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The Belt and Road Initiative in Southeast Asia: Motivation, Strategies, and Challenges

Wenjing Xie
University of Miami, wenjingxie9547@gmail.com

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THE BELT AND ROAD INITIATIVE IN SOUTHEAST ASIA: MOTIVATION, STRATEGIES, AND CHALLENGES

By

Wenjing Xie

A THESIS

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THE BELT AND ROAD INITIATIVE IN SOUTHEAST ASIA: MOTIVATION, STRATEGIES, AND CHALLENGES

Wenjing Xie

Approved:

Richard Grant, Ph.D.
Professor of Geography and Regional Studies

Han Li, Ph.D.
Assistant Professor of Geography and Regional Studies

Bryan Page, Ph.D.
Professor of Anthropology

Guillermo Prado, Ph.D.
Dean of the Graduate School
This thesis aims to analyze China’s Belt and Road Initiative in Southeast Asia from a perspective that does not privilege the interests of any particular nation. This paper lays out three essential aspects of the BRI: the motivation that drives China to invest in Southeast Asia, the strategy that China implements in the region, and the challenges that China faces going forward with the program. Through the analysis of specific projects across the Southeast Asian region, this thesis discusses the underlying factors that influence the projects’ status and type in various countries. It also discusses the domestic Chinese motivations for this project, which often differ from the needs and problems of the countries they engage with. Some of China’s strategies include building the essential infrastructure; utilizing the BRI to solve political problems including territorial disputes; and exporting Chinese standards by helping the regional countries with railways. There are also specific problems faced by China as they look to develop the region. For instance, political upheaval, funding issues, and military security raise concerns for the Chinese as they invest. One potential upside of the BRI is an increased engagement in international commerce and competition for the less-developed countries involved in the project. This
thesis achieves this unique analysis by combining the viewpoints of both the West and China, who offer differing insights into the nature of the BRI.
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Chapter 1: Introduction

The Belt and Road Initiative (BRI), which was announced by Chinese president Xi Jinping during visits to Kazakhstan and Indonesia, is a development strategy adopted by the Chinese government involving infrastructure developments and investments in countries in Europe, Asia and Africa. The BRI aims to promote economic cooperation among countries along the BRI routes.

![Figure 1: The global extent of the BRI project](image)

Source: Herbert Smith Freehills 2019

The BRI is made up of two parts, that is, belt and road. The “Belt”, also known as “The Silk Road Economic Belt”, refers to the overland routes of the BRI, which look like

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a long belt on the map; The “Road”, also known as the “21st Century Maritime Silk Road”, which refers to the shipping lanes of the BRI. ² The “belt” connects China to Europe, the Middle East, South Asia and Southeast Asia through the land while the “road” would link China to Europe through the South China Sea and Indian Ocean by using the coastal ports. There are opportunities that are provided by the BRI to the countries along the BRI in the following 5 areas: financial integration, trade and investment, facilities connectivity, policy coordination, and cultural exchange.

This ambitious initiative, consisting of various routes by sea and land, aims to forge an integrated network of regional infrastructure with China all over the world. By the end of 2018, China has already signed 170 cooperation documents with 122 countries and 29 international organizations to build the BRI. ³ The main cost of the BRI will be funded by China and supported by the Asian Infrastructure Investment Bank (AIIB) and other banks that are led by China.

In order to understand the BRI deeper, a cultural and political concept called ‘Silk Road’ needs to be defined. Back in the ancient period, trade was especially essential in connecting the East and West. The Silk Road, which derived its name mainly from the silk trade, was an ancient trade route that connected Asia, Africa and Europe. At the beginning, the Silk Road was used to transport silk, china and other goods that were produced by ancient China through overland and maritime routes. Then, the Silk Road started to play a significant role in the cultural interaction between regions for many

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centuries. However, the Silk Road started to decay because of the wars within the countries that were along the trade routes.

In fact, the BRI is a new concept that succeeded from the ancient Silk Road. We could see that the Chinese government hopes to retrieve the resplendence that the Silk Road had brought to them by creating a 21st-century Silk Road (BRI).

According to Chinese officials, BRI not only finds a way for China to realize its Chinese Dream, but also help the people from the BRI countries pursue a better life, which makes the BRI a win-win cooperation for China and other countries.

However, as soon as China launched the BRI, scholars started to compare it to the “Marshall Plan.” The West has a different point of view towards the underlying motivation of BRI. Both the mainstream media and professional analysts began to name the BRI as “China’s Marshall Plan” since the scholars do believe that there are similarities between the motivation of Marshall Plan and the BRI in some aspects. What’s more, some scholars even pointed out that the essential tenet of the BRI is China’s imperialism. After the Sri Lankan government formally handed over control of the port of Hambantota to Chinese interests on a 99-year lease. Some observers pointed out that China can maintain its energy security by taking over this port, since two-thirds of China’s imported oil is through shipping lanes south of the port. Thus, this port expands China’s military influence in the Indian Ocean because China has controlled a territory that is just a few hundred miles off the shores of rival India, which means military motivation is one of the important underlying motivations behind the BRI. Further, more

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and more observers wondered if the Chinese model will replace the Western model since the Washington Consensus failed to help developing countries in Latin America to reform and get out of crisis. Last but not least, the BRI is viewed as a competitive tool for China to lead Asian economic growth and compete with the US. Aside from those skeptical attitudes, the 16 Central and Eastern (CEE) countries are more than happy to cooperate with China under the framework of “16+1” since the trade and connectivity in the CEE region is growing fast under the BRI.

One of the interesting details is that the Chinese and western media are always holding opposite attitudes towards the BRI. For example, the Chinese press reported the completion of National Road 6A to improve connectivity in Cambodia, while the Western news title is “Belt and Road Initiative set to bring opportunity, but comes with risks.” Therefore, by analyzing the materials from both China and other countries, this thesis contributes an objective attitude towards the BRI from differing comparative perspectives.

This thesis consists of seven chapters. This first chapter is the Introduction. In this part, the background of the BRI is laid out and the structure of the thesis is put forward. The second chapter is the Literature Review, which summarizes the scholars’ different opinions on the BRI and the related researches in Southeast Asia; the third part is Study Area and Data Source, which introduces the reasons why Southeast Asia matters to the BRI and how the BRI would reshape the geopolitical and economic landscape of Southeast Asia. What’s more, this chapter also introduces an authoritative source, “Reconnecting Asia,” a project developed by the Center for Strategic and International Studies (CSIS) in Washington, DC. Starting from introducing the international
background, chapter 4 talks about the motivations behind the BRI. In Chapter 5, China’s strategies implemented in Southeast Asia are introduced, then chapter 6 summarizes the challenges that the BRI is facing in Southeast Asia, and offers some potential solutions. Last but not least, chapter 7 summarizes my findings on the impact and potentialities of the BRI in the Southeast Asia region.
Chapter 2: Literature Review

