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INSIDE PAGES

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China's Push for Economic Globalisation in the Context of the "One Belt, One Road" Initiative

China's approach and its strategic thinking on global economic development and economic globalisation have propelled it into the limelight of the global economic arena as the Chinese leadership leverages various international platforms.

YU HONG

The growing resentment towards globalisation and the rise of protectionism and nationalism in the West today are widely believed to contribute to the United Kingdom's disruptive Brexit vote to exit the European Union and Donald Trump's victory in the United States' presidential election. Against this backdrop, China is considered by many as a leading force to rescue free trade and push for the next phase of globalisation.

If the West is less willing to lead the global economy, then China surely is prepared to lead. In January 2017, a senior Chinese diplomat bluntly stated that "if it is necessary for China to play a leadership role, then China must take on this responsibility. China is prepared to take the helm of the global economy if the Western countries choose to abdicate their leadership role."

Since Chinese President Xi Jinping came into power in 2012, the Chinese government has adopted a far more proactive foreign policy stance, driven by global thinking. China has thus quickly advanced towards centre stage of the global economic arena since the 2008 global economic crisis, given that the Chinese leadership has leveraged various international platforms to promote China's approach and its strategic thinking on global economic development and economic globalisation.

Since China opened its door to the outside world in the late 1970s, millions of Chinese workers joined the global workforce in the assembly and manufacture of toys and home appliances initially, and later computers, smartphones and laptops. It is fair to say that no other major country has benefited more than China from global economic cooperation and the free flow of investment and trade accompanying globalisation.

Fragmentation of production processes due to technological innovation and global demand for low-cost production bases led to China's emergence as the world's key manufacturing workshop and an important final assembly hub within the regional production network. China's market-driven development experience over the last three decades has therefore affirmed its belief that globalisation plays a vital role in its economic future.

China also recognises that efficient and reliable infrastructure connectivity is a crucial component driving economic globalisation and trade expansion, and this explains its enthusiastic promotion of the infrastructure connectivity-centred "One Belt, One Road" (OBOR) initiative overseas to improve interregional physical infrastructure connectivity. In short, the OBOR initiative is China's attempt to put its own stamp on globalisation.

The OBOR initiative represents not only President Xi's signature project under his administration, but also the Chinese government's first concrete attempt to promote closer economic integration in the region and beyond, by taking a lead on free trade and economic globalisation. The OBOR initiative, which reflects China's emergence as a leading global power attributed to its capability in industrial redeployment

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Understanding China's Ambitious "One Belt, One Road" Initiative

Amid the growing tide of populism and protectionism sweeping Europe and the United States, and the uncertain future of economic globalisation, Western mainstream media unexpectedly gives wide coverage of China's role in the rescue of globalisation and the global trade order.

As China is still perceived as an authoritarian regime that pursues state capitalism as its economic policy, it is therefore ironic that it is now regarded as a leading defender of a trade order based on Western capitalist countries' liberal economic development model.

China has gone beyond surviving in the global economy after decades of learning—it has already emerged as the world's largest trading nation and a major global investor. In 1983, China's share in global merchandise trade was merely 1%, but by 2015, it already accounted for 12.7% of global merchandise exports and 10.5% of imports. These are compelling figures that bear testimony to the power of economic globalisation and its contribution to China's rise as a formidable global power.

During his keynote speech at the World Economic Forum in Davos in January 2017, Chinese President Xi Jinping, in a move to defend economic globalisation and oppose protectionism, vowed to promote closer global economic integration and the grand "One Belt, One Road" (OBOR) initiative.

Given China's economic power, its size and leading trading status in the world, the OBOR initiative could potentially reshape the geopolitical and geoeconomic landscapes of the region and beyond in the future.

At least for now, most countries along the Silk Road route welcome the OBOR initiative, along with its related infrastructure projects and Chinese outward investment proposals. To date, more than 40 countries and international organisations have signed cooperation agreements or memorandums of understanding with China to endorse or to participate in the OBOR initiative.

Professor Zheng Yongnian
EAI Director

By leveraging its OBOR initiative, China seeks to grasp the opportunities offered by economic globalisation. To showcase its leadership position in global infrastructure development and to kick-start the world's flagging economy, China will be hosting the international OBOR summit in May this year. This event will be touted as the largest major form of diplomacy and public relations ever hosted by China in 2017.

The East Asian Institute has been following closely the development of the OBOR initiative. The main theme featured in this special issue of the *EAI Bulletin*, which will inaugurate EAI's 20th anniversary celebrations of the institute's establishment, is on China's OBOR initiative.

Interesting articles authored by our colleagues and experts on topics such as the role of the OBOR initiative in China's grand foreign diplomacy, China's push for globalisation, regional reactions and perceptions towards the initiative, and the implications of maritime security, among others, will enhance readers' understanding of China's OBOR initiative, which is the centrepiece of China's foreign policy, and its motivations. ■

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The "One Belt, One Road" Initiative in China's Grand Foreign Diplomacy

The Belt and Road Initiative is part of China's grand foreign policy strategy under President Xi Jinping to extend China's influence in the long run through pursuit of win-win cooperation.

LYE LIANG FOOK

China's "One Belt, One Road" (OBOR) is a key initiative of China's grand foreign diplomacy under President Xi Jinping. Xi unveiled the Silk Road Economic Belt (the overland route) and Maritime Silk Road (the maritime route) in September 2013 and October 2013, respectively, not long after he became president in March of that same year.

The OBOR initiative is part of Xi's vision of a new model of international relations whereby every country, big or small, rich or poor, accords each other mutual respect and engages in mutually beneficial cooperation with a view to build a community of common destiny. Such collaboration, in Xi's view, is a logical outcome of the incontrovertible world trend as well as common aspirations of countries and their people for peace, development and prosperity.

Against this backdrop, China has committed itself to work with more than 60 countries across the three continents of Asia, Africa and Europe in five key areas, namely facilities connectivity, policy coordination, unimpeded trade, financial integration and people-to-people exchanges. Each area will cover a broad scope that encompasses a variety of projects. For instance, facilities connectivity is not confined to physical infrastructure development like roads, highways, ports and railways but also includes other key infrastructure networks such as oil and gas pipelines, power transmission lines and optical fibre cables. There is sufficient room for China and relevant countries to identify and work on projects of mutual interest. Moreover, on top of the three continents officially identified as being part of the OBOR initiative, China manifests its great flexibility by extending gesture of cooperation to countries in other regions such as in the South Pacific, Middle East and even Latin America. In this sense, the implementation of the OBOR is not limited in geographical scope.

Countries that lie along the OBOR routes include those in China's neighbourhood. Xi has since early in his presidency placed particular emphasis on developing China's ties with its neighbours. In October 2013, the Communist Party of China Central Committee held a conference on diplomatic work with neighbouring countries, the first such conference that focused only on a specific area of China's periphery rather than China's foreign policy as a whole. At the conference, Xi said that while other countries are dependent on China's growth, China's development is also tied to the interests and destinies of neighbouring countries, and that a peaceful and friendly neighbourhood forms the foundation of China's own development and prosperity. Through the OBOR initiative, China therefore seeks to forge a peaceful and friendly neighbourhood that would help it grow and prosper.

The countries located along the "belt" and "road" routes are also largely developing countries. China in fact stands in good stead to share its technology, technical know-how and excess capital with these countries. China is also looking for overseas opportunities to export its industrial overcapacity in cement and steel. Furthermore, China, because of its strong financial prowess and its capability to build economical and reliable infrastructure, also appeals broadly to developed countries. In this sense, China's current economic strength seems to be the primary driver behind the implementation of the OBOR.

China's strong economic thrust is not surprising as it currently wields the trump card in this area. And this card is expected to become increasingly powerful as China is tipped to displace the United States as the world's largest economy in the not too distant future. The economic realm affords China the most logical and appropriate platform to further its interests abroad in a less threatening manner. Economic relationships between countries usually allow for win-win cooperation, from which countries are able to gain some economic benefits. The significance of collaboration lies not in delivering an equal distribution of benefits but, more importantly, in allowing for the benefits to be shared, or in Chinese parlance the mutual sharing of benefits.

