentary\\_02262013.pdf](http://nbr.org/downloads/pdfs/outreach/Anwar_commentary_02262013.pdf)>.

problem.<sup>38</sup> In later interviews, he has hewed closer to the foreign ministry line, saying he would like to see Indonesia serve as an “honest broker” in the South China Sea.<sup>39</sup> There is no doubt that Jakarta will take an active role in resolving the disputes, largely for the sake of contributing to territorial dispute management and regional stability. The dynamics of the peaceful settlement of disputes in the South China Sea cannot be built without involving Indonesia.

Jokowi’s maritime policy presents opportunities for Beijing to consolidate security ties with Indonesia which eyes China’s robust military industry as a potential future partner.<sup>40</sup> Although initially reluctant to engage with China, Indonesia has forged closer bilateral relations between the two countries, culminating in the signing of a strategic partnership in 2005, which was upgraded to a comprehensive strategic partnership during Chinese President Xi Jinping’s visit to Jakarta in 2013, and has also encouraged Beijing’s close relations with ASEAN. In the defence sector, Indonesia and China agreed on the Defense Consultation Forum in 2007 and defence industrial cooperation in 2011. Jakarta took China into consideration in every development in the region, including inviting China to take part in joint military exercises with the U.S. and Australia in order to improve overall preparedness for humanitarian disaster relief.<sup>41</sup>

It was significant that it was in Jakarta in October 2013 that Chinese President Xi announced the initiative of the new Maritime Silk Road. This indicated that China views Indonesia as an anchor for its Maritime Silk Road Strategy. On 2 November 2014, Chinese Foreign Minister

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<sup>38</sup> Although China’s “nine-dotted line map” overlaps with part of the Exclusive Economic Zone extending from Natuna Islands, Beijing has repeatedly assured Jakarta in unofficial diplomatic interactions that it has acknowledged Indonesia’s sovereignty over Natuna Islands.

<sup>39</sup> Quoted from Yeremia Lalisang, “President Jokowi and RI-China relations”, *Jakarta Post*, 13 November 2014.

<sup>40</sup> *Jakarta Post*, 22 February 2014.

<sup>41</sup> Dewi Fortuna Anwar, “An Indonesian perspective on the U.S. rebalancing effort toward Asia”, NBR Commentary, 26 February 2013.<[http://nbr.org/downloads/pdfs/outreach/Anwar\\_commentary\\_02262013.pdf](http://nbr.org/downloads/pdfs/outreach/Anwar_commentary_02262013.pdf)>.

Wang Yi visited Jakarta and met Jokowi and Foreign Minister Retno Marsudi. Mr Wang suggested that President Jokowi's vision of Indonesia as a maritime fulcrum could complement Beijing's new Maritime Silk Road, as the plan aims to strengthen maritime connectivity and enhance the capacity of countries in Southeast Asia to maximize security and the management of maritime resources. China would participate actively in Indonesia's aim to be a maritime power, largely by assisting with infrastructure development. Jokowi was also quoted as saying that "Indonesia is on the way of developing into a maritime power, while China proposes to build the Maritime Silk Road of the 21<sup>st</sup> century; the two initiatives highly fit with each other".<sup>42</sup>

More significantly, at the APEC meeting in Beijing in November 2014, Jokowi agreed to join the newly established China-led AIIB that is seen as a rival of the World Bank and the Asia Development Bank. Jokowi also invited Xi to visit Indonesia in 2015 for the 60<sup>th</sup> anniversary of the Afro-Asian Conference and the 65<sup>th</sup> anniversary of the establishment of diplomatic ties between Jakarta and Beijing. These are seen as indications that Indonesia under Jokowi is moving closer to China,<sup>43</sup> suggesting great potential for cooperation between the two countries, economically and strategically.