There are a lot of books and articles that introduce the BRI from a comprehensive perspective. Zhang, Alon and Lattemann (2018) offered good examples of how the BRI is changing the rules of globalization in their book by explaining different perspectives of the BRI, including geopolitical, financial, legal, and cultural perspectives. Some scholars analyzed the underlying motivations of the BRI toward the whole world. For example, some commentators believe that the BRI is “China’s Marshall Plan.” After comparing five aspects of the Marshall Plan and the BRI, Shen and Chan (2018) do believe that there are similarities between the motivation of the Marshall Plan and the BRI in the following aspects: First, both 1945 US, in the past, and 2013 China are global, leading economies that face problems of overcapacity, with the need to invest in other countries and create exports. Second, they want to internationalize their own currency by trade and center a new financial structure by themselves. The Marshall Plan accelerated the US dollar to achieve the dominant position in the world financial system, while China is trying to utilize BRI to internationalize RMB. Third, both the US and China want to use their economies to counter their rivals. The US used the Marshall Plan to unite with Europe to counter the Soviet Union in 1945, while China could be able to counter with the US by cooperating with the BRI participating countries. Forth, the US and China all want to foster strategic division by ensuring the countries would not join the rival camp. The Marshall Plan offered generous support to West Germany to avoid the complete fall of Germany to the Soviet Union, while China offered infrastructural aids to the Asia-Pacific Economic Cooperation (APEC) states to attract them to support Chinese standards. Last but not least, both of the countries are trying to obtain diplomatic support
by their respective economic plans. The US offered aid options to Soviet-controlled Eastern European states in an attempt to convince them to leave the rival camp, while BRI is trying to do the same for contemporary China.  

The Marshall Plan was an American initiative which was designed to help Western Europe’s economy recover from World War II and to foster greater levels of European integration. This plan was also expected to solidify the relationship of the US and Europe as military and political allies. Lairson (2018) points out that the Marshall Plan is the closest analog to the BRI in scale, scope, and purpose. Some say that both of the initiatives are using economic means to solve political problems. More importantly, it is undeniable that China wants to compete for global leadership in the 21st century through BRI, just like the US did in the 20th century. But alternatively, scholars also think that the US in the post-World War II era had many significant advantages in the Marshall Plan that China does not have in its BRI effort. For example, the US and Europe share significant cultural and political values. Plus, they shared the recent and substantial cooperation in fighting the battles of World War II. The US and the European countries had an allied relationship in opposition to Soviet threats to Europe.

Besides perceiving the BRI as China’s Marshall Plan, some scholars even point out that the BRI is a useful tool for China to realize its imperialism by taking over the territories of the countries that are not able to pay their debt. Yamada (2018) analyzed the BRI projects that are unfolding in eight countries that are facing the following problems:

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project delays, ballooning deficits, and sovereignty concerns. In particular, the case of Sri Lanka offers an example of a debt-driven infrastructure financing that has been manipulated by China.

Although facing those doubts, the documents released by the Chinese government claim that the BRI is a win-win cooperation for all the participating countries and China. The BRI not only finds a way for Chinese to realize the Chinese Dream, but also helps the people from the BRI countries pursue a better life. Thus, from the BRI official website, all we can see are the successful cases of the BRI, which is similarly biased as the Western opinions.

Besides analyzing the BRI from a global perspective, since Southeast Asia plays a huge role in the world economy, some scholars have studied the BRI in Southeast Asia. Hong (2016) discussed the trends in Southeast Asia under the BRI, revealing that the Southeast Asian countries believe that the BRI is an economic and trade initiative with a strong political and security dimension as well. Therefore, China needs to cultivate political trust with neighboring countries if it wishes to convince them that the BRI is win-win for both sides. Yu (2017) talked about the BRI and its implications for Southeast Asia by explaining the opportunities and challenges that the BRI would probably bring to this region.

Also, some scholars discuss the BRI in the specific countries in Southeast Asia. Liu and Lim (2018) argued that the political elites in a relatively weak and small state such as Malaysia are adept in engaging with the BRI to further their own agenda.8

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However, there is not a single article that talks about the motivation, strategy and challenges in Southeast Asia by combining specific countries and projects. That is the innovation of this thesis. There has yet to be a comprehensive study that considers conditions of the BRI in multiple Southeast Asian countries from a comparative standpoint. My thesis will offer this comprehensive analysis to provide a more well-rounded understanding of both the positive and negative effects of the BRI in the recipient countries. Although the BRI is a global project, this thesis focuses on the extant projects as they operate in the Southeast Asian region. Through these case studies, the motivations, strategies, and challenges of the BRI in these regions will be revealed.

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3.1 Why Southeast Asia?

*China and ASEAN’s Rise in the Global Economy*

Southeast Asia is a sub-region of Asia, consisting of eleven countries, which are located in two geographical regions. The first one is mainland Southeast Asia, which includes: Vietnam, Laos, Cambodia, Thailand, and Myanmar. The second one is maritime Southeast Asia, which includes Indonesia, Malaysia, Singapore, Philippines, East Timor, and Brunei. With a population of 600 million, an increasingly integrated market, and some of the world’s most dynamic economies, Southeast Asia plays a huge role in the global economy.

The Association of Southeast Asian Nations (ASEAN), which was established in 1967, is the most advanced regional intergovernmental organization in Asia. Besides East Timor, all the countries that are located in Southeast Asia are members of ASEAN.

In recent years, China’s rise has become more rapid than even Chinese officials had anticipated. As an emerging power in East Asia, China is the main driver behind the geopolitical and economic reconfiguration that is taking place in Asia. Under these circumstances, Southeast Asia is the area that is affected most directly by the rise of China. On the other hand, ASEAN’s position in Asia-Pacific region continues to improve according to its’ accelerated economy. Since 2009, China has become the largest trade partner of ASEAN and has remained the largest trade partner of ASEAN for the ninth year in a row with $514.82 billion USD of trade volume in 2018.9

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More importantly, China and ASEAN are complementary. In the process of China’s rise, the shortage of resources is a huge problem which drives China to seek for resources overseas, some of which are found in Southeast Asia. On the other side, China is modernizing rapidly and could contribute to modernization in Southeast Asia.

**The South China Sea Dispute**

However, the territorial disputes in the South China Sea between China and some ASEAN countries still have not been solved. The South China Sea, which is the host to some of the busiest shipping lanes in the world, is vital to the economic prosperity of both China and the ASEAN countries. The claimant states are interested in retaining or acquiring the rights to fishing areas, the exploration and potential exploitation of crude oil and natural gas in the seabed of various parts of the South China Sea, and the strategic control of important shipping lanes. The BRI might provide a good chance for both China and the Southeast Asian countries to solve the disputes and strengthen cooperation.

For the ASEAN countries, participating in the BRI has a dual impact on them. On the one hand, China is not only their biggest trading partner, but also an important investor. The cooperation would create economic opportunities for the Southeast Asian countries. On the other hand, it also results in rising concerns among ASEAN countries regarding China’s rising involvement in Southeast Asia would threaten their resource exploitation, regional security.

**Asia-Pacific Rebalance Initiative**

The Asia-Pacific region is increasingly becoming the world’s economic, political, and military center. As a key driver of the global economy, it is also an indispensable
market for the US. What’s more, the region has already produced some of the world’s largest militaries and defense bases, especially in the South China Sea region. Therefore, preserving security in this region is a priority for the US.

Also, the balance of power in the Asia-Pacific region has changed dramatically since the end of the Cold War. The United States has begun to intervene in the South China Sea disputes and readjust the strategic relationships with Southeast Asian countries with the view to contain China’s maritime military strategy. In 2009, the Obama administration unveiled the strategy of “Asia-Pacific Rebalance” and has adjusted its pivot towards the region. By engaging comprehensively in regional affairs since 2009, the US became a new key player, complicating the situation. In order to confront the US in the Asia-Pacific areas, China does need to develop its own strategy through the BRI in the Southeast Asia.