The economic realm affords China the most logical and appropriate platform to further its interests abroad in a less threatening manner.

The economic arena is also a less sensitive area where China's actions need not necessarily be seen as a direct challenge to the existing pre-eminent position that America still enjoys on the international stage especially in the defence and military realms. China has therefore made a conscious effort to stress that its OBOR initiative is premised on building partnerships that allow other countries to ride on the economic opportunities presented by China's growth. This is intended to be an alternative to the traditional US approach of signing treaties and building military alliances, which China has criticised as being a product of the Cold War. In China's perspective, what the United States continues to advocate is obsolete and not in step with the trend of the times.

To some extent, Xi's vision of China and relevant countries working together in blissful cooperation rather than outright competition is a seductive notion. His vision is also appealing at this juncture when a number of countries are struggling to regain their domestic growth momentum and thus view closer economic cooperation with China through the OBOR initiative as a means to improve their economic prospects. However, the OBOR is an ongoing and long-term initiative, and its success would depend not only on China's efforts alone but also on whether other countries regard their interests as being accounted for in pursuing cooperation with China. ■

Lye Liang Fook is Assistant Director and Research Fellow at EAI.

One Belt, One Road: A Role for China in Developing Asia

Increasing the recognition of Chinese capital in developing Asia will be the key to China's initial success in its "One Belt, One Road" investment.

JANE DU

After over 30 years of rapid economic growth, China's economic slowdown is inevitable. Unlike Asia's four "tigers", China's slowdown came earlier than expected at its developing stage. This pushes the Chinese government to seek ways to boost economic growth and to transform its premise of a "peaceful rise" to a more proactive approach and participation in the global economy, thereby culminating in the eventual realisation of the China dream of "great rejuvenation of the Chinese nation". This underlines China's proactive approach in launching the "One Belt, One Road" (OBOR) initiative to establish a China-led economic circle in Asia. However, as China's rapid growth during the reform era focused on integration into the world economy, the China dream of "great rejuvenation" is basically an extension of all ongoing economic strategies but with intensified emphasis on deeper cooperation with other Asian countries through the OBOR initiative.

According to the latest data released by the National Bureau of Statistics of China, the country's gross domestic product (GDP) growth rate in 2015 slowed to a 25-year low of 6.9%. The situation was even aggravated by the declining urban fixed asset investment (–10%, year-on-year) and employment (–2%) in the secondary industry. Data at this level means that China's industrial sector has started to crowd out labour accumulation and face a downturn in supporting China's overall growth. Under current economic climate, the Chinese government needs to find a way out for the country's excessive industrial overcapacity in order to pursue future economic growth. Indeed, China's "One Belt, One Road" (OBOR) initiative was launched as a key solution to its overcapacity problem and as a possible new growth engine in Asia.

China, Asia's largest economy, has steadily broadened its economic cooperation in Asia, pushing the OBOR initiative most extensively. If implemented successfully, the OBOR can create a large overseas market for Chinese capital to invest and in turn for China to develop. However, China's outward capital flows face great challenges, since the implementation of the OBOR largely depends on Asia's market recognition of Chinese capital.

In 2015, Asia continued to be the world's top recipient region of foreign direct investment (FDI), accounting for nearly 40% of global FDI according to the World Bank and UNCTAD data. Total net inflows to Asian countries amounted to US$702 billion in 2015. Asian market has a large capacity to absorb increasing capital investment. On the other hand, China's outward foreign direct investment (OFDI) had also expanded rapidly in recent years due to the plummet in global asset prices after the 2008 financial crisis. In 2015, China's non-financial outflows approximated at US$108 billion, accounting for 15% of total FDI inflows that Asia received in the same year.

However, China's OFDI in Asia is largely concentrated in Hong Kong, which received US$90 billion out of Asia's total FDI at US$108 billion in 2015. A proportion of China's OFDI to Hong Kong was channelled to these Hong Kong affiliates that disguise themselves as "overseas companies" in order to enjoy government benefits, while another significant proportion of it was channelled out of China through Hong Kong to third countries to avoid taxation. If Hong Kong is not taken into consideration, the share of the rest of Asia in China's total OFDI in 2015 dropped sharply from 74% to 13%, slightly lower than the share of North and South America combined (16.1%).

Moreover, about 66% of China's total OFDI flow to the rest of Asia (excluding Hong Kong) are channelled to several Asian advanced economies, such as Singapore (9.6%), Japan (0.2%), South Korea (1.2%) and Taiwan (0.2%). China's OFDI to Asia's developing countries only accounted for 6% of its total OFDI in 2015. Some of these recipient countries are upper-middle-income developing countries that have comparable per capita GDP as China, such as Kazakhstan, Iran and Thailand. By excluding these three countries from the calculation, China's overseas investment to Asia's low- and middle-income developing economies only amounted to US$9 billion, or 1% of its total FDI inflows to Asia in 2015. Although developing Asia shows its capacity to absorb capital inflows, China's OFDI to Asian developing countries remains low and is mainly concentrated in several neighbouring countries (e.g. Laos and Cambodia). This poses a challenge to China's ongoing OBOR investment.

In fact, China's Asian partner countries in the OBOR collaboration could be grouped into two categories based on their development trajectories. The first category includes low-end, late-industrialising countries with good potential and prospect for growth but have yet to take off. These countries are usually located in Southeast Asia, OBOR's likely destinations for initial infrastructure investment (e.g. Vietnam, Laos and Cambodia). The second category includes resource-rich, developing countries. Economic growth in these resource-based economies remain stagnant due to political and military reasons. The OBOR initiative will therefore boost China's ongoing investment to secure natural resources and gain access to local resource markets in those resource-originating countries. However, China's current investment pattern shows that the country still has considerable latitude to develop the potential of the first category of partner countries. If China increases investment in low- and middle-income Asian economies and achieves some success, these economies may, in the near future, become China's large overseas market for its product and capital investment which will help China sustain its growth and also in developing Asia as a whole. ■

Jane Du is Visiting Research Fellow at EAI.

Eurasia's Freight Rail Service in the "One Belt, One Road"

Improved eastbound cargo volume and the centralisation of all Eurasia freight rail management under the newly created China Railway Express mark the turnaround of the service in 2016.

HENRY CHAN

The year 2016 marked the sixth year of China–Europe freight train service. Chongqing–Duisburg line was the inaugural Eurasia freight train service operational on 19 March 2011. By June 2016, the "One Belt, One Road" (OBOR) freight rail service network has connected 16 Chinese cities and 12 European/Central Asian cities. Poor economics, however, plagued the expanding Eurasia freight rail service right from the beginning. To compete with the well-developed and more economical ocean freights, Chinese local governments provide generous subsidies to exporters to make the switch to rail freight. But, a dearth of return cargo from Europe to China further aggravated the problem—in most instances, fully loaded westbound trains return with mainly empty railcars. Railway companies therefore need support from local governments to run the unprofitable rail freight network.

Chinese local governments' move to jump on the OBOR bandwagon to set up train freight service further complicated the route system and structures, resulting in route replication and underutilised rail assets. Most of the 39 Eurasia freight routes, as of June 2016, have replicating links. It was rumoured that local governments' annual subsidy on the Eurasia freight rail route was in millions of dollars, with each railcar suffering a loss of US$1,000 to US$2,000. Many observers cited this as another example of a politically driven and unsound economic decision.

> CR Express proposed three main freight corridors and the corresponding cargo bases to be built on existing freight network of the OBOR route in a five-year development plan (2016–2020)...

Increased marketing efforts in 2016 to solicit more eastbound cargoes seemed to effectively solve the imbalance problem in the westbound–eastbound cargo structure. In 2016, the number of eastbound return railway trips (572 trips) inched up to more than half the number of westbound trips (1,130 trips)—both east- and westbound trips were an increase of more than 100% over the figures in 2015, with eastward cargoes growing faster than the westbound. The Eurasia freight rail market may have the potential to attain the critical economic mass to be commercially viable and 2016 can be touted as the turnaround year.