## LOOKING AHEAD

Beijing's new Maritime Silk Road initiatives pose an attractive vision of countries working together in pursuit of mutually beneficial cooperation. This appears all the more seductive when it fits with the Master Plan on ASEAN Connectivity and President Jokowi's vision of maritime power. Nevertheless, there are a number of challenges that China will have to deal with. On the Chinese side, for example, the number of activities and projects that may fall under the new Maritime Silk Road are numerous, even within the specific categories of infrastructure, connectivity,

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<sup>42</sup> Quoted from Leo Suryadinata, "Indonesia to be maritime power? Not so fast", *Straits Times*, 11 December 2014.

<sup>43</sup> Ibid.

trade and investment and maritime cooperation. China will need to focus on drawing up plans, setting priorities, monitoring progress and coordinating with many foreign countries. It will also need to coordinate among different local governments and departments in China so as to ensure better distribution of resources and prevent undue overlapping of policies and competition.

China may use the AIIB to help finance the Maritime Silk Road and show its willingness to assume responsibility for providing public goods in a rebalanced post-Cold War world whose needs exceed the resources of existing regional and global institutions. Nevertheless, there is also worry that the AIIB could fragment international development finance and weaken economic governance in Asia by ignoring the international standards of governance and transparency.<sup>44</sup> As Tomoo Kikuchi and Takehiro Masutomo argue, “local government in Asian countries may demand funding for projects out of political interest. China’s financing approach and the recipient’s motivation may not generate an environment that is conducive to channeling capital to sustainable development in the region.”<sup>45</sup> Donald Emmerson, a professor of Stanford University, feared also that “Xi may want to use these new institutions to tie Asia more tightly and deferentially to Beijing in a web of ‘Silk Roads’ that will disproportionately serve China’s interests.”<sup>46</sup> Indeed, the critical issue for most Southeast Asian countries is ultimately less about China’s power in and of itself than what it intends to do. Jose Almonte, the former National Security Advisor of President Fidel V. Ramos of the Philippines, characterized ASEAN’s position as such: “ASEAN can accommodate the idea of China as the East Asian superpower. All it asks is that China remember that demographic magnitude, economic weight, and military power by themselves do not command respect. Respect must be earned

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<sup>44</sup> Lee Jong-Wha, “China’s New World Order”, Project Syndicate, 12 November 2014 <<http://www.project-syndicate.org/commentary/china-global-governance-by-lee-jong-wha-2014-11>>.

<sup>45</sup> Tomoo Kikuchi and Takehiro Masutomo, “Japan should influence China from within the AIIB”, *Straits Times*, 3 February 2015.

<sup>46</sup> Donald K. Emmerson, “Meeting the challenge of China’s rise in Asia”, *East Asia Forum*, 7 November 2014.

– and it can only be earned if a superpower’s attributes include moral authority.”<sup>47</sup> Beijing needs to muster much political will and make determined efforts to address such concerns and fears.

China’s ability and enthusiasm to forge stronger economic ties and connectivity could be undermined by the political instability of its neighbours. For example, in July 2014 Thailand approved a US\$23 billion deal for two high-speed rail links with China, to be built by 2021.<sup>48</sup> But questions remain over the durability of an agreement made with a military junta. Given China’s experiences in Myanmar and what happened recently in Sri Lanka, their concerns about potential political risks are not without reason.<sup>49</sup>

On the other hand, some countries along the Silk Road may be concerned about the ecological and cultural impact of large-scale investments. Chinese companies lack experience in this, as the Chinese legal system and requirements on business ethics, especially those with regard to environmental protection, are immature compared to that of developed countries. China needs to look at the Silk Road strategy from the viewpoint of these countries and prioritize the resolution of the issues they are concerned about.

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<sup>47</sup> Jose T. Almonte, “Ensuring security the ‘ASEAN Way’”, *Survival*, vol. 39, no. 4 (Winter 1997-98), pp. 80–92.