It is clear that Southeast Asia is becoming more and more vital for both geopolitical and economic interests. Therefore, it is reasonable that China would like to get more involved in this region by promoting the BRI.

3.2 How would the BRI Reshape the Geopolitical and Economic Landscape of Southeast Asia?

For China

Southeast Asia is a dispensable strategic partner for the BRI, especially for the Maritime Silk Road. The success of the BRI is largely dependent on the participation of neighboring countries. In particular, the neighboring Southeast Asian countries are vital to the success of this grand initiative.
China’s rapid economic growth brings a huge demand for energy. Nowadays, China is heavily reliant on Africa and the Middle East for oil. Thus, China depends on the Strait of Malacca more than it had before. As a single choke point for oil trade, nearly 77% of China’s oil imports flow through there. The Strait of Malacca is of strategic and economic importance to China’s economic and energy security since most crude oil imports from the Middle East and Africa have to pass it.\(^\text{10}\)

Currently, the Strait of Malacca is controlled by three countries in the Southeast Asia: Singapore, Indonesia, and Malaysia. According to Shi (2004), It is no exaggeration to say that whoever controls the Strait of Malacca will also control the energy route to China.\(^\text{11}\) So if China can control the Strait of Malacca through the Maritime Silk Road, China can secure its economic and energy security from being threatened by other countries and save itself from entrapment in the ‘Malacca dilemma’.

**For Southeast Asian countries**

Actually, China is not only the biggest trading partner for ASEAN, but also has become the largest trading partner for all Southeast Asian countries except for the Philippines.

In order to mitigate global economic vulnerabilities, it is important for the Southeast Asian countries to stick together and promote regional economic integration. The BRI has provided great opportunities for those countries to promote close regional trade based on the improvement of interregional physical connectivity. China has committed enormous financial resources to build a number of large-scale transportation

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projects aiming to improve interregional connectivity. What’s more, the collapse of the TPP hit certain Southeast Asian countries very hard. To some degree, the collapse of TPP would stimulate the desire of the countries to accelerate regional economic cooperation and integration through the BRI.

According to the official blueprint released by the Chinese government in May 2015, Southeast Asia is one of the priority regions for the improvement of physical connectivity under the BRI framework. That is why the Southeast Asian countries count on the BRI to help them construct infrastructure and unleash the economic potential of Southeast Asia.

3.3 The Existing Advantage of Overseas Chinese in Southeast Asia

Among the whole BRI-covered region, Southeast Asia presents the best opportunity for breakthrough because of the large population of Overseas Chinese already in residence there. The existing cultural bond makes this region apt for Chinese involvement.

Besides the economic and geopolitical significance of the Southeast Asian countries themselves, those countries have a massive proportion of Chinese people and thus a unique kinship and cultural connection. Currently, there are over 50 million Overseas Chinese around the world, most of whom are living in Southeast Asia, where they make up a majority of the population of some Southeast Asian countries, including Singapore and Malaysia, and possibly Thailand. Although the cultural linkages are

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slightly weaker in Malaysia and the Philippines, Singapore and Thailand maintain intimate connections with the Chinese nation and cultural practices.

3.4 Data Source

The project data of this thesis is drawn from the Reconnecting Asia Project developed by Center for Strategic and International Studies (CSIS) in Washington, DC.

Reconnecting Asia is a broad and inclusive project that covers the evolution of Asia’s infrastructure network from 2006 to today. This project basically includes five infrastructure types: roads, railways, seaports, intermodal facilities and power plants.

For the projects that have sufficient data, there is satellite imagery and project documentation. The data sources of Reconnecting Asia include national government agencies of the host country, regional development banks, project contracts, and some partner organizations including Power Explorer and GlobalData.14

In the Reconnecting Asia Map, the readers can use the filter by projects, initiatives and funders to search the projects. For this thesis, the projects’ region has been limited to Southeast Asia via the filtration tools on the CSIS website, and then filtered further to show only the active Belt and Road Initiative projects. Further filter options allow users to identify projects based on country, project status, etc. For each project, extensive data regarding its cost, status, type, contractor and more are available for viewership on the Reconnecting Asia Map. Many of the entries are drawn from BMI Research- Key Projects Database, which is a research organization under the umbrella of Fitch Solutions.

The Reconnecting Asia Map is the standard source among scholars interested in researching infrastructure projects across the continent. For example, the Nikkei Asian Review collaborated with the Reconnecting Asia Project to aggregate key BRI infrastructure projects worldwide in their articles. Thus, my usage of this database engages with the most legitimate and widely-used source for this information.

Although the data provided is highly illustrative of the current BRI projects’ statuses, there are limitations to gathering data of this sort. For instance, in a country like Cambodia, exact measurements and data reports can be delayed. Another potential point of limitation could be regional classification. In the case of a country like Sri Lanka, there is debate as to whether it is considered a South Asian nation or a Southeast Asian nation, leading to potential confusion in the research process. Some projects, like the Jakarta Monorail project, don’t have complete entries on the Reconnecting Asia website, thus requiring outside research. Even with these limitations, the data provided is drawn the most authoritative sources engaged with the BRI project through the Reconnecting Asia research.
Chapter 4: Motivation

4.1 International Background

The Background of Anti-Globalization

Nowadays, economic production has become more global and distributed through the stages of manufacturing to different regions of the world. Meanwhile, with cross-border capital flows increasing to unprecedented levels, the global economy has become increasingly financialized. However, the economic interdependence has generated a substantial backlash of globalization. Globalization is challenged from neo-populist movements that are anti-trade, anti-immigrant, xenophobic, racist, anti-elite, and nationalist. 15 There are two prominent examples: Donald J. Trump’s ascent to the Presidency of the United States in November 2016 as well as the United Kingdom’s European Union membership referendum (Brexit) in June 2016.

Even though people still have some doubts about the BRI which have not been solved, like what the BRI is, how it may influence other countries, and how it may evolve, scholars have reached a consensus that the major impact of the BRI on the world is generally assumed to be inter-regional cooperation, inclusive participation, and a new era of globalization.16

One the other side, the 2008 Global Financial Crisis directly caused the weakening of the US-centric global economic order. It seemed to open the door to new possibilities for the global economy. According to Quinlan (2011), “we have reached the end of globalization as determined and designed by the United States but not the end of

globalization if America and the West can embrace a new configuration with different characteristics—Chinese, Indian, Brazilian, Egyptian and many others”.

Meanwhile, in the 2017 World Economic Forum meeting in Davos, Chinese President Xi Jinping announced China’s commitment to economic globalization by outlining China’s most prominent economic and trade initiatives: the BRI, which is China’s most comprehensive and most ambitious international economic initiative to date. The BRI is presented as a promising and reliable alternative to Western initiatives for a global economy.

**Washington Consensus vs. Beijing Consensus**

The Washington Consensus was first proposed by English economist John Williamson. Williamson listed a set of ten economic policy prescriptions for economic reform in Latin America, including: fiscal discipline; reduction of public subsidies; tax reform; market-determined interest rates; competitive exchange rates; trade liberalization; free flow of foreign direct investment; privatization of state enterprises; deregulation; and legal protection for property rights. Besides economic policy, the Washington Consensus was also expanded to liberal democracy, which combined with the free market.

