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EU-China Relations in the Belt and Road Initiative

European attitudes towards the Chinese Belt and Road Initiative was initially positive, but became more sceptical when political and economic implications emerged.

ERIK BAARK

The Belt and Road Initiative (BRI) was welcomed by the European Union (EU) when it was announced in 2013 because European governments saw opportunities for collaboration with China on building infrastructure across Eurasia. Europeans expected the links to increase trade in both directions. They also hoped that the large funding resources that China promised to allocate to BRI projects could complement their own investments in infrastructure. China joined the European Bank for Reconstruction and Development in 2015, and in the same year several European countries joined the Asian Infrastructure Investment Bank set up by China in 2014. The future looked bright.

However, almost from the start there were critical voices in Europe that saw the Chinese Belt and Road Initiative as rooted in the Chinese government's wish to further develop China's western regions, such as Xinjiang, and the political and economic relationship with the nearest neighbouring countries, such as Kazakhstan or Myanmar. It was also argued that BRI was essentially developed for the benefit of China's exports and political influence in Asia, shaping the development of Eurasia in its own worldview.

In the early years of the BRI, the Chinese focus was indeed directed at projects in Central Asian countries and in developing economies in Southeast Asia and the Indian Ocean. There were relatively few projects in European countries. Two projects drew particular attention in Europe. One was the Chinese investments in the port of Piraeus in Greece that started as an upgrading of facilities even before BRI was launched and which has now evolved into establishing a Mediterranean bridgehead in the EU for the Maritime Silk Road for Chinese exports. The other project was the Budapest-Belgrade high speed railway that raised EU concerns about the transparency of the financing and tender process in Hungary – an EU member country. After criticism from the EU Commission, China agreed to hold a public tender. When Greece and Hungary refused to support EU statements criticising China for human rights issues, this was seen as a result of Chinese political influence.

Chinese BRI activities in Central and East European countries thus became a major point of worry among European leaders who saw it as a Chinese "divide-and-rule" strategy in Europe, strengthening a split between EU countries. For example, German Foreign Minister Sigmar Gabriel demanded that China follow a "One Europe" policy, just as European countries follow the "One China" policy.

During 2017 two other issues in EU-China relations also drew increased attention among European policymakers, namely, the scope and character of Chinese investments in Europe and the difficulty of achieving genuine reciprocity in trade and investment between China and Europe. In 2016, Chinese foreign direct investment (FDI) in Europe had rapidly grown to €35 billion, from €700 million in 2008, while European FDI in China had almost stagnated due to regulatory restrictions. These developments intensified negotiations for an EU-China investment agreement that

The Belt and Road Initiative: Five Years On

After the announcements in 2013 of the “Silk Road Economic Belt” and the “Maritime Silk Road of the 21st Century” by Xi Jinping, China’s president, in Kazakhstan and Indonesia respectively, these concepts were quickly converted into the unified “Belt and Road Initiative” or the BRI in short. China has been promoting the BRI to the region and the global community for five years.

This grand initiative is the most proactive foreign policy initiative introduced by the Chinese government since the founding of the republic in 1949. The BRI has to be understood against the backdrop of the rise of China as a rising global power and the world’s leading trade nation.

The Chinese authority has taken a “whole-of-government” approach, and mobilised its diplomatic, economic and political resources to promote the BRI to the world via different platforms. Under the instructions of the Chinese authority, state-owned enterprises, domestic academia and media in China have all played important roles in expanding the Belt and Road Initiative.

The BRI is centred on infrastructure development aimed at improving physical connectivity in countries along the Silk Road. With Beijing’s blessing, the Chinese firms and state-owned enterprises in particular have pro-actively taken a “go global” investment strategy and steadily expanded their footprint in Silk Road countries over the past five years.

The Chinese firms have either financed, built or operated many large-scale infrastructure projects in Asia, Europe, the African continent and Latin America. Many more newly signed projects are either under construction or work is about to start. High-profile projects include the Jakarta-Bandung High-Speed Railway, China-Laos Railway, China-Myanmar Oil and Gas Pipeline, China-Pakistan Economic Corridor, Colombo Port City, the Hungary-Siberia Railway, among others.

The connectivity-centred BRI has largely been welcomed by the developing countries. Under the

BRI framework, the Chinese firms have brought capital, jobs and technology to recipient countries, but with controversies and challenges.

China’s push for the BRI has given rise to many serious issues and challenges, ranging from suspicion over China’s strategic motivation for promoting this initiative, lack of project transparency and accountability, debt trap accusations, to fierce power rivalry, primarily between China and the United States, as well as the changing international investment and trade environment amidst rising anti-globalisation tendencies and economic protectionism in the West.

Starting with Germany, an increasing number of countries across different continents, which previously expressed their interest and support for the BRI proposal, have since 2017 voiced their dissatisfaction with the initiative and the Chinese authority’s outreach ambitions.

The East Asian Institute’s research team has followed closely the development of the BRI since the unfolding of this concept. Focusing on the theme of “The BRI: Five Years”, EAI’s in-house researchers as well as invited external scholars will discuss topics covering bilateral relations between China and selected countries and regions along the Silk Road, the BRI in the context of China’s national security, among others. These interesting articles will enhance the reader’s understanding of the BRI and the progress of its implementation after five years. ■



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China Shaping a Complementary Pattern in Asia's Product Market Through the "Belt and Road"

The increasing share of China's exports to Asia's developing countries has shown that China is gradually increasing its share in Asia's industrial product market.

JANE DU

Like all Asia's successful economies, China's outward industrial transfer began when it became an upper-middle-income and a newly industrialised country. To move up the value chain, China started to capitalise on emerging sources of economic growth by transferring labour-intensive industries to Asia's fast growing developing economies, a mutually beneficial move that boosts the latter's economic growth and churns higher payoffs for itself. To provide more context at the very preliminary stage, China is committed to exploring new regional economic cooperation and overseas market for domestic industrial sector. These changes are already creating complementarity between China and Asian emerging markets, drawing worldwide attention to China's recent new opening-up policy of developing regional economy through the Belt and Road initiative (BRI).

Economically, the openness of an economy is measured as the ratio of a country's trade to gross domestic product (GDP). This ratio increased from 12% in 1980 to 33% in 2016 for China, with trade volume totalling US\$3,686 billion a year and giving the country a large surplus in international trade. Despite the gap in trade scale, China is still heavily reliant on trade with several developed economies and some neighbouring countries at equivalent level of economic development. For example, North America absorbed 20% of China's product exports in 2016, followed by East Asian economies, namely, Hong Kong, Japan, South Korea and Taiwan. China's trade with Kyrgyzstan, Myanmar, Tajikistan and Mongolia had been significant, accounting for more than 40% of the host country's total trade volume in 2016. The complementarity is in the close proximity of these countries to China's northern and western borderlines and their rich energy and mineral resources, particularly in the cases of Kyrgyzstan and Mongolia. These Asian resource originating countries offer new opportunities between their demand for technology and industrial products and China's requirement for raw materials and energy to sustain economic growth. In addition to energy trade, an analysis of Chinese trade in Asian partner countries also shows a growing importance of developing Asia in Chinese product trade. Attention is now turned to trade with Southeast Asian industrialising countries which show a great potential to become China's important trading partners.