Indeed, there were several developments in 2016 that have potentially improved the long-term prospects of the OBOR railway freight service.

First, new technological developments to automate the gauge change of railcar are in progress and targeted to be operational in 2018. Currently, a freight container must change train carrier at least twice in its journey as it passes through the Commonwealth of Independent States that operate on 1,520 centimetre-wide rail gauge, unlike the 1,435 centimetre-wide rail gauge used in China and most of Europe. This therefore constitutes one to two extra days in the freight journey.

Second, transiting countries had started extensive discussions with the railway operators on procedural issues regarding custom clearance and cargo information exchange that can help facilitate transit time and cost. With increasing cargo volume and improved information system, countries along the route make efforts to improve the regulatory aspects of cross-country OBOR cargo transportation. In fact, many countries had reduced freight transit fees in 2016 and are working closely with railway operators to cut transit times.

Third, as part of the supply-side reform, the Chinese government consolidated the management of Eurasia freight rail service under China Railway Express (CR Express) in 2016. The centralisation of transport planning has improved efficiency and addressed issues of competition, high operating cost and supply-demand imbalances. Overall, CR Express and local governments had made efforts to reduce competition of different freight options and improve the prospects of the entire transportation network.

Fourth, CR Express proposed three main freight corridors and the corresponding cargo bases to be built on existing freight network of the OBOR route in a five-year development plan (2016–2020) published at the end of 2016. This is the first top-level scheme proposed for the OBOR freight corridors. The Western Corridor consists of three exit points from China—the first exits at Alashankou of Xinjiang through Russia; the second also exits at Alashankou but passes through Kazakhstan and Central Asian countries; and the third exits at Torugart Pass and Irkeshtam of Xinjiang and passes through Kyrgyzstan. The Central Corridor exits from China at Erlian of Inner Mongolia and passes through Mongolia and Russia. The Eastern Corridor exits from Manchuria of Inner Mongolia and passes through Russia.

Fifth, based on the CR Express' five-year plan, the projected total freight load for railway in 2020 is 5,000 train loads (equivalent to a minimum of 250,000 railcar loads for dual directions). The current market outlook is positive as the eastbound return service is gaining momentum. The total west- and eastbound freight load is expected to hit between 2,500 and 3,000 train loads in 2017. Given that trains in

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The China–Pakistan Economic Corridor: Challenges and Prospects

The corridor is indeed a game changer for both Pakistan and China that needs to be crafted and implemented effectively to fruition towards a better future for both countries.

ZAFAR KHAN

The China–Pakistan Economic Corridor (CPEC) is not China's mega project to advance its geopolitical and geoeconomic interests, but it is one of the broader parts of its grand strategy often known as the "One Belt, One Road" (OBOR) initiative, through which China attempts to escape the long-standing "Malacca dilemma". The Chinese leaders are concerned that a possible blockage of the Strait of Malacca, should a conflict arise between China and the United States and its major allies in the Asia-Pacific region, would pose serious challenge to its energy security.

The United States undoubtedly still remains the predominant player in the Asia-Pacific with stronger and much more developed allies, compared to China's "allies" which are presumably weak and still developing. As part of China's "String of Pearl" strategy which China attempts to develop and leverage to strengthen its economic and political ties with countries in Central Asia, South Asia, Southeast Asia and parts of Africa to sustain a balance of competition and cooperation in the said regions, China seems to have even attracted the key US allies to its geoeconomic endeavours. Despite various limitations, China has manifested some degree of assertiveness and military modernisation as it does not want to be undermined again.

...this strategy enables China to develop its western region, and also to find outlets to inject more capital investment in infrastructure projects of developing countries, such as Pakistan.

The CPEC is one of the broader parts of the OBOR that could provide China a shortcut not only to escape the existing dilemma of Malacca, but also help it to save money and reduce travel time upon full operationalisation of the CPEC. However, China needs to inject higher initial investment to develop rail links, roads and ports that are still not up to industry standard, and also to increase its current proposed investment of US$46 billion in the CPEC mega project as it identifies more essential projects and larger work scope. Industrial and exclusive economic zones—an imperative engine of economic growth to sustain the CPEC—have to be built and set up immediately in major parts of Pakistan. Therefore, with Pakistan's full support, China successfully completed the Gwader deep-sea port that handles thousands of containers of goods. Presumably, this strategy enables China to develop its western region, and also to find outlets to inject more capital investment in infrastructure projects of developing countries, such as Pakistan.

Nevertheless, the CPEC project encounters various challenges that both China and Pakistan have to work closely to find viable solutions.

First, Pakistan's Planning Commission, which effectively oversees the CPEC project, should exercise greater transparency to pave way for the projects' mature development. It should devise a strategy to materialise the CPEC project and distribute benefits to its people in the region. Organising meetings, conferences and seminars will not suffice. The commission should focus on research and publish analytical works on the feasibility, applicability and challenges of the CPEC, and provide effective and timely policy recommendations. The doubt and uncertainty over the effectiveness of the CPEC could undermine Pakistan's credibility. As the CPEC is considered a game changer for Pakistan, it would then require the best players in the region to play it out successfully.

Second, both Pakistan and China need to seriously look into the issue of road and rail networks. Most of these important networks are not up to industry standard for secured and fast trading. These tracks need to be improved, secured and widened. As for road links, alternative trading routes can also be developed particularly in the northern parts of Pakistan up to the Chinese border called Khunjerab for the following reasons. For one, during the peak summer season from June till September, Chinese in the western part of China and people from all over Pakistan use the main routes to travel to their summer holiday destinations and the period also coincides with active CPEC trading period of high traffic volume of heavy trucks. Hence, these routes, which are not fully widened and not catered for tourism, experience serious traffic congestion to and from western part of China. For the second reason, during harsh winter, heavy rain and snowfall, together with landslides, render the CPEC routes in most of the northern parts impassable, hence causing severe delays in transportation time.

Third, the CPEC encounters challenges of terrorism in some part of Pakistan. Both China and Pakistan are concerned about the security of both Chinese workers and trade flow. Pakistan has planned to operationalise the Southern and Northern Special Security Divisions (SSD) to guarantee the security of CPEC mega project. The successful operationalisation of the SSD would help avert civil–military differences in Pakistan.

Indeed, the CPEC is one of the important mega projects as a broader part of China's OBOR initiative that also includes other major countries such as Russia, Iran, Afghanistan and even India. If the OBOR initiative achieves fruition, it could create opportunities for a robust economic integration that in turn diminishes the chances of conflict among various states, say between India and Pakistan, which fall within the domain of the OBOR. ■

Zafar Khan is Assistant Professor at the Department of Strategic Studies, National Defense University, Islamabad, Pakistan.

The Maritime Silk Road Initiative and Southeast Asia: From the Historical Perspective

China's trade in the Southeast Asian region since the ancient times is an important reminder of a thriving regional trade premised on multiculturalism, inclusiveness and openness.

LIM TAI WEI

Historically, silk, tea and ceramics were traded in large quantities between China and Southeast Asia. This bilateral trade featured high value-added items like porcelains. Chinese export porcelain (including Kitchen Qing pieces) had long been China's major export commodity. By the Ming dynasty (1368–1644), due to the development of private kilns and the growth of the maritime network which built on Song and Yuan achievements, the quantity and quality of ceramic production were enhanced remarkably and large quantities of cheap utilitarian wares and export ceramics were shipped to the rest of the world including Southeast Asia and beyond (the European, African, East Asian, South Asian and Central Asian markets).