However, the Washington Consensus did not work well in Latin America. The political leaders accused the Washington Consensus of failing to achieve its goal and deteriorating the economic conditions in some regions. As for the Work Band and the

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International Monetary Fund (IMF), they are also accused of benefiting US economic interests. 20

On the other side, with the rapid growth of China’s economy in the past thirty years, more and more scholars have started to study a model called the “China Model”. According to Callick (2007), the China model is made up of two parts: a market-oriented economy and authoritarian politics. As for the China model, we can understand it as a balance between economic freedom and political control. First, China learns from the western liberal economic policy in the following aspects: opening up much of the economy to foreign and domestic investment, keeping the tax and regulatory burden low and allowing labor flexibility. 21 Second, the Chinese government maintains firm political control of the courts, army, the free flow of information and so on.22

After the concept of the China model was brought up, Joshua Cooper Ramo (2004) used “the Beijing Consensus” in his article to introduce China’s own developmental approach, which is distinct from “the Washington Consensus”. According to Ramo, the Beijing Consensus has three features: a commitment to innovation and constant experimentation in reforms; an emphasis on sustainability and equality instead of per capita GDP as the only measure of progress; and a commitment to self-determination.23

Ramo mentioned that the reason why is the China Model important is that what is happening in China at the moment is not only a model for China, but has begun to remake the whole landscape of international development, economics, society and, by

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extension, politics. In other words, the China Model has a broader vision compared to the unilateral policies of the US, which are designed to protect their own interests. China is assembling the resources in many essential areas of international affairs and constructing an environment that will make US hegemonic action more difficult. Thus, Ramo proposed that the Beijing Consensus could be an alternative to the Washington Consensus.

Since Washington Consensus failed to help developing countries in Latin America to reform and get out of crisis, people start to think if there are any other patterns that the developing countries can follow. At the same time, China’s eye-catching success has raised a question about whether the China model will replace the Western model. To some degree, this thought legitimates the launch of the BRI, which makes more countries willing to take on the risk and participate in it.

The Collapse of TPP

The Trans-Pacific Partnership (TPP), which is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States, successfully concluded negotiations in October 2015, becoming the largest and most diverse regional trade agreement to date.

The TPP aims to link 12 countries on both sides of Pacific by eliminating tariffs and non-tariff barriers, and creating greater opportunities for business among the member countries. However, the withdrawal of the USA seems to have a bad influence on the TPP-ASEAN countries (Brunei, Malaysia, Singapore, Vietnam) because those countries

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are expected to be the largest beneficiaries of the TPP. After losing greater access to the lucrative U.S. market, the BRI provided those countries with another set of striking opportunities to get involved in international trade and gain an edge in attracting foreign investment.

To some degree, the collapse of the TPP would stimulate the desire of the countries to accelerate regional economic cooperation and integration through the BRI. The demise of the TPP provides China a vacuum to promote its New Silk Road agenda.

**4.2 Xi Jinping and the Chinese Dream**

Since Chinese president Xi Jinping came to power in 2012, he brought up a concept called the “Chinese dream”:

“Everybody has their own ideal, pursuit and dream. Today everybody is talking about the Chinese Dream. I believe the greatest dream of the Chinese nation in modern history is national renewal. This dream encapsulates the long-cherished wishes of several generations of Chinese people, embodies the interests of the entire Chinese people, and corresponds to the hopes and expectations of all the sons and daughters of China. History tells us that our personal future and fate are closely linked to the country’s and the nation’s.”

The rejuvenation of the Chinese nation has been the greatest dream of the Chinese people since the beginning of the modern times; we call this ‘Chinese dream’. In essence, this idea is to make the country prosperous and strong, rejuvenate the nation and see that

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the people are happy.\textsuperscript{26} According to the Chinese government, the BRI is a reasonable extension of the great Chinese Dream. It conforms to the new changes in the world economy, politics, and foreign affairs. What’s more, the BRI would create a broader development space and closer economic cooperation to the countries and regions that are along the BRI. Also, it opens up brand new channels for cultural exchange among the countries. The BRI not only finds a way for Chinese to realize the Chinese Dream, but also help the people from the BRI countries pursue a better life.

The previous Chinese government intended to maintain a low profile and bide their time. Compared to the previous leading group, the Chinese government led by Xi has adapted a more proactive foreign policy. Xi is more ambitious and innovative in foreign policy thinking than his predecessors, who thought that China must develop a distinctive diplomatic approach. Since then, Chinese foreign policy has been shifted from reactive to proactive, which means China would engage more with the international community in a way that would secure and maximize China’s national interests, wealth, and power within the existing system.\textsuperscript{27} We could see that Xi intended to frame the Chinese Dream as the dream of China becoming a great power in the 21st century international system. Therefore, we can see that both the Chinese dream and the BRI are driven by global thinking.\textsuperscript{28}

4.3 To Export China’s Overcapacity

China’s foreign policy strategy involves attempting to gain political leverage over its neighbors by strengthening its economic leadership through the development of infrastructure. However, within China, it should be noted that some of the key proponents of the BRI are in large part motivated by China’s own pressing economic concerns, rather than external project development. In recent years, although China’s economy has grown quickly, the nation is also facing challenges including excess production capacity and the subsequent need to readjust domestic economic structures.

One of the top economic priorities for the Chinese government is to solve the massive excess capacity in many industries, such as steel and cement. For example, China’s annual crude production surged from 807 million tones in 2017 to 928 million tones in 2018, which is more than the combination of the rest of the world, which produced 880 million tones. We could see this massive excess in China’s steel industry, not to mention all the other active industries. Overcapacity brings a series of problems, such as squeezing corporate profits, increasing debt levels, and making the country’s financial system more vulnerable.

As we all know, the BRI is an initiative centered on infrastructure development and investment. One of the most important motivations behind the BRI is the stimulation of Chinese economic growth, especially in construction. On the other hand, China’s overcapacity is mainly consist of a surplus of industry and infrastructure, the kind needed

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by developing countries. Therefore, most of the infrastructure projects under the BRI are
completed by Chinese companies, which help China to solve its overcapacity to a certain
extent. Launching large infrastructure projects with BRI-recipient countries can help
alleviate China’s industrial overcapacity and help it transition from investment-led
growth to a consumer-driven economy.  

According to China’s Vice Minister for Foreign Affairs, the BRI is an initiative
for international economic cooperation and connectivity cooperation, totally different
from the Marshall Plan which was introduced during the Cold War and was characterized
by rivalry between the United States and the former Soviet Union.  

Even though China does not accept the BRI as “China’s Marshall Plan,” this paper argues that the BRI has
strikingly similar characteristics to the American version, especially in that the BRI has
three roles to play within China’s economy: reduction of foreign currency reserves
through overseas investment; promotion of the internationalization of the Chinese
currency (RMB); and use of the surplus in infrastructure.

4.4 Creating a Win-win Cooperation: The Case of the 16+1 Group

Although the BRI has been met with certain skepticisms, some countries have
been willing to cooperate with China on the project. These countries include 16 states
located in Central and Eastern Europe (CEE). Since 2012, China has intensified its
influence with these CEE countries under the “16+1” framework, which aims to promote

32 “Vice Foreign Minister Le Yucheng: In Essence, The Marshall Plan and the Belt and Road Initiative Are
business and investment relations between China and the 16 countries. The “16” refers to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.