To date, the largest part of developing Asia's trade is still carried out with developed economies. In the past 10 years trade between developing Asia and advanced economies has remained at more than half of Asia's overall trade volume. Of the total trade volume between developing Asia and

other developing economies, a quarter is energy-based. Non-energy trade accounted for two fifths of developing Asia's total trade in recent years. This includes some non-resource-originating developing countries with great trade potential, such as India. Thanks to the Chinese government's supportive "going out" policy announced at the turn of the century, Chinese enterprises have been encouraged to go overseas. With years of efforts in extending existing overseas markets, China's trade with Asian developing countries has generally surpassed that with Japan, strengthening complementarity with other trade partners in Asia. Such changing economic environments are already affecting the geographical pattern of Chinese trade.

The evolvement of this pattern could be attributed to the increasing share of industrial products in China's exports, for which it took over part of Asia's industrial product market from developed countries, and to the similar development trajectory of Asian economies and the resultant growing product absorption capability of developing Asia in the world trade system. Consequently, China's reliance on trade with European and North American countries has fallen and the proportion of Asia's trade with industrially advanced countries in the region has increased.

With China's efforts to broaden economic cooperation in Asia, its trade relationship with Asian countries also begins to change. Growing economic capacity and slowing domestic growth have pushed the country to proactively explore the overseas market and find new sources of growth for its future growth. Fundamentally, however, China's trade cooperation and positions in Asia are largely contingent on its economic requirements and on the need for Chinese industrial products in Asia's market.

China's recent trade in Asia focuses on several resource-originating countries, while its product trade distribution in Asia is relatively emerging market-focused. On the assumption that trade dependence hinges very much on the importer's population and is relatively stable, trade with Asia's emerging market is optimistic for China in the future. If there is a need for China to explore new overseas markets to offset the negative impact of declining external demand, developing Asia's capacity to absorb its non-fuel industrial products should largely come from Southeast Asia. With growing economic cooperation through BRI in the past five years, China has started to shape a relatively complementary pattern in Asia's product market. China's trade focus in Asia is gradually moving to the Far East. ■

Jane Du is Visiting Research Fellow at EAI.

Hainan Pilot Free Trade Zone, One Belt, One Road and the Singapore Model

The Hainan Pilot Free Trade zone and the Singapore model.

LAM PENG ER

In April 2018, Chinese President Xi Jinping announced that the whole island of Hainan will become a pilot free trade zone. Xi's declaration to enhance Hainan's development also marked the 30th anniversary of the founding of Hainan province and the Hainan Special Economic Zone. Months later in October, the State Council of the People's Republic of China (PRC) published the Master Plan for the China (Hainan) Pilot Free Trade Zone (PFTZ) which will remove certain foreign investment restrictions making the island a more attractive place for foreign capital. Hitherto, the PRC had 11 Free Trade Zones (FTZ) with only limited authority and autonomy.

It remains to be seen whether the central government will indeed grant Hainan PFTZ considerably more autonomy and flexibility than earlier FTZs in the Chinese mainland. It is too early to tell whether the Hainan PFTZ will not be another case of FTZs which began with great fanfare but ended with a whimper. The Hainan local government has also positioned its PFTZ as a maritime gateway for China's One Belt, One Road (OBOR) to Southeast Asia and beyond. If this comes to pass, then Hainan will be transformed from a small and relatively undeveloped frontier province to an important node of China's Maritime Silk Road.

To mark the 40th anniversary of China's reform and opening up, the China Institute for Reform and Development (CIRD, based in Hainan) organised two conferences between 26 and 28 October 2018 in Haikou, the capital of the provincial island: the first on the Hainan PFTZ and the second on various topics including the improvement of China's "socialist market economy", OBOR and the free trade process. Going along with the same flow of reform, BRI and Hainan's PFTZ development was another conference organised by the *People's Daily* in Boao city on 29 and 30 October 2018 (held at the Boao Forum for Asia) with the attendance of various top media representatives from OBOR countries.

Very intriguing were the comments made by some participants at both the CRID and *People's Daily* conferences on Singapore as a FTZ model for Hainan. Indeed, Singapore has been a free port since its foundation in 1819 and is arguably one of the most successful maritime hubs in the world. Simply put, being an emporium to Southeast Asia and beyond is in Singapore's DNA. The city-state has three government-to-government (G-to-G) projects with the PRC—the Suzhou Industrial Project, the Tianjin Eco-

city and the Chongqing Connectivity (which also seeks to link China's northern belt to its southern Maritime Silk Road) — to cement its comprehensive ties with its giant neighbour. One tantalising scenario for enhanced China-Singapore relations is for both countries to move beyond the three G-to-G projects and harness the Singapore model for Hainan's PFTZ.

At the time of writing, the Hainan PFTZ is long on aspirations but short on details. Perhaps it may take another year or two before the central government and the provincial government can flesh out more concrete details about the PFTZ and its operations. Not surprisingly, there were also no specific details of the Singapore model for Hainan to emulate at the aforementioned conferences. Conceivably, there are

some areas of interest to Hainan from the city-state's experience: the free port of Singapore, Port of Singapore Authority and good governance, aerial hub and one of the world's best airports, magnet for human talent, a top global financial centre, leading tertiary education, top tourist destination, duty free shops, food paradise, rule of law, anti-corruption measures and good social order. It is salutary to note that Singapore retains a high-tech manufacturing base in its economy and does not restrict

search engines and social media like Google, Facebook, Twitter and Whatsapp, which is not the case of Hainan.

Unless Beijing and Hainan are bold and liberal enough to push for radical reforms to ensure the success of the Chinese island's PFTZ, translating this master plan into reality could be a far-fetched dream. Hainan lacks a manufacturing base and its restrictions on social media is a great inconvenience to foreign investors, entrepreneurs, foreign officials, scholars, journalists and tourists. The supposed visa-free arrangements for foreign visitors still require prior notifications with local travel agencies. Simply put, there is a huge gap between aspirations and reality of Hainan's PFTZ proposal. While some Singaporeans may find it gratifying that their country can be a potential model for Hainan, the catch is in the vast differences between the two. Nevertheless, given the friendship paradigm which Singapore has adopted towards China, the city-state is likely to readily provide the necessary advice and assistance to Hainan's PFTZ strategy in the hope that conditions will turn out right and mutually agreeable. ■

Lam Peng Er is Senior Research Fellow at EAI.

Hainan lacks a manufacturing base and its restrictions on social media is a great inconvenience to foreign investors, entrepreneurs, foreign officials, scholars, journalists and tourists.

Major Security Challenges to China's Belt and Road Initiative

Geopolitical tension, terrorist attacks and civil strife may pose major security challenges to Belt and Road Initiative.