Global demand for Chinese ceramics then grew rapidly. The finer ceramics (including blue and white porcelain as well as enamel pieces) became highly prized as a symbol of social status and ceramics were also items to be buried together with the deceased (which also included Kitchen Qing pieces). In Europe, porcelain was displayed in the palaces of the aristocracy. In the 12th century, China exported large volumes of celadon wares (green high-fired porcelain with jade-like glaze that is locked in permanently by a slip glaze) to Southeast Asia, Central Asia and India. Before the 17th century, China's largest export market for Chinese ceramics was Asia. China also exported porcelain through the Dutch East India Company (Vereenigde Oost-Indische Compagnie or VOC for short) acting as a middleman to Europe. Other middlemen groups included the Arab, British, Japanese, Indian, Portuguese and Southeast Asian traders.

Therefore, China–Southeast Asia trade has historical precedents. It may be useful to study the successful features of the trading relationships of the past, including how trade embraced the diversity of ethnicity/races/religions in regional trade, and created an open and inclusive regional trading network motivated by market-driven forces, etc. There are, however, new and important contemporary elements in Sino–Southeast Asian trade that may not be found in premodern trade. For instance, technological sophistication, trade volume and efficient logistics make it important for trading economies and countries to have world-class infrastructure to handle contemporary trade.

Here comes China when Chinese President Xi Jinping announced the "One Belt, One Road" (OBOR) plan through a public address in Indonesia for the maritime Silk Road. The news was welcomed by most East Asian economies as infrastructure development is an exigent need in the region. It also offers China an opportunity to be in the leadership position for regional initiatives. The strategy for success perhaps lies in involving all stakeholders as many states in the Asian region are also wary of having to choose sides between Beijing and its initiative vis-à-vis Washington and its institutions.

Some countries attempt to hedge Beijing's economic strength against Washington's strong geopolitical influence. Besides geopolitical influence, business deals are subject to political and economic considerations. Even high-speed train projects (high-speed rail or HSR) become politicised as East Asian states select the competing proposals offered by China, Japan and Korea as their system of preference. In the formative stages of the China-led Asian Infrastructure Investment Bank (AIIB), regional countries in East Asia and Europe do a delicate balancing act, requiring them to carefully take into account of their relationship with the West to ensure ties are not hurt when considering membership into the organisation. The tipping point came when the United Kingdom, followed by others in the West, became members of the AIIB.

An example of strengthening bilateral relations is the Sino–Malaysian economic exchanges. Malaysia is a beneficiary of China's OBOR initiatives. Through the OBOR, China could provide infrastructure investment fund for developing the Malaysia–China Kuantan Industrial Park and reconstructing Port Klang and Port Malacca with technology transfer in the area of infrastructure construction. There appears to be good potential in trade for Chinese halal food exports to Malaysia and Islamic commodities to Chinese consumers. China is experiencing maritime disputes with many of the neighbouring states. Maritime disputes pose major challenges to the maritime Silk Road projects, again involving geopolitics. The South China Sea disputes involve contest of territorial claims of islands among China and other claimant states in the region.

The Philippines and Vietnam have courted the help of other big powers like the United States and Japan which are traditionally active in the East Asian region. In other words, China and the major powers have national interests defined by geopolitical priorities. However, in recent times, Philippine President Rodrigo Duterte's friendlier relations with China, compared to his predecessor, somehow eased bilateral tensions. This may bode well for future cooperation.

Relationship with Vietnam also seems to be improving. Compared to Nguyen Tan Dung's administration, the current Vietnamese government appears more willing to have conciliatory measures while standing firm on sovereignty issues. Ultimately, pragmatism may turn out to be the deciding factor in the shape, form and outcome of the Belt and Road initiative. ■

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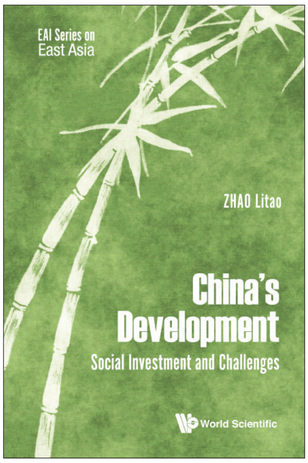
Recent Staff Publications

Books

China's Development: Social Investment and Challenges

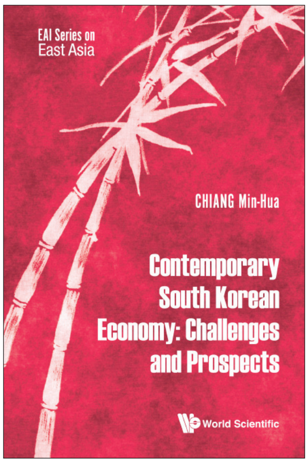
Author: **Zhao Litao**
Publisher: **World Scientific Publishing**
Year of Publication: **2017**



China has made remarkable yet uneven progress in social development. This book analyses China's achievements and problems in social development from the perspective of social investment. Social investment has gained popularity in Europe as a new social policy paradigm. It seeks to redefine social spending as a productive factor. This book focuses on a few policy areas central to social investment and capacity-building, including education, technical training, R&D and the *hukou* reform. It also analyses challenges and limitations of China's social investment policies. It sheds light on the most notable feature of China's social investment regime, which is the concentration of resources, privileges, and policy support on sectors and institutions with more growth potential. This helps to explain why China's progress in social development is remarkable but unequal.

Contemporary South Korean Economy: Challenges and Prospects

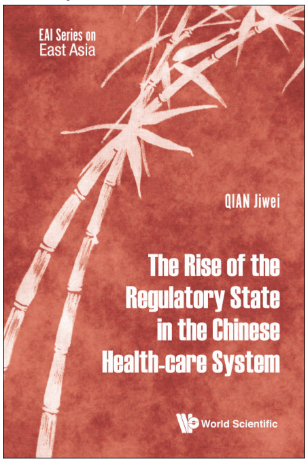
Author: **Chiang Min-Hua**
Publisher: **World Scientific Publishing**
Year of Publication: **2017**



By reviewing key economic issues in South Korea's economy today, this book offers an input to the research of contemporary South Korea, in particular the country's economic development and its external economic relations. The timely and in-depth study presented in the book examines the main reasons behind South Korea's economic slowdown in recent years, the economic and social impact following *chaebol*'s growing business expansion, free trade agreements with China and the United States, the widening income inequality, the ageing demography and the Korean government's policy response to overcome the current economic difficulties.

The Rise of the Regulatory State in the Chinese Health-care System

Author: **Qian Jiwei**
Publisher: **World Scientific Publishing**
Year of Publication: **2017**

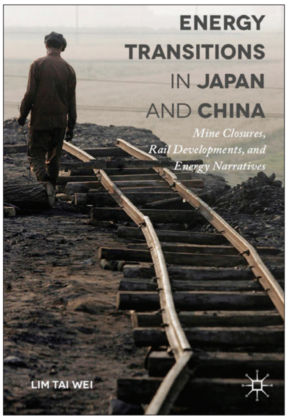


By reviewing regulatory initiatives in health financing, service provision, pharmaceutical sector and public health, this book attempts to connect recent research with policy developments in the Chinese health-care system. While there are a small number of studies on the regulations in the Chinese health-care system, this book contributes to the literature in three ways.

First, recent developments in the Chinese health-care system illustrates that the capacity and incentives of the regulatory agencies are central to the implementation and enforcement of the regulations. Second, some institutional arrangements in the Chinese context are particularly important for configuring the capacity and incentives of the regulatory system. Third, the book lays out the mechanisms imperative to the regulatory reform of the Chinese health-care system.

Energy Transitions in Japan and China: Mine Closures, Rail Developments, and Energy Narratives

Author: **Lim Tai Wei**
Publisher: **Palgrave Macmillan**
Year of Publication: **2017**



This volume focuses on the topic of energy transitions in the coal mining industries of China and Japan by adopting a Sino–Japanese comparative approach in area studies, and discusses China's energy reforms. In China, rapid industrialisation led to dramatic growth in energy demand that is met and fuelled by affordable coal energy. With growing social concerns about the environment and an increasingly vocal middle class in contemporary China, the authorities and state-owned enterprises are studying alternative fuels for its future development. Coal was also an affordable main source of energy for Japan's early post-war heavy industrialisation until it was gradually replaced by oil in the 1960s. The oil shocks of the 1970s compelled Japan to look for cleaner and cheaper fuels, including nuclear power.