Chinese Premier Li Keqiang has pointed out that the 16+1 cooperation is not a geopolitical tool under the BRI, but rather a pragmatic trans-regional cooperation. The 16+1 cooperation has not only helped development in the Central and Eastern European countries themselves, but also promoted the balanced development of Europe as a whole, which is conducive to the process of European integration.34

Firstly, the BRI helps the CEE to accelerate connectivity. The infrastructure projects such as the Budapest-Belgrade high-speed railway, the E-763 highway, and the Peljesac bridge project are all under construction. Those projects would link these CEE countries to China, Asia, and other parts of the European continent. Further, more than 7,600 China-Europe Railway Express trains have travelled across the CEE countries, which demonstrated its growing role as a bridge between the Asian and European economic zones. Lastly, China has now opened direct flights to Poland, Czech Republic, Hungary, and Serbia.

Second, trade cooperation between China and the CEE countries has seen steady growth under the framework of the BRI. Since 2012, the total value of imports and exports between China and the CEE countries grew to $58.7 billion USD in 2016 which accounts for 10.2% of total China-European trade. Furthermore, a huge amount of Chinese investment is flowing into CEE countries. In 2016, private Chinese investments

the in the CEE counties have exceeded $8 billion USD, while CEE investments in China have exceeded $1.2 billion USD.\textsuperscript{35}

Thus, it can be seen that the BRI works well in the CEE countries, due to the mutual economic benefits created for both sides. There is no doubt that the CEE countries would not reject the BRI agreements, especially since those countries do not maintain territorial disputes with China, as in Southeast Asia.

4.5 Enhancing China’s National Security

Chinese President Xi Jinping said that he wanted to improve relations between China and its neighbors in order to strengthen economic ties and deepen security cooperation at the Peripheral Diplomacy Work Conference in 2013.

“Maintaining stability in China’s neighborhood is the key objective of peripheral diplomacy. We must encourage and participate in the process of regional economic integration, and speed up the process of building up infrastructure and connectivity. We must build the Silk Road Economic Belt and 21st Century Maritime Silk Road, creating a new regional economic order.”\textsuperscript{36}

Aside from the economic aspects, there is no doubt that Southeast Asian countries, located in one of the most important neighboring regions, have an “extremely significant strategic value” for China.


The South China Sea

In the three decades following 1978, China focused on promoting its economic growth under the policy of “Reform and Opening-Up.” 30 years after that reform, China achieved remarkable growth and became the world’s second-largest economy. Now established as a dominant global economy, China’s political priorities have shifted away from a sole focus on national economic development. Nowadays, China hopes to utilize its economic preeminence to stabilize and strengthen relations with peripheral countries. Namely, China wants to work with its neighbors through interest concessions and the expansion of economic cooperation,37 such as cooperation between China and ASEAN. However, economic cooperation alone is not enough. Even though China has become the largest trade partner of ASEAN since 2009, the South China Sea Dispute between China and ASEAN countries still has not been fully solved.

Most importantly, the US intervention makes China feel that its regional security has been threatened. ASEAN countries worry that China will become a hegemonic power in the Asia-Pacific region. Under this circumstance, the BRI can be used as a tool for dispelling the doubts of ASEAN countries and building their trust in China through the construction of infrastructure connectivity. What’s more, support from financial institutions such as the AIIB, would secure the financing of the BRI and bind China’s interests more closely with neighboring countries. Thus, China could potentially solve its territorial disputes through the establishment of good relationships with the claimant countries, instead of implying the military option.

The Asia-Pacific Region

As of 2014, China is world’s second-largest economy. The successful implementation of the BRI could help China deepen regional economic integration and boost the flow of trade and finance within the Asia-Pacific region, and even the whole world. Therefore, as the leader of the world economy, it is unlikely that the US will complacently watch China surpass it.

However, for the US, the BRI is viewed as representative of China’s grand ambition to lead Asian economic growth. Namely, it is a piece of a grand strategy to build a “China-dominated Asia.”38 Although it may be mainly an economic and trade initiative, the underlying motivation is a strong political and security dimension, which means China’s primary interest in the BRI is geopolitical rather than strictly economic.

The Asia-Pacific region is increasingly becoming the world’s economic, political, and military center. As a key driver of the global economy, it is also an indispensable market for the US and China. Since the Obama administration proposed the “Asia-Pacific Rebalance,” the majority of scholars have viewed the BRI from the perspective of competition, worrying that it might offset the power structure in the Asia-Pacific and Eurasian economic zones. Some Chinese scholars believe that one of the motivations of the BRI is to confront the TPP, and that the BRI is China’s response to fight with the American “anybody but China” club.39

The South China Sea Dispute has always been a hot-button regional issue which leads different political forces to compete for control over particular areas. When it

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comes to the South China Sea Dispute, claimant countries like the Philippines and Vietnam are always welcoming American intervention, which could constrain China’s assertiveness in this area. Relationships between the US and some Southeast Asian countries have developed in recent years, as the US looks to challenge Chinese domination of the region. Facing this situation, China will look to take up a positive resolution of maritime conflicts in the South China Sea.

Military is the key for protection of a country’s sovereignty. The BRI is a tool for China to expand its influence in this region in order to confront the US. To some degree, the failure of the TPP and the “Pivot to Asia” have weakened US influence within the region and provided China with a good opportunity to launch its BRI.

More importantly, the BRI offers China the potential to counter the US in both the Indian Ocean and the Pacific Ocean. The value of the Gwadar Port in southern Pakistan not only allows China to ship oil and other goods through the Persian Gulf, but also to avoid the Straits of Malacca which are frequently patrolled by US navies. In this case, China could potentially avoid US supervision of its shipping routes.

Likewise, after a port in Sri Lanka was taken over by China, the US, India, and Japan have raised concerns that China might use the port as a naval base in the Indian Ocean, as it is just a few hundred miles off the shores of India.40

The US government takes a selective response to the BRI. Few US officials have praised the significance of the BRI, while many have warned countries to be cautious about participation.

The Indian Ocean

Sri Lanka is located at a strategic point for the BRI and the port of Hambantota is indispensable for China. In December 2017, China purchased control of the port at Hambantota from the Sri Lankan government on a 99-year lease.\textsuperscript{41}

This act has raised questions about the potential for loss of sovereignty under the BRI. More and more countries started to be cautious about accepting Chinese help in building grand infrastructure projects, as the Sri Lankan case offers an example of a debt-driven infrastructure financing manipulated by China. For some scholars, it is evident that China is trying to use loans and gain more influence around the world. But more accurately, since China can acquire a seaport in Sri Lanka, what would happen to the countries that are engaged in the BRI if they are unable to pay their debts? People may begin to doubt whether or not the BRI is driven by Chinese imperial policy, which they may see as a tool for securing increased Chinese dominance in global affairs.

There are also concerns regarding Chinese-Pakistani relations, since Pakistan’s trade deficit with China has been rising. What would happen if Pakistan could not repay its debts? More importantly, if China could take over a Pakistan port like it did in Sri Lanka, China could expand its presence in the Indian Ocean, and threaten its “rival” India, who also maintains border disputes with China in the Himalayas.