LI NAN

China's Belt and Road Initiative (BRI) consists of two major components. The first is the Silk Road Economic Belt, which refers to economic development corridors associated with the land routes that extend from China's western provinces to Central Asia, Russia and Europe, and to South Asia and continental Southeast Asia. The second is the 21st Century Maritime Silk Road, which alludes to economic development projects associated with the seaborne routes that connect China's coastal provinces to maritime South East Asia, the Indian Ocean region, the Persian Gulf region, Western Asia and Mediterranean, and to Africa.

Unlike the traditional emphasis on merchandise trade and the import of energy and mineral resources which do not involve substantial Chinese presence on foreign soil, BRI has more ambitious goals. China, for instance, intends to invest about \$1.1 trillion in BRI countries to build infrastructure networks including sea and air ports, highways, railroads, oil and gas pipelines, power plants and power supplies grids, and telecommunications networks. It also intends to develop economic development zones and industrial parks associated with manufacturing, energy and resources processing, and services in these countries. As most BRI countries are poor and prioritise economic development, infrastructure-based connectivity being central to such development, China's comparative advantage in infrastructure development meets their needs well.

China can benefit from the BRI in major ways. BRI, for instance, can help to relieve China's overcapacity in domestic infrastructure development, expand Chinese export and incentivise the upgrading of Chinese manufacturing. By enhancing connectivity and economic integration with Central and Southeast Asia, BRI can also help China to develop its marginalised, backward western provinces by turning them into major hubs of business activities and driving the westward movement of economic resources from the rich eastern provinces. Finally, by establishing major stakes in BRI countries, China can develop leverages that enable China to exercise influence and shape development in BRI countries and regions.

To the extent that BRI has ambitious goals and may lead to substantial presence of Chinese capital investment, physical assets and personnel on foreign soil, the security challenges to such ambitions and presence may also grow. One such challenge has to do with China's evolving relations with major powers. The higher strategic trust between China and Russia, for instance, may have helped BRI to make substantial progress in Central Asian countries, which

traditionally fall within the sphere of influence of Russia. In contrast, the absence of such trust between China and India may have impeded concrete progress of the "Bangladesh, China, India and Myanmar Economic Corridor Initiative", a major component of BRI.

The heightened strategic competition between China and the United States may also increase the security cost of BRI. If China-US contestation over the fortified reefs in the South China Sea escalates, it may disrupt the vital sea lanes that undergird the Maritime Silk Road. The recent US decision to offer \$60 billion loans to finance infrastructure projects in developing countries represents its initial effort to counter BRI. The new US policy may not only hinder support of

close US allies and partners for BRI, but also motivate them to pursue alternative strategies to BRI. The European Union, for instance, has endorsed a Connectivity Strategy as an alternative to BRI, while Japan and India would collaborate to build an Asia-Africa Growth Corridor. BRI countries may benefit from these initiatives because the options for them to choose have broadened. However, with an emphasis on private initiatives, transparency

and accountability, and better labour and environmental standards, these new development schemes may exert competitive effects on BRI and incur higher cost to China.

BRI may also be faced with the threat of religious extremism-based terrorism. Following major defeats in Iraq and Syria, ISIS fighters had dispersed to Asian countries and major groups have aggregated in Afghanistan which directly threatens BRI in Pakistan and Central Asia. Al-Qaeda and Taliban groups that have been active in Afghanistan and Pakistan have also posed a direct threat to BRI. Chinese companies and personnel in Pakistan, for instance, have suffered 20 terrorist attacks that killed 45 Chinese nationals and wounded 21. In 2015, China ranked second in terrorist kidnapping of its citizens overseas. Most of such kidnappings in Africa, for instance, were executed by Boko Haram, another major terrorist group.

Finally, domestic political changes in BRI countries may increase the security cost for BRI. BRI, for instance, has suffered setbacks from such changes in many countries. These changes may be caused by populist elections or civil strife stemming from concerns about BRI-related debt, national sovereignty, corruption, and labour and environmental issues. The degree of success of the BRI thus depends on the level of China's capacity to mitigate these challenges successfully through economic, political, diplomatic and security means. ■

The EU has endorsed a Connectivity Strategy as an alternative to BRI.

LI Nan is Visiting Senior Research Fellow at EAI.

The Belt and Road Initiative in Southeast Asia

Southeast Asia is the frontline to China's promotion of the BRI, especially to the maritime part of the Silk Road.

YU HONG

The Belt and Road Initiative (BRI) is a globally oriented outreach strategy with the aim to connect China with Asia, Pacific Oceania, Africa, Europe and even Latin America. The BRI represents China's new approach to engage with the world and the world's increasing connection with China's development.

From the geostrategic perspective, Southeast Asia is not merely an important trade partner to China, but the frontline to China's promotion of the BRI, especially the maritime part of the Silk Road. Historically speaking, many Southeast Asian nations are key linking points and crucial maritime trade centres along the Silk Road. China's rise to become the world's second largest economy and one of the largest trading nations has exerted a very powerful pull on the Southeast Asian economies. China has been the largest trading partner for ASEAN (Association of Southeast Asian Nations) since 2009, while ASEAN has been China's third largest trading partner since 2011. The rise of China and the BRI in particular has become a popular topic of discussion in Southeast Asia.

The Chinese authority has made efforts to convince Southeast Asian countries of the benefits brought by BRI, while retaining a sense of ownership over their participation in this China-dominated initiative. Southeast Asian countries could stand to benefit from China's BRI initiative in various aspects via the improvement of infrastructure connectivity and trade and investment liberalisation deriving from the elimination of trade and non-trade barriers.

The connectivity based on infrastructure development is key to China's BRI and is the main selling point that appeals to Southeast Asia's participation. ASEAN unveiled the "Master Plan on ASEAN Connectivity 2025" in 2016 to promote regional connectivity and development of infrastructure like the BRI. According to the Master Plan, ASEAN is to achieve the goal of "a seamlessly and comprehensively connected and integrated ASEAN" by enhancing physical, institutional and people-to-people connectivity.

With the progress of connectivity-driven infrastructure development, China could advance its BRI, while ASEAN countries could accomplish their integrational objectives outlined in the Master Plan. Both centred on connectivity-based infrastructure development; the ASEAN Master Plan on Connectivity and China's BRI are hence complementary in nature. Many Southeast Asian countries lack technological know-how and have serious financial difficulty funding the required infrastructure projects. According to an updated estimation report published by the Asian Development Bank in 2017, Southeast Asia alone will need US\$3.14 trillion, or an annual average of US\$210 billion, for infrastructure development from 2016 to 2030 to realise economic growth potential and improve human welfare.

Connectivity-centred infrastructure development plays an important role in linking Southeast Asia and enabling

them to reap the full socioeconomic benefits of cooperation and integration, particularly those geographically landlocked and mountainous areas that lack access to maritime trade and major consumer markets. Infrastructure financing and construction are among the most visible indications of China's rising clout and influence in ASEAN countries. China has already made huge investment in the Southeast Asian infrastructure sector, including railways, highways, sea ports, power plants and digital communication network facilities.

China's proposals to expand connectivity-driven infrastructure cooperation with Southeast Asia under the BRI are not merely aimed at providing project financing, they are for negotiating with host countries to adopt a set of Chinese standards of construction technology and project management, and to use Chinese construction materials and engineers and skilled workers for China-funded infrastructure projects in the region. The China-Laos railway construction project linking Vientiane and Kunming, which is part of China's vision of a Pan-Asia railway, is such a case in point.