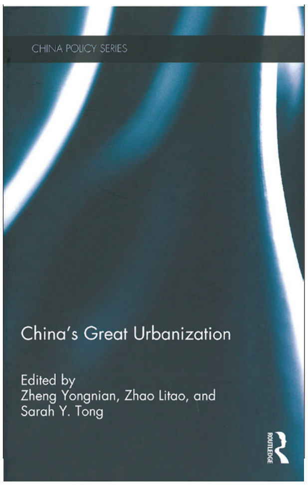
China Policy Series

China's Great Urbanization

Editors: **Zheng Yongnian, Zhao Litao and Sarah Y. Tong**

Publisher: **Routledge**

Year of Publication: **2017**



China's extraordinary economic boom since the late 1970s has been accompanied by massive urbanisation, with the proportion of the population living in cities rising from 18 per cent in 1978 to 54 per cent in 2014. Currently, the Chinese government has among its objectives the target to increase this to 60 per cent by 2020, and also to improve the quality of China's cities. This book examines a wide range of issues connected to China's urbanisation. It considers the many problems which have come with rapid urbanization, including urban housing problems, difficulties affecting rural migrants in urban areas, and a lack of social protection. It examines areas of current reform, including land reform, shanty town renewal and moves to address environmental problems. It explores governance issues, and assesses throughout how urbanisation in China is likely to develop in the future.

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"China and the US: A Tale of Two Civilisations", in Bo Zhiyue (ed), *China-US Relations in Global Perspective* (Wellington: Victoria University Press), 2016, pp. 27–39.

By Wang Gungwu

"Hong Kong's Twentieth Century: the Global Setting", in Priscilla Roberts and John M. Carroll (eds), *Hong Kong in the Cold War* (Hong Kong: Hong Kong University Press), 2016, pp. 1–14.

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"Foreword", in Pal Nyiri and Danielle Tan (eds), *Chinese Encounters in Southeast Asia: How People, Money, and Ideas from China are Changing a Region* (Seattle: University of Washington Press), 2016, pp. vii–x.

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"Foreword", in Leigh Jenco (ed), *Chinese Thought as Global Theory: Diversifying Knowledge Production in the Social Sciences and Humanities* (New York: SUNY Press), 2016, pp. ix–xii.

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"Policy Challenges in Maintaining Renminbi Stability in China", *Asian Survey*, Vol. 57, No. 2, March/April 2017.

By Sarah Chan

"Is China Internationally Tax Competitive?", *Bulletin for International Taxation*, Vol. 71, No. 2, 2017, pp. 89–97.

By Chen Chien-Hsun

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By Lim Tai Wei

"Shaping Collective Attitudes—the 'China Dream' (CD): A Textual Analysis", *International Journal of Chinese Studies*, Vol. 7, No. 1 (Kuala Lumpur: University of Malaya), 2016, pp. 101–116.

By Lim Tai Wei

FORTHCOMING

"China's Future Healthcare System: What Role for Private Production and Financing?", International Journal of Healthcare Technology and Management

By Qian Jiwei (with Åke Blomqvist)

"Infrastructure Connectivity and Regional Economic Integration in East Asia: Progress and Challenges", Journal of Infrastructure, Policy and Development

By Yu Hong

ASEAN Countries' Different Concerns towards the "Belt and Road" Initiative

Economic capacity and political willingness of ASEAN member states determine the extent of their participation in the China-led initiative.

KONG TUAN YUEN

The "One Belt, One Road" (OBOR) initiative integrates the Silk Road Economic Belt, which links with countries such as Kazakhstan located in the original Silk Road, and the 21st Century Maritime Silk Road, which includes countries along the route in the South China Sea, South Pacific Ocean, Indian Ocean and the Mediterranean Sea. In 2013, Chinese President Xi Jinping proposed strengthening regional connectivity with more than 60 countries along the routes. The Association of Southeast Asian Nations (ASEAN) is located in the subline of the Silk Road Economic Belt route with a planned construction of Kunming–Singapore railway across mainland Southeast Asia countries. ASEAN also serves as a bridge in the Maritime Silk Road route due to the strategic position of the Strait of Malacca, which is one of the world's busiest shipping routes that China depends heavily on.

The OBOR initiative certainly benefits the ASEAN countries. First, given the fact that China is either the largest or the second-largest trading partner of countries in ASEAN, it plays an important role in boosting China–ASEAN trade. China's role is essential especially under current stagnating global economy and also ASEAN countries' economic performance is highly dependent on international trade situation. Second, China's increased investment in infrastructure in Southeast Asian region will be pivotal in supporting and improving ASEAN's economic performance since most countries in the region are still economically backward.

ASEAN also serves as a bridge in the Maritime Silk Road route due to the strategic position of the Strait of Malacca, which is one of the world's busiest shipping routes that China depends heavily on.

For ASEAN countries, their economic capacity—which takes into consideration the country size, the degree of industrial development and economic relations with China—and political willingness—which takes geopolitics into account—are factors that will impact and determine the extent of their participation in the OBOR initiative.

Cambodia, Laos, Myanmar and Vietnam have their concerns towards the OBOR initiative, as reflected in their economic capacity and political willingness. Cambodia and Laos are the least-developed, middle-sized countries in the region and are politically close to China. Both countries are highly dependent on Chinese economic aid, especially in infrastructure. Myanmar's economic situation is also similar to that in Cambodia and Laos, and its previous military government had good and stable political relations with China. Even after Aung San Suu Kyi took over the Myanmar administration, Myanmar–China cooperation remains strong. As the economies of Cambodia, Laos and Myanmar are still largely based on agriculture and light manufacturing industries, scope of industrial collaboration with China is limited. By contrast, Vietnam has deeper industrial cooperation with China because Vietnam, following in China's footsteps, promoted economic reforms in the 1980s. With rising operating cost in China, Vietnam has become the preferred destination for most of Chinese companies that plan to relocate out of China.

Malaysia, Thailand, the Philippines and Indonesia are well-developed countries of medium to large size, and therefore have broader industrial coordination and infrastructure projects with China. China and Malaysia had signed a mutual agreement to launch the "Two Countries, Twin Parks" project to develop complementary industries. Indonesia invited Chinese companies to invest in its natural resources such as oil palm and rare earths. Thailand welcomes Chinese state-owned enterprises to set up local automobile factories and the Philippines had just signed an agreement with China to develop its rural areas. Unlike other ASEAN countries, Singapore is small in size but highly developed and is more interested in collaborating with China in services and strategic emerging industries, such as maritime and robotic equipment, rather than infrastructure. Brunei is also small but rich in oil and gas, which it actively promotes to China through the OBOR.

However, political issues such as the South China Sea disputes over territorial, maritime and island boundaries, exclusive economic zone and freedom of navigation may diminish the willingness of claimant countries to participate in the OBOR initiative. Although Philippines–China relations have improved after Rodrigo Duterte became president of the Philippines and Vietnam–China relations have remained consistent since the January 2017 meeting between Vietnamese Communist Party General Secretary Nguyen Phu Trong and Chinese President Xi Jinping in China, the South China Sea issue is unlikely to be solved easily in the imminent future, particularly with the United States' involvement and assertion to commit to the principle of freedom of navigation. The ASEAN countries' target to complete the framework of a code of conduct for the South China Sea by June this year could well establish regional stability and boost economic cooperation through the OBOR initiative. However, the negotiation process is expected to be arduous.

External dynamics such as the direction that the new Trump administration would take in China–US–ASEAN

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China's "One Belt, One Road" Strategy: Japanese Perspectives

The dominant view in Tokyo is that the "One Belt, One Road" initiative is merely a Chinese grand strategy serving China's interest with little benefits for Japan.