Currently, there are 4 extant seaports under the BRI in Southeast Asia, one each in Indonesia, Malaysia, Myanmar, and Brunei. It is reasonable that Southeast Asian countries act more cautiously in regards to the BRI, especially Malaysia. The finance

minister of Malaysia, Lim Guan Eng, pointed out that Sri Lanka not only handed over the port to China, as an indebted island country, but also gave China an outpost near one of its busiest shipping lanes. The Malaysian government worries that if they cannot repay the debts, China may end up taking over the entire project. Therefore, the Malaysian government has halted two BRI projects because they refuse to allow a similar situation as in Sri Lanka to happen to themselves.

According to Malaysia’s deputy defense minister, China is building ports and investment across the Indian Ocean, from Myanmar to Sri Lanka to Pakistan, a strategy known as “the String of Pearls.” Following this model, the Strait of Malacca would be next due to its strategic location.

### 4.6 Establishing International Influence

China portrays itself as a global superpower, and there is no doubt that China’s regional and global position will be vastly enhanced through the implementation of the BRI.

In 1978, Deng Xiaoping started China’s economic reform, known as “Reform and Opening-Up.” Since then, China has become the world’s second-largest economy with the world’s largest foreign reserves, second-largest GDP, and third-highest levels of foreign direct investment. Compared to other developing countries, China is not just an emerging economy but also a strong competitor with major world economic powers. As opposed to in 1978, when China opened itself up to attract foreign investment, technology, and management skills from other countries, today, China’s strategy

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encourages its own capital to flow out to its neighbors. 43 In order to achieve this goal, BRI is no doubt a useful tool for China to integrate with the global economy through direct investments abroad.

In addition, China would like to export Chinese standards to the world through the BRI. The Jakarta-Bandung High-Speed Rail is the first project that uses China’s high-speed railway standards, technologies, and equipment on a foreign line. 44 It is the same case for the China-Laos Railway Project. In China, people believe that third class companies make products, second-class companies make technologies, and first-class companies make standards. Therefore, in a Chinese context, only companies that make standards should be considered world-class companies. In order to make Chinese railway companies world-class, China is trying to export Chinese standards through the BRI.

In 2016, The International Monetary Fund (IMF) has added the Renminbi (RMB) to its basket of reserve currencies, which marked the international community’s recognition of China’s key role in the global economy. 45 What’s more, Chinese companies believe that trade and infrastructure under the BRI will further boost the use of RMB globally. The BRI provides China a pathway to accelerate the internationalization of Chinese currency: RMB. The RMB is expected to become more prominent in foreign trade since commercial activity between China and BRI-participating countries keeps increasing. The international use of RMB will be further expanded by the BRI.

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From the perspective of economic integration of BRI countries, RMB internationalization facilitates the process through improving bilateral trade. Most importantly, it raises the prospects of China taking aim at reforming the international monetary system, currently centered around Bretton Woods. Because a strong currency is essential to the character of a strong nation, China is trying to boost the international use of the RMB, which has been a long-standing ambition for the country.

China wants to use the BRI to establish international influence, not only economically, but also culturally. As mentioned before, China refers to BRI as the “Revival of the Ancient Silk Road.” This title evokes the long history of the critical trade route that transported Chinese goods and culture across Asia more than 1,000 years ago. This approach is marked by an emphasis on themes of soft power, peace, and mutual benefit. As for the Maritime Silk Road, Malacca has been pioneering Malaysia’s participation in the BRI, which is expected to connect with China, renewing the historical association.
Chapter 5: Strategies

In this part, the strategies that China implements in Southeast Asia are analyzed by combining the specific cases. The strategies include: helping Southeast Asian countries develop their local economies by building the essential infrastructure; utilizing the BRI to solve political problems including territorial disputes; exporting Chinese standards by helping the regional countries with the railway; and building infrastructure projects that are implemented by Chinese companies in order to move the excess production capacity to other countries.

5.1 Project Status

According to the data from CSIS’ Reconnecting Asia Project, there are 55 projects under the BRI in Southeast Asia (as of March 7, 2019). According to the project status, the projects are classified as the following five types: Under Construction, Announced/Under Negotiation, Cancelled, Suspended, and Completed.

Among the 55 projects that are extant in Southeast Asian countries, there are 23 Under Construction projects, 13 Announced/Under Negotiation projects, 17 Completed projects, 1 Cancelled project and 1 Suspended project, 55 projects in total.
According to Fig.1, there are 31% projects have been completed; 42% projects are under construction; 23% projects are announced or under negotiation; 2% projects are cancelled; and 2% projects are suspended. Compared to other projects, suspended, and cancelled projects are only a small majority of all projects.

However, we should also notice that even though a large percentage of the projects are Under Construction, it is undeniable that there are some Under Construction projects that have been building for many years, which raises concerns that those projects might have already failed and the Chinese government is trying to hide the truth from the public. In the following paragraph, a specific project is analyzed in regards to the reason
for its classification as Under Construction, as it has been delayed for years. That project is the Jakarta-Bandung High-Speed Rail.

**Jakarta-Bandung High-Speed Rail, Indonesia**

The Jakarta-Bandung High-Speed Rail, which is one of the Indonesia’s first high-speed rails projects, launched in 2016. This project aims to connects Jakarta to Indonesia’s 2nd largest city Bandung, in West Java. It may be extended later to connect to Surabaya in Northeastern Java.46 This project is not only the first high-speed rail project in Indonesia, but also the first in Southeast Asia, which is significant for local development. China and Japan have both expressed interest in this project. In late 2015, Indonesia awarded this project to China.47 This railway is based on China’s railway technological standards.

This planned 142 km railway will connect Jakarta and Bandung, and is supposed to link the two cities to promote economic growth and reduce travel time. The time of travel between Jakarta and Bandung is expected to be cut from the 3 hours to 40 minutes.

However, the project has been delayed. The local officials said only 10% of the work has been completed as of late February 2016, which made it impossible to start the project in 2017 as scheduled.48

There are two main reasons that hindered the process. First, the paperwork and permit problems suspended the projects, since only half of the total land needed has been

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secured. Second, the sluggish land acquisition also resulted in the delayed funding. The total estimated cost of this project is $5.9 billion USD and the China Development Bank (CDB) has agreed to cover 75% of the cost, with loan terms of 40 years. However, the CDB has delayed disbursement, slowing down the progress of the project. On the other side, the other founder, PT Kereta Cepat Indonesia-China (KCIC) contributed nothing to this project. A funding crunch started to raise concerns over the financial health of the Indonesian companies involved.

Thus, this project is still labeled Under Construction, and is planned to be completed in 2021. Also, this is one of the most controversial projects, as it is possible that it might have already failed. The construction of this $6 billion rail line is currently well behind schedule, and costs and dissatisfaction are increasing in Indonesia.

Figure 3: The number of projects in each country
As shown in Fig. 2, the amounts of projects that are ongoing varies between Southeast Asian countries. Indonesia and Vietnam have 15 projects respectively, Cambodia has 12, Laos has 5, Malaysia has 3, Thailand has 3, Brunei has 1, Myanmar has 1, and the Philippines and Singapore do not have any projects ongoing.