Nevertheless, due to their suspicion of China's real intention, Asian countries' reactions to the BRI have been mixed. China has failed to cultivate the necessary strategic and political trust among these parties over the new Silk Road strategy. Due to a lack of transparency, fear of hugely accumulated debts and perceived one-sided economic benefits to China, there is considerable domestic dissent, frustration and anger towards Chinese investment in various Southeast Asian countries.

Internal dynamics within Southeast Asian countries, particularly dynamic internal politics and diverse domestic attitudes towards China, could impact relations. Internal factors within these countries, such as a change in ruling political parties or elites, a reverse in domestic policies, public trust, or rising nationalism sentiment, could be important in shaping the bilateral relations between China and ASEAN countries. Southeast Asian countries are keen to strike a right balance between securing economic development interests, and addressing geostrategic and national security concerns when participating in the BRI.

A number of ongoing or proposed mega infrastructure projects under the BRI in Southeast Asia are facing various political and practical obstacles on the ground and challenges due to the changed domestic situations in Southeast Asian countries. They may cause a delay to their fulfilment; however, it is highly unlikely that these obstacles will derail China's ambitious BRI entirely. Despite the countries' concerns over the real motivation behind China's BRI and its long-term geostrategic implications, ASEAN countries largely welcome this initiative and are keen to attract Chinese investment for meeting their urgent infrastructure development need and funding shortage. ■

Yu Hong is a Senior Research Fellow at EAI.

The Chongqing Connectivity Initiative and the Belt and Road

The Chongqing Connectivity Initiative is not just about physical connectivity but connectivity in bringing companies together and connectivity between Chongqing and other localities in western China and further to other cities in the Silk Road Economic Belt.

LYE LIANG FOOK

When the Belt and Road Initiative is discussed, the thrust is often on what China is doing in the reportedly more than 65 countries that line the route of this initiative. Invariably, the focus is on what China can offer these countries. Very little attention is paid to what other countries can or has offered China in return. The collaboration between Singapore and China on the Chongqing Connectivity Initiative deserves special mention as it stands out from the usual Chinese approach to Belt and Road projects in recipient countries.

SIGNIFICANCE OF THE CHONGQING CONNECTIVITY INITIATIVE

The Chongqing Connectivity Initiative (CCI) is significant for a number of reasons. Firstly, from the perspective of a small country, the CCI underscores Singapore's constant efforts to stay relevant to external trends and opportunities such as those arising from China's growth and development. To be sure, the CCI is not the first government-to-government project between Singapore and China. Well before the CCI, Singapore and China have had many years of working together on government-to-government projects which began with the Suzhou Industrial Park in 1994, followed by the Tianjin Eco-city in 2008. Through years of collaboration, the two countries have built up a certain comfort level and a positive track record of mutually beneficial cooperation. It is reasonable to say that without the first two government-to-government projects, it would have been difficult for the two countries to come together for the third government-to-government project in the form of the CCI.

Secondly, the CCI is identified by the two countries as a priority demonstration project in line with not just one but three of China's key development strategies, namely, the Belt and Road Initiative, the Western Region Development Strategy and the Yangtze River Economic Belt Strategy. In contrast, for many of China-led projects in other countries, they are either considered a part of the Belt and Road Initiative or striving to be included under the Belt and Road Initiative. In fact, it was China that approached Singapore to work together on such a project in 2013, around the same time that the Belt and Road Initiative was announced.

Thirdly, the CCI, launched in late 2015, stands out from other Belt and Road projects in that it is situated in Chongqing, China as opposed to many other projects which are located in recipient countries. The focus of the CCI is to bring companies together to work on four priority areas of collaboration, namely, (i) financial services; (ii) aviation; (iii) transport and logistics; and (iv) information and communications technology (ICT). Under the financial services pillar, for instance, cross-border financing deals

amounting to RMB25.3 billion (around S\$5.2 billion) have been completed as of March 2018, providing Chongqing companies with more financing options in growing their businesses. Aviation connectivity has almost tripled from five flights to 14 flights per week between Singapore and Chongqing.

Many projects under the Belt and Road Initiative are largely about a "one-way" flow of China's investments in or loans extended to recipient countries. However, between Singapore and China, their interaction on the Belt and Road Initiative involves a "two-way" flow. For one, the CCI helps to connect Chongqing companies with Singapore and other foreign businesses in the four identified priority areas so as to expand development opportunities to the western part of China. At the same time, Singapore is a beneficiary of China's investments in the Belt and Road countries. According to one estimate, Singapore accounted for more than 80% of total inbound investments in China from Belt and Road countries and more than one fifth of China's outbound investments in Belt and Road countries in 2017. In other words, the flow of investments between Singapore and China under BRI is mutually beneficial rather than essentially one way, from China to the recipient countries, in most instances.

Fourthly, to further enhance the significance of the CCI, Singapore and China embarked on the CCI-Southern Transport Corridor in 2017. The purpose of this corridor is to link Chongqing to Qinzhou (in Guangxi province) in the south by rail and thereafter from Qinzhou to Singapore and beyond by sea, thereby enhancing multi-modal connectivity between western China, Southeast Asia and the rest of the world. President Xi Jinping has reportedly referred to the CCI-Southern Transport Corridor as the international land and sea corridor that connects the overland Silk Road Economic Belt with the 21st Century Maritime Silk Road. The CCI-Southern Transport Corridor has hence strategic significance as it links two of President Xi's pet initiatives.

The usual and more established route is for goods from Chongqing to travel eastwards along the Yangtze River all the way to Shanghai before they are exported to the rest of the world via the sea route. This river-sea route stretching for around 6,200 km requires a travelling time of three weeks. Offering an alternative, the CCI-Southern Transport Corridor will enable companies to move their products from Chongqing via the corridor by rail to Qinzhou Port in Guangxi and from there by sea to Singapore. This rail-sea route, about 3,900 km long, translates into a travelling time of one week. In other words, by reducing travelling time by two thirds companies can expect savings in transportation and logistics costs.

Fifthly, the CCI-Southern Transport Corridor is not just

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Recent Staff Publications

Books

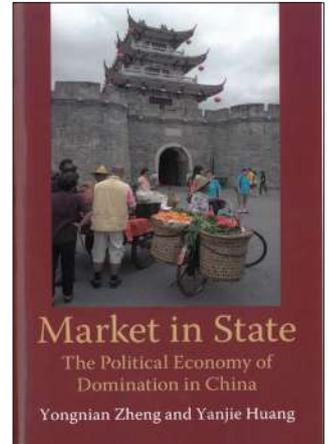
Market in State

Authors: **Zheng Yongnian and Huang Yanjie**

Publishers: **Cambridge University Press**

Year of Publication: **2018**

Focusing on the evolving relations between the state and market in the post-Mao reform era, Zheng Yongnian and Huang Yanjie present a theory of Chinese capitalism by identifying and analysing three layers of the market system in the contemporary Chinese economy: a free market economy at the bottom, state capitalism at the top and a middle ground in between. By examining Chinese economic practices against the dominant schools of Western political economy and classical Chinese economic thought, the authors set out the analytical framework of “market in state” to conceptualise the market not as an autonomous, self-regulating order but as part and parcel of a state-centred order. Zheng and Huang show how state (political) principles are dominant over market (economic) principles in China’s economy. As the Chinese economy continues to grow and globalise, its internal balance will likely have a large impact upon economies across the world.