LAM PENG ER

In contrast to Beijing's Asian Infrastructure Investment Bank (AIIB), which has already taken concrete shape and competes with the Tokyo-led Asian Development Bank, Japanese politicians, scholars and journalists have paid considerably less attention to the abstract maritime Silk Road proposal put forward by China. There are at least three reasons for Japanese disinterest in Beijing's grand strategy of a new Silk Road. First, there is little knowledge in Japan about the true intentions and *modus operandi* of the Chinese Silk Road scheme.

Second, the prevailing view in Japan is that the "One Belt, One Road" (OBOR) initiative is a Chinese grand strategy serving China's interest and that the Japanese have their own way to conceptualise the Asian region. Presumably, some Japanese analysts may suspect that the OBOR is merely a scheme to promote China's national interest, its rise as a hegemonic power by expanding its economic, political, cultural and naval spheres of influence, which may potentially threaten Tokyo's interests.

Third, the image that the Japanese public visualise of the Silk Road is not Chinese President Xi Jinping's "One Belt, One Road" but a "caravan of camels in the Gobi Desert". This is the result of the telecast of a very popular 12-episode programme, each of 50 minutes duration, produced by Japan's public broadcaster NHK on the Silk Road in 1980–1981. The programme was a smash hit and attracted a record viewership of more than 20% of the Japanese TV audience. The haunting and ethereal music featured in the programme also made Japanese musician Kitaro a global star. In Japanese eyes, the maritime Silk Road in Asia began in Nara, Japan's ancient capital and not Quanzhou in China.

In Japanese eyes, the maritime Silk Road in Asia began in Nara, Japan's ancient capital and not Quanzhou in China...The label China attaches to its maritime ambitions matters little to Japan.

Apparently, a group of NHK directors conceptualised their Silk Road TV programme after Chinese Premier Zhou Enlai addressed the international press in 1972 and invited them to make China known to the world. The NHK directors doggedly pursued their dreams to shoot the Silk Road programme. They then succeeded in obtaining permission from paramount leader Deng Xiaoping when he was riding in a bullet train in Japan in October 1978. According to an account, the NHK directors managed to speak to Deng's personal secretary who relayed the request to Deng. The Silk Road programme was executed in cooperation with Chinese counterparts and is one of the greatest successes in Sino–Japanese cooperation.

Indeed, the concept of a maritime Silk Road is a relatively modern invention and imagination. It was not used during the Southern Song dynasty or by Ming Admiral Zheng He during his seven voyages. A Japanese scholar Misugi Takatoshi, who first coined the concept in 1968, argued that silk was also an important commodity along with porcelain and spices in the southern maritime road like the northern land road. It is therefore ironical that the concept came from a Japanese and not a Chinese scholar. But it seems that most Chinese are wilfully ignorant of the origins and etymology of the maritime Silk Road.

It is generally viewed that the northern land Silk Road is harder to implement because of instability in Central Asian countries. The southern Maritime Silk Road is easier for China to implement because it can always bypass the port of a less friendly country to call at the next port of a friendlier country. Nevertheless, another view is that the so-called maritime Silk Road is potentially China's "iron fist in a silk glove" (a pun on the phrase "an iron fist in a velvet glove"). The AIIB and the so-called OBOR initiative are intended to promote China's efforts to become a global maritime power which may eventually threaten Japan's sea lanes of communication.

While the Japanese may not use the Indian "String of Pearls" theory to describe China's interest in various ports in Southeast Asia and Sri Lanka, their strategic thinking are quite similar. Indian and Japanese observers note that China had already sought to build ports in Pakistan, Bangladesh, Myanmar and Sri Lanka (which permitted Chinese submarine visits) even before Xi Jinping declared his OBOR grand strategy. To the Japanese, they are less concerned or impressed by Chinese terminologies or concepts like OBOR, but are instead more concerned about what China actually does in the East China Sea, South China Sea, the Strait of Malacca and the Indian Ocean.

What then is the Japanese strategy to counter Beijing's projection of naval power? These include the 2015 revision of the Guidelines for US–Japan Defence Cooperation, the strengthening of Japan's own naval capability, provision of assistance in capacity-building, training of regional coast guard officers and gifts of patrol boats to Vietnam, the Philippines and Indonesia. Tokyo will also conduct "joint training" with its US ally in the South China Sea. The Japan Maritime Self-Defence Force (MSDF) will "split hair" by making a distinction between "joint training" and operational

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Tackling the OBOR Initiative's Financial Issues at Firm Level

Chinese banks' operational capability and finance-related experience in overseas branches, particularly those set up in countries along the "One Belt, One Road" route, will have huge ramifications on Chinese firms' drive and decision to participate in China's ambitious strategic project.

WAN JING

Although the "One Belt, One Road" (OBOR) strategic plan was formulated by Chinese top leadership, the most efficient way of implementation is through firms with directive guideline and support from the central government. Among all kinds of supports at the governmental level, financial support is the most important.

At an aggregate level, the OBOR initiative will be mainly financed by Asian Infrastructure Investment Bank as well as other Chinese policy banks, including the Export–Import Bank of China and China Development Bank. But at the firm level, it is imperative that Chinese commercial banks provide concrete and comprehensive financial services if the Chinese government really wants to encourage firms to venture abroad.

In response to the central government's push to promote the OBOR initiative, an increasing number of Chinese commercial banks set up branches overseas in countries that lie along the OBOR route to cater to the financial needs of these outgoing firms. However, these banks provide very limited services, focusing narrowly on "project financing business". Other essential services like "cash management", "trade finance services" or "trade services" for short, "exchange rate risk management", and particularly the "renminbi business" are still at nascent developmental stage. Given the complex local financial environments, improving these services will take a long time.

Although setting up bank branches is a strategic move to expand and enhance renminbi business, services such as transaction settlement, exchange rate management and cross-border financing services denominated in renminbi are still very rare to date.

Cash management basically covers two services. One is to transfer the firm's received revenue, usually denominated in US dollar, back to its headquarters in China; the other is to help the firm do some basic cash management to meet daily expenses. These may appear to be very standard financial services, but the operation is problematic and unsatisfactory, thus affecting the progress of projects. Trade services are usually needed to effectively reduce trade risks of firms when importing construction machinery devices.

Exchange rate risk management is an essential service that most Chinese companies venturing overseas would need, as the settlement currency is largely based on local currency. In most occasions, payments are largely made in local currency, with less than 25% of payments made in US dollars, hence risk exposure is high without proper protection. Unstable local political situation or other unforeseen shocks may cause depreciation of local currency, and Chinese firms would suffer great losses if risk management service is not made available. The current low level of satisfaction in this service can be attributed to Chinese banks' lack of experience in this area. In fact, Chinese banks can offer service such as forward exchange rate agreement to lock in or fix the cost of exchange in the future. However, due to strict capital control of the local authority, banks must be equipped with extensive experience to exploit the opportune spot price. Alas, Chinese banks lack expertise in this area. It could be seen that the problems that beset Chinese banks lie in their lack of familiarity with local policies and political environment, rather than in provision of bank services per se. Therefore, most Chinese firms turn to foreign banks for consultation and information on behavioural trends of local currency.

As China strives to accelerate the process of renminbi internationalisation, developing renminbi business is particularly crucial. Although setting up bank branches is a strategic move to expand and enhance renminbi business, services such as transaction settlement, exchange rate management and cross-border financing services denominated in renminbi are still very rare to date.

There are two major challenges in expanding renminbi business: the difficulty in changing people's habit of currency usage and in changing local financing policies (without offer of benefits like subsidies) in the current context of renminbi depreciation. It is undeniable that most of the stable commodities are still denominated in US dollars, out of convenience. Furthermore, renminbi suffers from continuing trend of depreciation pressure. The central bank of China responded accordingly by tightening capital outflow. As a result, Chinese firms are not willing to accept renminbi either, for fear of facing difficulties of exchanging for US dollars. In other words, Chinese firms prefer to receive payment in US dollars and keep US dollars for convenience. This has further weakened the usage of renminbi as well as the incentive for Chinese banks to offer renminbi business.