As seen in Fig. 3, a visualization of the projects’ status within specific countries makes it obvious that BRI projects in Southeast Asia are mostly concentrated in three countries: Indonesia, Vietnam, and Cambodia. Indonesia and Vietnam have the most projects among all Southeast Asian countries, however, the projects’ statuses differ. Vietnam has 8 Completed projects whereas Indonesia has only 3 Completed among 15 extant projects.
Figure 4: The proportion of completed projects in each country
Interestingly, the only Cancelled and Suspended projects are located in two maritime Southeast Asian countries: Indonesia and Malaysia. This raises questions regarding what factors have influenced those projects’ statuses. It may appear that the BRI has already failed in Southeast Asia due to the number of Suspended projects. This section is going to analyze different types of projects and their statuses to see if the BRI has in fact already failed in the Southeast Asian region.

Half of the extant projects have been completed in Cambodia and Laos. Cambodia and Laos are the least-developed Southeast Asian countries. Therefore, it is not surprising that those two countries would welcome the BRI to help them improve their infrastructure for their further development.

One of the most vital strategies of the BRI is to help Southeast Asian countries develop their local economies by building infrastructure. The more developed the countries are, the more they can contribute to the BRI. For example, advanced infrastructure allows for projects to be completed more quickly and more profitably. The less-developed regions require significant investments of funding and time. Further development of countries creates an influx of funds, which can be reinvested into the BRI project. Transit connections with Cambodia and Laos will allow for quicker and more efficient trade, thus benefitting both entities.

*Siem Reap - Kampong Cham Road - National Road 6A, Cambodia*

National Road 6A is a road project that was started in March 2013 and completed in April 2017. The total contractual design and construction contract amounted to $248 million USD, which was undertaken by the Shanghai Construction Engineering Group. It is an important trunk road connecting Phnom Penh to Siem Reap, with a total length of
251.14 kilometers. After the redevelopment, the level of interconnection between Phnom Penh and the northern provinces of Cambodia has been greatly improved.

According to Prime Minister of Cambodia, National Road 6A is one of the busiest roads in the country and this section of the road connects Phnom Penh to various provinces through Kandal to the border with Thailand, which means it plays an important role in the economic and social development of the areas along the highway.

Besides the domestic benefits, the completion of National Road 6A has created new development opportunities to advance cross-border trade with Cambodia. It is an ambitious effort to improve regional cooperation and connectivity on a trans-continental scale. The reason why Cambodia is participating in the BRI the benefits offered by better connectivity, for which National Road 6A serves as a perfect example.

**China-Laos Railway Project, Laos**

The China-Laos Railway Project is a vital project that represents a major development to Laos’ railway system which would cost $5.8 billion USD. The cost would be funded by the Import-Export Bank of China, and the governments of China and Laos. This new high-speed railway started in late 2016 and is planned for completion at the end of 2021. By then, this 420-kilometer railway will carry trains from Boten, which is located on the Chinese border all the way to Vientiane, on the Laos-Thailand border. This new railway would cut the journey from the North to the South of Laos from 18 hours to just 3 hours.

Because of the country’s mountainous geography, the construction will face an engineering challenge: only 38% of the railway will run along the ground, while the rest will have to cross 170 bridges and pass through 72 tunnels. Therefore, this railway
project is significant for Laos since traffic patterns in the country are extremely underdeveloped due to its geography. Laos has economically suffered as it is a “land-locked” country surrounded by China, Myanmar, Thailand, Vietnam, and Cambodia. It is not only mountainous, but also the traffic system is the least developed among all Southeast Asian countries. Therefore, the China-Laos Railway Project provides Laos with a chance to turn itself from a land-locked country to a “land-linked” country, and undo its disadvantage as a landlocked country. Since cooperation between China and ASEAN is getting deeper under the BRI, Laos could become a transportation hub through the use of this railway. It is important to point out that Vientiane is not the end of the railway. As a new hub channel between China and ASEAN, the China-Laos Railway is an integral part of the Trans-Asian Railway. It will be connected to the railways of Thailand and Malaysia in the future, and has a broader development space for ASEAN.

The Laotian government hopes to bring prosperity to its seven million citizens through this railway, as the freight railway and passenger availability would boost the flows of tourism and trade.

As we can see, those two projects would improve the local economy in Cambodia and Laos, which would also stimulate trade between those two countries and China. According to data from the BRI’s official website, the total import and export volume of Cambodia and China rose from RMB 2,307,599 in 2014 to RMB 3,925,144 in 2018.49

As for the second strategy, China would like to utilize the BRI to solve political problems, including territorial disputes. We can see from the data that, even though Vietnam has ongoing territorial disputes with China in the South China Sea, it has still

embraced the BRI for national interest. As for now, the projects in Vietnam make up the largest portion within the whole Southeast Asian region, tied with Indonesia.

Speaking of territorial disputes, the Philippines deserve special consideration. The Philippines has been keen to invite external powers, including the US and foreign oil companies, to the region to consolidate its presence in the areas disputed by China. Because of these external factors, the Philippines has not reached a single agreement on the BRI with China. However, things have started to shift after the current President of the Philippines Rodrigo Duterte attended the Belt and Road Forum in 2017. In recent years, Chinese-Philippine relations have gone through dramatic changes. Even though China and the Philippine government have not signed off on any BRI projects, the Philippines has entered into a number of agreements with China on infrastructure projects. There are 13 bilateral cooperation agreements that have been signed and $24 billion USD worth of Chinese funding and investment has been pledged.  

Since the Philippines is located in the western Pacific Ocean, it is critical to the Maritime Silk Road. It will connect Chinese coastal ports to Europe through the South China Sea and Indian Ocean, and to the southern Pacific Ocean through the South China Sea. If China could enhance these sea lanes, it would be a good complement to the Silk Road Economic Belt, built through railways and roads.

There is no doubt that a well-implemented port development project would be beneficial for the Philippines. However, the Philippines is still concerned about the

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volatile and unpredictable geopolitical environment that comes with BRI agreements.\textsuperscript{51} Since some port development projects in other countries are already undergoing difficulties because of domestic factors, China and the Philippines do need to learn from the past lessons and engage in a comprehensive check of implemented institutions and technicalities before commencing projects.

Singapore was particularly hurt by the collapse of the TPP, which was supposed to stimulate the city-state to cooperate more with China under the BRI. However, Singapore and China have not signed any documents on the BRI.

Singapore is not only an important country along the “Maritime Silk Road,” but it is also the financial, trading, and shipping center of the Asia-Pacific region, providing huge potential for Singapore to become a hub of the BRI. Although Singapore does not have major BRI-related infrastructure projects, it has been an “early and strong supporter” of the BRI, according to Singaporean Prime Minister Lee Hsien Loong.\textsuperscript{52} In recent years, Singapore and China have developed strong trade, finance, and investment links. The cooperation between China and Singapore will only get deeper and broader under the BRI. In fact, it is also reasonable that Singapore is not eager for the BRI like other Southeast Asian countries, because it is already a developed country. Thus, unlike poorer countries like Cambodia, Singapore doesn’t have the intense need or incentive for infrastructural development, as it is already the most extensively developed country in the region.


5.2 Projects Types

There are 4 types of projects in Southeast Asian countries: power plant, rail, road, and seaport. There are 26 power plants, 14 roads, 11 rails, and 4 seaports. The different distribution within each country is noteworthy.