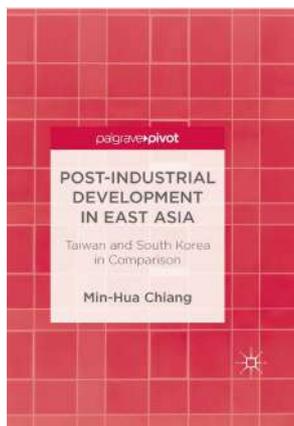
Post-Industrial Development in East Asia: Taiwan and South Korea in Comparison

Author: **Chiang Min-hua**

Publisher: **Palgrave Pivot**

Year of Publication: **2018**

This book purports to investigate and compare the economic development experiences in both Taiwan and South Korea in last two decades. Taiwan and South Korea’s economic development after WWII is a well-known story. However, their development after the successful post-war industrialisation has not been comprehensively studied. The book examines whether the three factors —the role of private business, government policy, and foreign influence— that had contributed to Taiwan’s and Korea’s post-war development, are still relevant during the post-industrial development era. Researchers in the fields of



global political economy, Asian economic development and East Asian studies will find this book a fresh and invaluable contribution to the literature. The book will also be of value to policymakers in developing countries in drafting their national development policies, diplomats conducting economic diplomacy with Taiwan and South Korea, and business people planning to expand their business interests in Asia.

Asia’s New Order

Author: **Zheng Yongnian**

Publisher: **Guangdong People’s Publishing**

Year of Publication: **2018**

When Western democracies are facing a series of crises, uncertainties emerge in Asia especially on how the international order within Asia will evolve, and what role China will play in the trend.



This book attempts to investigate the puzzles focusing on Asia with three sections. As today’s Asia order is largely a legacy of Western dominance, the first section discusses the nature and causes of problems in Western democracies because it is the most essential variable of Asia’s change.

The second identifies challenges and transformations of the political order in Asia. The third specifically examines the interactions between the rise of China and the evolving Asia order, which includes how China’s surging power reshapes Asia and how retreating Western influence in Asia can affect China’s future.

China's Way to Maritime Civilization

Author: Zheng Yongnian

Publisher: Orient Publishing House

Year of Publication: 2018

China is undergoing unprecedented challenges from maritime geopolitics. Internally, it has become a resources importing country given its huge domestic demand, while surplus capital accumulated from continued economic progress



has propelled an outbound flow for profit. Externally, China is surrounded by many neighbouring countries with intertwined interests. This book collects the author's observations and studies on China's maritime geopolitics for years. The author provides insightful analyses of China's transformation from a landlocked powerhouse prioritising its interests on Eurasia to appreciating maritime geopolitics. To

become a marine power is of necessity for China as explicated by the rise of the United Kingdom and the United States as ocean dominators. Policy suggestions for China on how to reconcile its terrestrial geopolitics with maritime geopolitics, and how to behave and react in international relations are embraced in this book as well.

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The China-Singapore Southern Transport Corridor

A review after one year.

HENRY CHAN

China-Singapore Southern Transport Corridor, also known as the China-Singapore (Chongqing) Connectivity Initiative Southern Transport Corridor (CCI-STC), is a rail-sea multimodal transportation route linking Chongqing in western China to Singapore. Cargo can be shipped on rail from Chongqing to Qinzhou Port (866 km) in southwestern China's Guangxi province, and transferred to Qinzhou for shipping to Singapore (2,351 km) and other parts of the world, and vice versa. The length of the combined land-sea corridor is approximately 3,900 km.

CCI-STC is the critical component in the transport and logistics connectivity under the China-Singapore Chongqing connectivity initiative (CCI). The other three connectivity under CCI is financial services, aviation, and information and communications technology. CCI is the third Singapore-China government-to-government flagship project launched by President Xi and Prime Minister Lee Hsien Loong in November 2015, after Tianjin Eco-city in 2008 and Suzhou Industrial Park in 1994. The CCI-STC project which began in 2017 has been referred to by China's President Xi Jinping as the international land and sea corridor that connects the overland Silk Road Economic Belt with the 21st Century Maritime Silk Road. The CCI-STC makes Singapore a key node in the Belt and Road initiative and reinforces the central maritime position of Singapore.

Before the launch of STC, there are two major cargo transport routes for Chongqing to Singapore. The first is the Chongqing-Shanghai-Singapore route through the Yangtze River, which passes the Three Gorges dam and is subject to the capacity constraint of the ship-lift at the dam. The Chongqing-Shanghai river transportation (1,443 km) takes more than two weeks and occasionally longer to traverse, and the Shanghai-Singapore (3,803 km) is significantly longer than the Qinzhou-Singapore (2,351 km) sea lane. Goods using the 6,900 km Chongqing-Shanghai-Singapore route usually take three to four weeks to reach their destination. The second is the Chongqing-Shenzhen-Singapore land-sea route. The course is the traditional transport link between Chongqing or southwestern China with Singapore or Southeast Asia. This route has both rail and highway connection and passes through the industrial belt of Guangdong; the path has been developed at very low logistic cost. The distance by land and sea is slightly longer than that of CCI-STC. The Chongqing-Shenzhen rail and highway link is 1,081 km and the Shenzhen-Singapore sea lane is 2,602 km.

CCI-STC has significantly reduced the time needed to transport goods between Chongqing and Singapore to less than a week as compared to the Chongqing-Shanghai-Singapore route. The distance is also shorter. CCI-STC has anchored Chongqing as the inland international logistics hub

in western China, giving Chongqing and western China more direct and shorter access to international maritime trade. It would help drive economic growth in the western provinces of Gansu, Guizhou, Shaanxi and Sichuan as well as the Qinzhou port province of Guangxi. At the moment, five other western and southern Chinese provinces have expressed interest in joining CCI-STC in the future.

CCI-STC began operation in 2017 and business development has been fast. Southbound trains by late-2018 have reached a frequency of one trip a day. The northbound freight stands at three times a week. A good 87% of southbound cargoes are Chinese export cargoes that continue to utilise the sea lane service, while only about 20% came from overseas importation for the northbound freight. CCI-STC has developed regular sea links to 58 seaports in 35 countries and its goods have reached more than 80 ports in 42 countries across all six continents.

The early formation of the management company, Sino Singapore Chongqing Connectivity Solutions (SSCCS) to implement the Chongqing Connectivity Development Platform (CLDP) under the CCI-STC, is one of the key reasons behind the rapid take-off of the link. A consortium of four prominent companies from Singapore, namely, Pacific International Lines, PSA International, YCH Holdings and Kerry Logistics (Singapore), and a Chinese consortium of six Chongqing companies formed the SSCCS. The SSCCS shareholders are prominent logistic players and their combined efforts brought critical mass to ensure a good start for CCI-STC.