Overcoming the aforementioned challenges is difficult because there is a lack of financial professionals familiar with both local financial regulation policies and domestic financial business of Chinese banks, and also a lack of systematic operation guidance approved by financial regulators of both China and hosting countries that can serve as a precedent for Chinese banks to adopt. If China remains committed to launch the OBOR initiative, these basic problems must be tackled soon, otherwise Chinese firms would be deterred from venturing abroad with the prospect of suffering a loss due to uncertainties. ■

Wan Jing is Visiting Research Fellow at EAI.

Building Trust for the "Belt and Road Initiative" in Southeast Asia

Tensions in the South China Sea in recent years have damaged trust between China and Southeast Asian countries and now is the opportune time to rebuild it.

ZHANG FENG

Many Chinese elites refer to President Xi Jinping's "Belt and Road Initiative" (BRI) as China's grand strategy during the Xi era. Its success may transform the geoeconomic outlook of the vast Eurasian region. Of the two routes designed for the BRI, the maritime route—the so-called "21st Century Maritime Silk Road"—is of critical importance to Southeast Asia. Traversing from China's coastal area to the South China Sea and then westward to the Indian Ocean and the Mediterranean and southward to Oceania, the Maritime Silk Road (MSR) seeks to connect the economies of the Asia-Pacific region with Europe by using Southeast Asia as the pivotal link. And the South China Sea is the first maritime front that Beijing must crack to make the MSR a success.

The problem China faces is that the South China Sea has since been roiled by disputes and tensions not just between China and Southeast Asian claimant states, but also between China and the United States when President Xi proposed the BRI to international audiences in 2013. Beijing hopes that such disputes would not affect the MSR, which is focused on economic cooperation. It is, however, very hard to isolate South China Sea tensions from MSR in practice.

...Southeast Asia is a much less risky and more stable region for the more promising MSR.

Beijing repeatedly emphasises that the BRI is not a geopolitical tool, but new public goods that China will provide to all countries. Yet, in Southeast Asia, because of South China Sea tensions, regional countries from Vietnam to Singapore are, in varying degrees, suspicious of China's strategic intentions. Such suspicion has coloured their assessment of MSR, even though they are broadly convinced of its economic logic.

Southeast Asia should not be an insurmountable obstacle in the BRI. In fact, compared with Central Asia and the Middle East where the land route of the BRI must traverse, Southeast Asia is a much less risky and more stable region for the more promising MSR. Indeed, several high-profile MSR projects are already making important progress, especially high-speed rail and industrial parks in Indonesia, Laos, Thailand and Malaysia. But these still leave much to desire. For example, after awarding the Jakarta–Bandung high-speed rail contract to China, Indonesia is slow in initiating the next phase of construction. And, China and Thailand still have not hammered out their high-speed rail deal.

One may reasonably think that had the state of affairs in the South China Sea been calmer over the past few years, China might have made greater progress in the MSR. Contrary to Beijing's hope, tensions in the South China Sea have indeed impeded the smooth implementation of the MSR in Southeast Asia.

China should not be complacent. Although it is the largest trade partner of the Association of Southeast Asian Nations (ASEAN) and most individual ASEAN countries, China's trade surplus has been growing over the past few years. As China imports less from ASEAN because of structural change in the Chinese economy (moving from manufacturing and investment to consumption and services), China may be less attractive to ASEAN countries as an export market.

Chinese officials and scholars also recognised the lack of enthusiasm in some Southeast Asian countries' response to the MSR. It is thus important for China to study whether this passive response is driven by economic logic or political concern and the extent South China Sea tensions have affected regional countries reception of the MSR.

A major consequence of South China Sea tensions on the MSR is an erosion of mutual trust between China and Southeast Asian countries. Yet mutual trust is vital to the success of the MSR because large-scale infrastructure projects demand political commitment based on trust.

The upbeat news is that tensions in the South China Sea began to ease during the second half of 2016, paradoxically after the release of verdict of the Philippines vs. China arbitration ruling in July 2016. The new Philippine President Rodrigo Duterte's surprising and beneficial turnabout in China–Philippines relations, in fact, proved to be pivotal.

Tensions in the South China Sea will persist and escalate from time to time. This is attributed to the intractable sovereignty disputes between China and Southeast Asian claimant states, the geopolitical tussle between China's strategic initiatives and the United States' intervention at the South China Sea and also competition in the Western Pacific between China and the United States, whose military access is increasingly being tested.

Nevertheless, the de-escalation of tensions achieved in the second half of 2016 had provided a window for China to calmly manage disputes and alleviate security competition while pushing for economic cooperation in the MSR framework. Chinese policymakers should be cognisant of this opportune time to shift regional focus from sovereignty disputes and security competition to economic cooperation and common development. This will not only build trust with Southeast Asian countries and facilitate the MSR in the region, but also considerably improve China's regional environment, giving it more latitude to promote a development-focused foreign policy agenda. ■

Zhang Feng is Visiting Research Fellow at EAI.

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China's Push for Economic Globalisation in the Context of the "One Belt, One Road" Initiative

and its outward investment, could potentially reshape the geopolitical and geoeconomic landscapes of the region and beyond in the future.

Four major factors underline China's motivation to push for leadership of economic globalisation and the OBOR initiative in the future. First, China's emergence as a major global economic power, since its accession to the World Trade Organization in 2001, is a testament to the power of globalisation. Second, to facilitate its outbound foreign investment and pursue better returns on its investment. Third, to boost its slowing economy at home and to tackle the production overcapacity problem that afflicts many of its domestic industries. The Chinese government therefore views the OBOR strategy as a new engine to boost its flagging economy. By forging a peaceful external environment and closer regional relations in trade, investment and infrastructure cooperation, the OBOR initiative is primarily designed to support sustainable domestic economic growth and to step up domestic industrial upgrading. Fourth, to meet the fast-growing energy demand at home attributed to economic growth and rapid urbanisation. According to data from International Energy Agency, China's share of the world's total final energy consumption increased from 7.8% in 1973 to 21.2% in 2014, and continues to rise.

To meet the growing domestic energy demand and to diversify energy supply by region, China has to take a globally-driven approach to improve energy-related infrastructure connectivity, which will involve establishing strategic partnerships in both upstream and downstream energy projects with foreign countries. This objective can only be achieved through free trade and economic globalisation.

Although China is now the largest trading nation in terms of its share in world merchandise trade, the United States and Europe still conduct over half of the world's merchandise trade volume, while Asia (excluding China) accounts for the remaining one-third of the world's merchandise trade. Essentially, the West is still the world's primary and dominant market for merchandise goods produced. As such, it is not feasible for China to single-handedly steer and maintain the dynamism of global trade and economic globalisation by its own efforts. In fact, China still has a long way to go in promoting itself as a truly open economy and taking a credible leadership role in economic globalisation. ■

Yu Hong is Senior Research Fellow at EAI.

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Eurasia's Freight Rail Service in the "One Belt, One Road"

2020 are projected to travel an average of 1,300 kilometres per day—a significant improvement from the current 700 kilometres covered daily—the market growth in 2017 seems to suggest that the 2020 target is a conservative projection. The reduction of rail transit time on most routes from 15–20 days currently to less than 10 days by 2020 will significantly improve the competitiveness of railway freight, relative to the speed of air freight and the economy of ocean freight.

These signs of a turnaround in the economics prospect of CR Express cargo service are important to the success of China's "One Belt, One Road" initiative. Notwithstanding the engineering and logistic challenges ahead, new solutions are within sight. The Eurasian land mass holds about 75% of the world's population and accounts for 60% of global gross domestic product. The China–EU annual trade was valued at US$600 billion in 2015; and including other countries along the OBOR route, Chinese trade with countries in Eurasia amounted to over US$1,000 billion. Eurasia is thus potentially the world's biggest trading platform. From this perspective, CR Express' success in the rail freight service traversing between China and Europe will be of significance to the re-emergence of Eurasia land mass in the global economy and geopolitics. ■

Henry Chan is Adjunct Research Fellow at EAI.