<sup>48</sup> During his visit to Bangkok in December 2014, Chinese Premier Li Keqiang signed a memorandum of understanding with Thai counterpart Gen. Prayut Chan-O-Cha that paves the way for this joint venture to build the two high-speed railway lines through Thailand. The MoU allows China to invest in two dual-track rail lines in Thailand that will span 734 km and 133 km individually and connect northeast Thailand’s Nong Khai province, Bangkok and eastern Rayong province. The project is estimated to cost US\$10.6 billion, and the construction will start in 2015 and be completed by 2022. (“China, Thailand sign MoU on railway cooperation”, *China Daily*, 19 December 2014.)

<sup>49</sup> The recently elected President Maithripala Sirisena of Sri Lanka began to reorient the country’s foreign policy after he took power, emphasising better relations with the West and India. He also announced the revaluation of some big investment projects signed by the previous government with China, in an effort to reduce over reliance on China. (“Sri Lanka chooses changes”, *East Asia Forum*, 28 January 2015).

Moreover, the geopolitical front presents another set of challenges to China in implementing the Maritime Silk Road. China has to contend with the interests of major powers like the U.S., Japan and India which have maritime ambitions as well. The Obama administration's strategy to pivot towards Asia and to give higher priority to relations with ASEAN was aimed to counter-balance China's growing regional influence. In response, China seeks to counter U.S. presence by building even stronger economic linkages with ASEAN countries and drawing these countries closer into its economic sphere. Washington sees the AIIB as a political tool for China to pull countries in Southeast Asia closer to its orbit, a soft-power play that promises economic benefits while polishing its image among neighbours anxious about its territorial claims.<sup>50</sup>

As of now, ASEAN continues to adopt a dual approach towards the U.S. and China. While it continues to rely on the U.S. on security matters, it has responded enthusiastically towards China's numerous economic schemes and initiatives. The disconnection between China's economic strength on the one hand, and the significant security role assumed by the US on the other, highlights the imbalance of power in the region.<sup>51</sup> This gap or hedging approach has nevertheless benefited ASEAN by giving member states the ability to take advantage of the competition between the big powers. However, ASEAN states find themselves caught in the ebbs and flows of US-China rivalry at other times,<sup>52</sup> and have more and more difficulty reconciling these two very critical relationships.

ASEAN countries are sorely in need of more infrastructure investment, and perceive that multilateral and private organizations such as the World Bank, the ADB, the IMF and the global private sector may

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<sup>50</sup> Jane Perlez, "U.S. opposing China's answer to World Bank", *New York Times*, 9 October 2014.

<sup>51</sup> 薛力, "'一带一路' 折射的中国外交风险" (China's diplomatic risk reflected by 'one road one belt'), *FT Chinese net*, 30 December 2014 <<http://www.ftchinese.com/story/001059886#s=p>>.

<sup>52</sup> "China's moves in the South China Sea: implications and opportunities", *Stratfor Global Intelligence*, 10 November 2014, <<http://www.scribd.com/doc/247885785/China-s-Moves-in-the-South-China-Sea-Implications-and-Opportunities#scribd>>.

not be acting fast enough to meet their needs. It is believed that Beijing can play a complementary role in this regard. However, uncertainty about the future remains. While China has tried to reassure neighbouring countries that its rapid rise is accompanied by peaceful intentions, there is no guarantee that this will be the case in the long term. There is a deep-rooted fear that China has plans beyond building roads, laying railways, upgrading ports and boosting trade, and neighbouring countries worry a great deal about giving Beijing more economic leverage to force them to conform with its demands in territorial disputes. They fear that “in the long run, when China’s growing economic power morphs along more strategic-oriented pathways, pressure will mount on ASEAN members to reciprocate China’s regional and global interests.”<sup>53</sup> Hence, it will be difficult for China’s neighbours to fully embrace the Maritime Silk Road as long as security concerns and challenges in the South China Sea remain unresolved.

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<sup>53</sup> Kavi Chongkittavorn, “Pushing East Asia Summit to new level”, *Straits Times*, 11 November 2014.



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