The SSCCS Singapore member companies and three other Chongqing companies also formulated the CLDP's logistics solutions and built the Multi-Modal Distribution and Connectivity (DC) Centre in Chongqing under the CLDP. SSCCS also invested in a domestic logistics company, the CCI Eurasia Land Bridge Logistics Development Company (CELD), to facilitate the provision of integrated land-sea logistic solution on its northbound cargoes.

In the initial year of operation, SSCCS has already begun to provide sea-rail cold chain transportation service along CCI-STC, digitised CCI-STC workflows using vCargo Cloud's cloud-based platform and implemented the "Freight Container Equipment Interchange Programme" to cut logistic cost and work with Singapore and Chinese customs on the "Secure Trade Partnership" to facilitate custom clearance. SSCCS is working to cut further northbound transit time to less than a week.

The imbalance of northbound and southbound is a problem for all port facilities in coastal China. The country's container export volume is much more than its container import volume and this challenge is also true for CCI-STC. However, the recent success to use the cold chain transport to send fresh products through Singapore to western China

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The Changing Malaysian Attitudes towards China's Belt and Road Initiative

Sino-Malaysian relations pulled back by internal political changes.

KONG TUAN YUEN

The Belt and Road Initiative (BRI) proposed by China's President Xi Jinping in 2013 has since become one of China's major diplomatic policies on its neighbours. Among the over 60 potential participants in the plan, China has paid high attention to ASEAN countries' involvement. ASEAN is not only located in the Silk Road Economic Belt with a planned construction of Kunming–Singapore railway across mainland Southeast Asia countries and the on-going development of China-Singapore Southern Corridor, but also one of the busiest economic gateways via the Strait of Malacca that links Chinese businesses with the rest of the world.

Malaysia was seemingly the greatest supporter of the BRI among ASEAN countries. China has been the largest trading partner of export-oriented Malaysia since 2009. Malaysia has received enormous infrastructure investment from China under the then Malaysian Prime Minister Najib bin Razak. Chinese investment in Malaysia, including port expansion of Malaysia-China Kuantan Industrial Park, Melaka gateway, East Cost Rail Line (ECRL), Forest City, pipeline construction and so on, is estimated to reach over US\$100 billion.

The booming China-Malaysia economic collaboration has been interrupted recently by the decisive victory of coalition party, Pakatan Harapan, led by former Prime Minister Mahathir bin Mohamad, at the 14th Malaysian general election in 2018. Mahathir attributed the increasing government debt to the 1MDB scandal and the Sino-Malaysian long-term infrastructure projects. Some infrastructure contracts were said to be opaque and some were implemented without strict auditing. The Mahathir administration hence postponed, cancelled or suspended some of the projects to reduce the government debt of more than RM300 billion, which included the ECRL projects, KL-Singapore High speed railway projects and natural gas pipeline projects.

Some studies asserted that the pull-back of the Mahathir administration is to rebalance geopolitics among major powers as the Najib administration had maintained too close a relation with China. Najib not only endorsed many infrastructure projects, but also agreed to purchase littoral combat ships from China and to participate in joint military exercise. The close Malaysia-China relations may break ASEAN unity and stir the suspicion and anxiety of regional powers such as the United States, India and Japan. Some believed that the seemingly successful BRI in Southeast Asia is a factor for the Indo-Pacific strategy against China expansion.

Some observers also believed that the Malaysian government suspended the ECRL projects to alleviate

Singapore's anxiety in order to ensure regional political stability, especially for ASEAN unity. The ECRL projects are to link Port Klang on the Strait of Malacca via Kuantan Port City, which facilitates the flagship government-to-government projects, Malaysia-China Kuantan Industrial Park, to Pengkalan Kubor along the East Coast Economic Region of northeast peninsula Malaysia. The set-up of ECRL is to bypass the Port of Singapore, one of the busiest harbours to conduct maritime trade and shipping on the Strait of Malacca.

However, the new Malaysian government has repeatedly explained that the recent stalled Sino-Malaysian relations were triggered by the priority allocated to domestic issues rather than international cooperation, and the expanding government debt which led to the abolition or postponement of some Sino-Malaysian BRI projects. Meanwhile, Mahathir persuaded the China side to accept his decision on the

The booming China-Malaysia economic collaboration has been interrupted recently with the decisive victory of the coalition party, Pakatan Harapan.

suspension during his Beijing visit and gave his promise of Malaysia's continuous support of the BRI by strengthening industrial cooperation, especially in the high-tech and digital industry.

Malaysia Deputy Defence Minister Liew Chin Tong said that Malaysia aims to integrate into the broader China-driven regional production network for mutual benefits, especially in creating jobs and high-value investment. Deputy International Trade and Industry Minister Ong Kian Ming also clarified that the suspension of mega projects is to ensure Malaysia's financial position.

Even though geopolitics and regional economic development are plausible factors, internal dynamics such as the national debt, intransparency in infrastructure project bidding and the election promises of Pakatan Harapan are the bigger reasons for Malaysia's recalibration of its BRI cooperation with China.

Malaysia has promised to broaden its participation in the BRI if the domestic economic situation in terms of national debt has improved. Future China-Malaysia relations, however, are also contingent on Anwar bin Ibrahim, the potential successor to Mahathir, who may direct Sino-Malaysian relations away from the political commitment of the current government made at 14th general election. ■

Kong Tuan Yuen is Visiting Research Fellow at EAI.

The Energy Sector in the Belt and Road Regions

China's Belt and Road Initiative is playing a crucial role in funding and operationalising energy-related projects while learning how to make them sustainable.

LIM TAI WEI

It appears that fossil fuels or hydrocarbons have not lost their attractiveness when it comes to trade along the Belt and Road Initiative (BRI) regions. Fossil fuels and their cost-effectiveness and abundance in developing economies may be major reasons why they remain attractive for energy use.

Just as Indonesia is the largest entity for Chinese BRI exchanges in the maritime component of the Silk Road (MSR or Maritime Silk Road), Kazakhstan is the largest entity on the overland Silk Road, making up about one third of the overland BRI route and surpassing the entire western Europe subcontinent in size. Kazakhstan is on course to become a major natural gas supplier to China, specifically to its state-owned China National Petroleum Corp (CNPC).

On 13 October 2017, natural gas was successfully dispatched from Kazakhstan to China. This was a milestone in land-based energy transportation and logistics. It was also much-needed energy resource due to the onset of winter in that month. The gas was piped through three Central Asian natural gas pipelines connected with China and managed by CNPC in joint venture (JV) with Kazakh partners. This volume of gas adds on to existing arrangements already in operation with Turkmenistan and Uzbekistan. It also openly signals Kazakh's aspirations to emerge from merely

being an energy logistics hub (formerly a mere transit space for pipelines to traverse through) to a supplier of energy itself. No longer is it only hosting gas pipelines or logistics components but an originator of gas itself.