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ASEAN Countries' Different Concerns towards the "Belt and Road" Initiative

relations in the near future are determinant factors of ASEAN countries' level of participation in China's OBOR initiative, in addition to economic capacity and political willingness. As for Malaysia, Thailand and Indonesia, their efforts in industrial diversification increased their chances to join the OBOR initiative, further to the fact that they have fewer disputes with China as well as their economic complementarity with China. Vietnam and the Philippines would also step up ties with China through the OBOR initiative provided that there is no escalation of conflict in the South China Sea issue. ■

Kong Tuan Yuen is Visiting Research Fellow at EAI.

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China's "One Belt, One Road" Strategy: Japanese Perspectives

"joint patrol" with the US Navy in the South China Sea. Beijing will most likely view the MSDF in the disputed waters of the South China Sea with irritation and suspicion. Japan will seek closer maritime cooperation with India and also attempt to sell its sophisticated Soryu-class submarines and US-2 amphibious aircraft to India to bolster the latter's capability in the Indian Ocean.

While China may promote its OBOR initiative to the region as benign and a "win-win" formula, Japan envisages little direct benefit for itself. On the contrary, the mindset of the Abe administration is that Japan has the confidence, means and will to play an active role diplomatically, economically and culturally in maritime Southeast Asia and South Asia. The label China attaches to its maritime ambitions matters little to Japan. What matters to Japan is that it will assert and promote its own maritime interest regardless of a rising China. ■

Lam Peng Er is Senior Research Fellow at EAI.

EAI International Forum

EAST ASIA OUTLOOK 2017

EAI Director **Professor Zheng Yongnian** highlights that China is also entering a political year in 2017 as the United States swears in its newly elected 45th president on 20 January 2017.

EAI Professorial Fellow Professor John Wong (second from left), flanked by (from extreme left) **Dr Lim Tai Wei**, **Dr Qi Dongtao** and **Dr Chen Chien-Hsun,** chairs the session on Hong Kong and Taiwan.

It is an irony that the name Donald J. Trump was on everyone's lips at the East Asia Outlook 2017 held on 20 January 2017—a signature forum organised by East Asian Institute that focuses on important and emerging foreign policy, political as well as socio-economic issues and trends in China, Japan and Korea. Incidentally, that very day also marked the inauguration of Trump as the 45th president of the United States.

EAI Director Professor Zheng Yongnian remarked in his welcome address that the United States, which used to be looked upon as a source of stability by the international community, is now a source of uncertainty due to the unpredictability of the Trump administration. The first and foremost question in most people's mind is the extent to which Trump will execute his election pledge—some of which entail punishing countries that steal jobs from the Americans, demanding US allies to shoulder greater security responsibilities and contribute more financially, etc.

Professor Zheng added that China in 2017 is also entering the political year because the all-important 19th Party Congress will be held in the second half of the year. Chinese President Xi Jinping's imperative after the Party declared him as the "core" of its leadership is to elevate his own team to more senior positions at the Party Congress to push ahead his reform agenda and prepare for power succession in five years. The onus is therefore on Xi and his team to realise China's centenary goal of a moderately well-off society by 2021.

OUTLOOK FOR EAST ASIA

EAI Professorial Fellow Professor John Wong said Trump's preferences for trade protectionism and anti-globalisation could harm the global economy, with effects that could spark a chain reaction and boomerang back to the US domestic economy. A potential US sanction against Chinese imports could therefore yield collateral damage to China's neighbours due to China's extensive trade links with its Asian neighbours.

On China–US relations, EAI Assistant Director and Research Fellow Mr Lye Liang Fook highlighted that there are signs that both countries are headed for a period of disruptive adjustment with greater tensions and volatility, even though incoming US Ambassador to Beijing Terry Branstad is an "old friend" of President Xi.

Professor Joo Jaewoo, professor of Chinese foreign policy at Kyung Hee University, explained that perception of how each country views the other as a security threat matters. He suggested regional players in East Asia to communicate more actively to improve their perception and assessment of threat so that everybody is on the same page.

OUTLOOK FOR CHINA

On China's politics, EAI Senior Research Fellow Dr Chen Gang analysed that the 19th Party Congress will witness a far-reaching change in the composition of the central leadership. Reshuffles of provincial and ministerial leaders will continue to make room for political rising stars trusted by the Xi–Li administration.

Turning to the topic on Communist Party of China, EAI Senior Research Fellow Dr Lance Gore said the Party is still far from developing a mature theoretical edifice, and is still in search for the right balance of institutions for its reform target.

Society-wise, EAI Senior Research Fellow Dr Zhao Litao said "elite capture" is increasingly rampant and a major impediment to Xi's "deepening reform" agenda, and hence social policy reform fails to produce a "sense of gain" among citizens.

OUTLOOK FOR HONG KONG AND TAIWAN

EAI Senior Research Fellow Dr Sarah Tong noted that the Hong Kong government had introduced broad policy measures to sustain growth, support the tourist industry and the small and medium enterprises, and promote innovation.

Taiwanese President Tsai Ing-wen's congratulatory telephone call to Trump on his victory broke the protocol, which EAI Research Fellow Dr Qi Dongtao rationalised was in fact the Taiwan card that Trump played to pressure China. Taiwan–China–US relations will be rocky in 2017.

OUTLOOK FOR JAPAN AND THE KOREAN PENINSULA

EAI Senior Research Fellow Dr Lam Peng Er foresaw the greatest challenge to Japan's diplomacy in 2017 and in the years ahead will be managing US–Japan alliance given that the newly minted US President Trump is an unpredictable novice in international affairs.

Professor Kim Sung Chull, Humanities Korea professor at Institute for Peace and Unification Studies at Seoul National University, said the United States and China could overcome their conflicting views on their conflicting views on strategic balance surrounding the Korean peninsula. He suggested the two great powers to initiate dialogues and negotiate with North Korea to disarm its nuclear weapons and settle for a peace treaty. ■

Some Highlights at EAI

EAI joins hands with College of International Studies and Institute of International Studies of Kyung Hee University (KHU) in organising the **"KHU–EAI International Conference on Peace and Cooperation in East Asia"** held at EAI conference room on 21 February 2017. EAI Senior Research Fellow and coordinator of this conference **Dr Lam Peng Er** (sixth from left), EAI Director **Professor Zheng Yongnian** (seventh from left) and EAI Professorial Fellow **Professor John Wong** (seventh from right), together with other EAI colleagues, welcome **Professor Park Hahnkyu** (eighth from right), dean of College of International Studies at KHU, and his delegation.

Professor Park Hahnkyu (left) shares his insights on the Trump administration and prospects for US–North Korea Relations in the first panel discussion chaired by **Professor Zheng Yongnian** (right).

Professor Yoo Tae Hwan presents his comparative analysis of documented and undocumented overseas Filipino workers in Korea.

Ambassador of the Republic of Korea to Singapore H.E. Lee Sang-deok (standing), guest-of-honour at the official dinner held on 20 February 2017, addresses the academic delegations of KHU and EAI.

Professor Park Hahnkyu (left) expresses his gesture of appreciation to EAI, which **Professor John Wong** (right) acknowledges on behalf of the institute.

William Haas Professor in Chinese Politics Jean C. Oi from the Department of Political Science at Stanford University delivers a lecture on **"Unpacking Local Government Debt in China"** at the EAI Distinguished Public Lecture on 15 February 2017. EAI Senior Research Fellow **Dr Sarah Y. Tong** briefly mentions about China's 1994 fiscal recentralisation, which Professor Oi grounds her argument on as the manifestation of systemic problems and source of local debt.

EAST ASIAN INSTITUTE'S COMMEMORATIONS OF ITS 20TH ANNIVERSARY

PUBLIC FORUM

China in a Transitional Global Order

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China's 19th Party Congress: Leadership and Politics

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