In essence, both maritime as well as overland Silk Roads in the Belt and Road Initiative (BRI) are potential energy routes for China's energy sector. Chinese state-owned companies (SOEs) have become large-scale users and technological developers of coal fired technologies in the world.

In Indonesia, Chinese companies (both private sector multinationals and the SOEs) have the capacity to invest in Indonesia's coal-based electricity generation sector armed with funds from the Asian Infrastructure Investment Bank (AIIB) and China's own developmental funding available through the BRI. Indonesia presents itself with especial importance to the BRI because it is the largest entity in the maritime component of the BRI. This was one of the reasons

why the launch of the MSR was announced in Indonesia.

Indonesia, Southeast Asia's and the G20's major trillion dollar economy, needs Chinese and other supplying countries' power generation technologies for its economy to take off. Previously a net coal (and oil) exporter to other countries, Indonesia is now keeping its energy resources for its own economic development. Its constraints to expanding energy use are getting enough requisite technologies to build power/

electricity generation plants in its own territory. China is a global leader in this field and can provide a one-stop solution to Indonesia's power generation challenges. Its workers can be deployed in sizeable numbers in Indonesia to make up for the skills deficit needed for infrastructure construction, though this may stoke the sensitivities of the Indonesians. Involving China may also trigger local backlash against China's environmental record and debt dependence, something Indonesia's neighbour Malaysia is shaking off with a newly elected Prime Minister Mahathir. Thus, any power/energy/electricity generation initiatives has to be approached gingerly.

There are several possibilities to keep the long-term relationship going. First, the supply of Chinese coal plants must meet Indonesian needs for economic development. It must not contribute to Indonesian debt burdens and the coal plants have to be financially and economically

self-sustaining. For example, power generation investments should help in the development of Indonesian industries like the heavy metal industries (particularly nickel and steel). Steel is a basic ingredient for other heavy industries like the production of cars, trucks, trains and even aeroplanes (Indonesia once nursed hopes of having a national car and a national plane project).

Power generation should also benefit the cement sector useful for building industrial parks, residential estates and other massive infrastructure projects. As these projects take off, both sides have to be very vigilant about their impact on the environment and sensitive to employing as many local workers as possible to contribute to the local economies. Only if these conditions are met could the exchange of Chinese coal plants for Indonesian resources/consumer market and goodwill be feasible. ■

Lim Tai Wei is Senior Research Fellow adjunct at EAI.

Previously a net coal (and oil) exporter to other countries, Indonesia is now keeping its energy resources for its own economic development. Its constraints to expanding energy use are getting enough requisite technologies to build power/electricity generation plants in its own territory.

China's "One Belt, One Road" Initiative: Five Years On

EAI Workshop • 2 November 2018

LI XIN, GU YONGXIN AND WANG DANGUI

It has been five years since the launch of the "One Belt One Road" (OBOR) initiative in 2013. Consisting of the land-based Silk Road Economic Belt and the sea-based Maritime Silk Road, this initiative laid out Chinese President Xi Jinping's strategic vision for China's position in the world. Although views on the OBOR have been mixed, its outreach and the attention it drew have been extensive.

The East Asian Institute (EAI) brought together scholars from relevant regions to assess the implementation and impact of the OBOR, also known as the Belt and Road Initiative (BRI). The workshop held on 2 November 2018 focused on geopolitical, financial and economic challenges facing China's OBOR, as well as its ripple effect in the region and the world at large.

Session One gave an overview of the OBOR. Seen as a long-term and globally oriented strategy, the OBOR initiative had initially aroused a high level of enthusiasm with its focus on infrastructure development. Through its five years development, however, the initiative was coming to a crossroads with many issues and problems. In terms of trade, Dr Sarah Tong of EAI pointed out that though there has been a slight increase in trade between China and OBOR countries, the impact is not conclusive. In terms of outward foreign direct investment, the trend is even less clear.

Dr Yu Hong of EAI also observed that certain investment projects were vaguely defined and ambiguous. This created difficulty for assessing commercial viability of the projects, which could be problematic considering the financial vulnerability of many participating countries. To guarantee effective implementation of the initiative, suggestion was made for China to conduct review of the initiative and allow for full participation of other players.

Looking at non-participating countries, the panel also identified the wariness of the United States, India and Japan towards OBOR. This wariness stemmed from anxiety over

power transition in Asia. Regional pushback towards Chinese ambitions was quite inevitable. However, many smaller Asian countries seeking development could benefit from OBOR as well as from the competition between China and other powers. Thus, there was opinion that it was still early to give full assessment of the OBOR.

Session Two focused on the development of the Maritime Silk Road through Southeast and South Asia. Some Southeast Asia countries were adopting a more cautious attitude towards OBOR as project delays and debt problems began to surface. This region enjoyed favourable conditions such as close geographical position, strong bilateral trade ties and huge market size. To allow the advantage of such factors to kick in, the panel put forth suggestions for China to revise investment pattern, consider third party cooperation and to take into account the complex domestic politics.

In South Asia, attitudes towards OBOR were also diversified. Dr Pradeep Taneja, specialist in Asian politics at the University of Melbourne, talked about India's reaction and concerns. Taking the China-Pakistan Economic Corridor as an example, he analysed India's sovereignty and normative concerns including debt burdens, environmental protection and long-term sustainability of OBOR projects. On the other hand, there could also be benefits if India could tap into China's financial resources and technical knowhow to meet its infrastructure needs. To increase chances of collaboration between China and India, it was proposed that a multilateral approach or involvement of third countries could be adopted.

Session Three discussed the Silk Road Economic Belt through Central Asia and the Middle East. For countries in Central Asia, OBOR is not a brand new initiative, but a continuation of the previous cooperation between China and the region. OBOR added on to the already intensified competition in the region's energy sector and enhanced the importance of Central Asia countries in Eurasian trade. In



The two panelists at the conference.

this session, Dr Serik Orazgaliyev from the Graduate School of Public Policy of Nazarbayev University, Kazakhstan, provided an overview of the regional energy cooperation between China and Central Asian countries, and explained how the overland Silk Road built on existing regional energy cooperation.

In the Middle East region, OBOR is attempting to establish a network of transportation routes and facilities, as well as draw investments into energy sector and trade cooperation. This attracted much enthusiasm from the Arab governments. For China to secure economic interests in the region, Dr Altay Atli, lecturer at the Department of International Relations of Koç University, Turkey, opined that it would require necessary experience and capabilities from the Chinese side to engage and stabilise regional politics.

The final session reviewed the impact of OBOR on

Europe. Dr Giuseppe Gabusi argued that OBOR connectivity could possibly reduce high trade costs and significantly increase bilateral agricultural trade between China and the European Union (EU). It also had the potential of providing an alternative idea to how to organise the space of international politics, through examples of policy coordination and network building.

However, China's focus on Eastern Europe has raised concerns about the impact of OBOR on the political unity of EU. The mutual knowledge gap between Europe and China also posed as an obstacle for better cooperation. Suggestion was for both Europe and China to jointly establish institutional frameworks, develop digital connectivity, and improve cooperation on science, technology and innovation. ■

Li Xin, Gu Yongxin and Wang Danguai are Visiting Scholars at EAI.

Can China Create a New Model of a Government-steered Market Economy?

Goh Keng Swee Public Lecture • 30 November 2018

LIU BOJIAN

After the global financial crisis, there is a growing interest concerning China's model of market economy as an alternative to the US-created model. At the recent Goh Keng Swee Public Lecture, Professor Barry J Naughton, So Kwanlok chair of Chinese International Affairs at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego examines the possibility of China creating a new model of a government-steered market economy.

As what Chinese leaders before Xi Jinping declared, China had been developing a new model of market socialism, in which they highlighted the superiority of socialism with Chinese characteristics.

Professor Naughton said that as the largest developing country in the world, China could offer the world a different model of market economy. Since the financial crisis in 2008, there has been growing disappointment over the so-called Anglo-Saxon model of capitalism, while China's response to the crisis was distinctive and bold. In fact, since the end of the Cold War, models of economic development in the world have been converging to the western market economy; however, economists no longer talked about the convergence after 2010, when the United States has shown very strong reaction against China's economic rise.

What is China's new model? China's government predominantly uses market-oriented instruments to impose its preferences for a substantial share of economic activities. Rather than the planned economy of Mao Zedong's time, China's government is steering and shaping the trajectory of the market economy. Through government investment, the Chinese state and its firms affect a larger proportion of the overall output. Over the last decade, China's state-



Professor Naughton emphasising a point.

run financial institutions have become larger and more robust, indicating its tremendous ability to mobilise fiscal resources. More importantly, China has established sets of market-conforming institutions such as industrial guidance fund. These funds are operated with corporate-like venture capital funds where the state is in control. Most of the funds have the flexibility of co-investing with private funds and the preference for high-tech sectors.

Why this steerage model? By and large, apart from the major concerns of maintaining economic growth, there is an increasing conviction among Chinese leaders that the world is facing a new technological revolution, which creates opportunity for China to surpass the West. Therefore, technological advancement has been made a core in China's policymaking.

Professor Naughton also points out some risks of this new model. He believes that the government's strong involvement

in the market leads to lower efficiency of investment. As market-conforming funds have very complicated structures, they may not be working very well, especially when they generate high-tech bubbles leading to the collapse of a great number of investment. Moreover, government steering relies more on state firms, inevitably creating heavier costs for the private sector and tension between the private sector and large state-owned enterprises. Besides, China's recent effort of deleveraging has led to financial difficulties in many private companies. Politically, the outreach of the public sector is expanding, causing private entrepreneurs to fear that their companies will be reintegrated into state sectors.

Professor Naughton concludes that China's growth rate would slow down, while tensions between the state sector and non-state sector would remain. Besides, disputes between China and the United States would be lasting challenges, with the so-called Chinese development model as the key underlying source of discontent of the United States. To Professor Naughton, China's economy would inevitably become more competitive and a leader for the world economy, while Donald Trump largely acts as a backlasher against China's rise. ■

Liu Bojian is Research Assistant at EAI.

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EU-China Relations in the Belt and Road Initiative

could create an open, transparent and secure framework for both sides, but so far progress has been limited. Another investment-related issue has been the character of Chinese FDI in high technology and potentially sensitive firms and sectors in Europe where a Chinese firm's bid to purchase a majority in the German firm Leifeld that produces high-strength metals used in cars, space and nuclear industries collapsed earlier in 2018 after the German government prepared for a veto. Incidents such as this has prompted the European Commission to propose a new legislation for establishing a common European framework for screening FDI in the EU.

The question of reciprocity has also dominated discussions related to trade. The controversy reached a peak in relation to the discussion of whether the EU should grant China a market economy status (MES) in 2016 as a consequence of commitments made when China joined the WTO. Despite Chinese diplomatic efforts to persuade the EU to accept MES for China, the deadline passed without Europe's agreement. European reluctance to recognise China as a free market economy is due to the extensive involvement of the Chinese state in the domestic economy and for this reason EU is still applying third country pricing on a case by case basis when evaluating claims that China is dumping products in European markets.

Notwithstanding the controversies and the many different European perspectives on China, the fundamental approach of the European Commission and governments in European countries has been that the Chinese Belt and Road Initiative

offers many opportunities for advancing EU-China trade and economic relations. In fact, the Belt and Road Initiative could be expanded in ways that could benefit Europe even more if cooperation with China on scientific research and innovation, and improvement of service trade, were receiving additional support. ■

Erik Baark is Visiting Senior Research Fellow at EAI

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The Chongqing Connectivity Initiative and the Belt and Road

about physical connectivity but connectivity in several important aspects. In terms of areas of cooperation, there is connectivity in bringing companies together in the four priority areas. In terms of key nodes, there is connectivity between Chongqing and other localities in western China and even westwards to other cities along the Silk Road Economic Belt. There is also connectivity between Chongqing and other parts of Southeast Asia and beyond via the CCI-Southern Transport Corridor. In terms of modalities of transport, there is emphasis on multimodal freight connectivity whether it is in the form of land, air, sea or rail. Furthermore, there is digital connectivity such as in the use of digital single window or blockchain technology to facilitate the handling of freight that involves multimodal types of transport.

The building of connectivity via the CCI-Southern Transport Corridor will require time, perseverance and patience. The participation of as many Chinese cities, provinces and autonomous regions is important as the support of the local authorities is a necessary ingredient in facilitating cross-border transfer of goods and services, reducing non-tariff barriers and contributing to building a multimodal transport system. Equally important, if not more so, is the participation of companies in not only the four highlighted areas of cooperation, but also using the multimodal transport system. The participation of companies is the best litmus test of the viability of the CCI-Southern Transport Corridor. ■

Lye Liang Fook is Senior Fellow, Regional Security and Political Studies Programme, and Co-coordinator, Vietnam Studies Programme at the Institute of Southeast Asian Studies-Yusof Ishak Institute.

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The China-Singapore Southern Transport Corridor

appears promising. The superior logistic offered by CCI-STC and the relentless effort of SSCCS in cargo sourcing will likely solve the issue shortly. As compared to Suzhou Industrial Park and Tianjin Eco-City, the initial takeoff of CCI appears to be smoother, in particular for CCI-STC. ■

Henry Chan is Visiting Senior Research Fellow at Cambodia Institute for Development and Peace.

Some Highlights at EAI



EAI Distinguished Public Lectures by Professor Jiang Yi-Huah (top right) on "Taiwan Politics and Cross-Strait Relations" chaired by Professor Zheng Yongnian (top left); Professor Yu Yongding (below left) on "Mundell Trilemma and China's Monetary Policy Independence"; and Professor Anthony Reid (below right) on "Southeast Asia and China: Historical Reflections and Current Dangers".



Above: EAI Scholars in meetings and discussions with overseas delegates.

EAI WORKSHOP

Anticipating China's Post- Xi Jinping Generation Leaders

- Generational differences of PRC leadership
- The up and coming top politicians and technocrats
- The likely post-Xi central committee; provincial, military and security leaders
- Changing patterns of elite politics

22 FEBRUARY 2019
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