![Figure 5: This chart shows the number of each type of BRI project](chart)

In order to solve China’s overcapacity, China helps the BRI countries with their infrastructure while solving its own problems. Even though the Chinese government has announced a number of policy measures and has tried to solve the issue of excess capacity, such as laying off 1.8 million workers from the steel and coal mining industries and trying to shut down polluting steel mills, this problem is still severe. Therefore, the BRI is seen as a tool for China to address the excess capacity problem. For example, as China’s largest producer of steel, Hebei Province is looking forward to transferring 20
million tones of production capacity abroad by 2023.\textsuperscript{53} Therefore, the government encourages the companies to move their excess steel facilities to Southeast Asia, Africa, and West Asia.

China’s overcapacity is mainly in the industrial and infrastructure sectors, which is exactly what the Southeast Asian countries need. In fact, most of the projects are completed by Chinese companies. Not only can China invest in those infrastructure projects, but it can also solve its overcapacity problem by moving excess production capacity outside of China.

In fact, China has already made the point clear, as Chinese Premier Li Keqiang stated at the 17th ASEAN-China Leaders’ Meeting in 2014:

“\textit{We have a lot of surplus equipment for making steel, cement and pleat glass for the Chinese market. This equipment is of good quality. We want companies to move this excess production capacity through direct foreign investment to ASEAN countries who need to build their infrastructure. These goods should be produced locally where they are needed.}”

Besides China’s own interest, from China’s point of view, the most common priority for many Southeast Asian countries is to achieve development. However, the lagging infrastructure is region-wide within Southeast Asian countries. According to China’s own experience, one of the key elements for development is to set infrastructure construction as a priority and foundation for national economic growth.\textsuperscript{54} Therefore, the

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main infrastructure projects that are being built within this region are roads and rails. The new transportation infrastructure acts not only as physical connectors to connect the countries, but also as stimulants for the local economy.

In Southeast Asia, the demand for land transportation is increasing due to the BRI, because the trading goods will require transport to and from Southeast Asian countries. Therefore, establishing a series of roads, highways, and bridges is an essential development project. Not only would the trade connections in Southeast Asia be renewed by the construction of the rail and roads, but also China and the Southeast Asian countries can enjoy the trade benefits brought by the export of high-speed rail.

Building infrastructure is China’s strength, with low investment, fast speed, and high efficiency. What’s more, China is an expert in building high-speed rail as the Chinese government has assembled more than 10,000 scientists and engineers to incorporate imported foreign technology and develop the country’s own high-speed rail technology.

The Chinese high-speed rails are so massive that there are more than twice as many high-speed trains in China as the rest of the world combined. Nowadays, China and Germany’s high-speed rail technologies rank among the world’s best. As for the high-speed rail technologies, China does have some useful experience to share, even funding to provide for its neighboring countries.

Therefore, “High-Speed Railway Diplomacy” was implemented in Southeast Asia through the BRI. For China, the development of a high-speed rail will not only promote the integration of Southeast Asia, but can also help with the domestic, economic restructuring of China by moving excess production capacity to other countries.
Fig. 6: The distribution of each type of BRI project in individual countries
There are 7 power plants, 4 rails, 3 roads and 1 seaport in Indonesia; 15 power plants in Vietnam; 10 roads; 1 power plant and 1 rail in Cambodia; 3 power plants, 1 road and 1 rail in Laos; 2 rails and 1 seaport in Malaysia; 3 rails Thailand; 1 seaport in Brunei and 1 seaport in Myanmar.

Besides railways and roads, power plants also matter to the BRI. Like many of the BRI countries, Vietnam is still suffering from power shortages. Thus, power supply and accessibility become their top priority. There are 15 extant BRI projects in Vietnam and all of them are power plants. By March 2019, there are 8 power plants that have already been completed. Thus, Vietnam does not have to deal with frequent electrical blackouts anymore, due in some degree to the 8 completed power plants under the BRI.

*Vinh Tan Coal Fired Power Plant, Vietnam*

After finishing the test of two supercritical coal-fired thermal power units, the Chinese enterprise invested in coal-fired power plant projects in a town in south Vietnam, called Vinh Tan, in the form of Build-Operate-Transfer (BOT). BOT is a form of project financing, and indicates that the projects that are planned by the government will be handed over to the private sectors, and after a period of operation, those projects will be transferred back to the government. In this project, the China Southern Power Grid Co., Ltd, China Power International Holding Ltd, and a Vietnamese power company each take up 55 percent, 40 percent and 5 percent, respectively, of the total investment which is expected to be $1.755 billion USD.\(^5^5\)

The Vinh Tan Coal Fired Power Plant aims to promote BRI construction and power development cooperation in the Greater Mekong Sub-region. By generating about

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8 billion kilowatt-hours of electricity a year, this power plant would effectively ease the power shortage in south Vietnam and be a strong backup for the country’s economic development.

It is obvious that Vietnam benefits from the BRI due to its growing demand for infrastructure investment and national growth. However, Vietnam does hold an ambivalent attitude towards the BRI. On the one hand, Vietnam has expressed formal support for the BRI. But on the other hand, it seems more concerned with how this initiative is implemented. In the Belt and Road Forum in 2017, the Vietnamese President Tran Dai Quang welcomed the BRI and also emphasized that cooperation under the initiative must ensure “sustainability, effectiveness and inclusiveness, openness, mutual respect and benefits, and compliance with the UN Charter and international law”. 56

Thus, although Vietnam might consider applying for loans from China, the government is well aware of the rising public debt, with Thailand serving as a lesson. In April 2016, Thailand dismissed the 2.5 percent interest rate offered by China for the high-speed rail project because the rate was deemed too high. 57 In fact, Vietnam does have alternative funding for their infrastructure projects, such as the Official Development Assistance (ODA) from Japan, which has pushed China to work even harder to convince the Vietnamese government to accept the BRI.

In order to reduce political concerns with the BRI, Vietnam may encourage domestic private investors to apply for BRI loans to construct infrastructure projects

under the BOT model, especially from the AIIB. Thus, the Vietnamese government would control the infrastructure projects ultimately, even though it spends a period in the hands of the private sector.

To summarize, the implementation of the BRI in Vietnam has been quite slow. Whether the BRI will be successfully implemented in Vietnam will largely depend on Vietnam’s perception of it. Also, Vietnam is still waiting for the outcome of the first batch of BRI projects. In fact, most countries in the region are doing the same thing and then decide to see if they want be more involved in the BRI.

It is also necessary for us to mention the seaports under the BRI. Currently, there are 4 extant seaports under the BRI in Southeast Asia, in Indonesia, Malaysia, Myanmar, and Brunei, respectively. Compared to other project types, seaports only take up a small portion of the BRI projects in the region. The Melaka Port is one of the most important projects for the Maritime Silk Road.

**Melaka (Malacca) Port, Malaysia**

Dating back 600 years as a tunnel for spices and treasures that flowed from Asia to Europe, Malacca reached its golden age with the rise of the ancient Maritime Silk Road. Now, however, Malacca is the smallest state in Malaysia. And because of the lack of natural resources and heavy industry, tourism is the only pillar of its economy. As for the Malacca port, it was silted up for centuries and is now a backwater.

As the pioneering project in Malaysia under the BRI, the Malacca Port aims to boost bilateral trade, shipping, and logistics along the BRI, and is located 156 km from the capital of Malaysia. Also, it is part of a massive urban and resort development project.

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called the “Melaka Gateway” that China and Malaysia are jointly implementing.\(^{59}\) This port aims to be the largest one in Southeast Asia by 2025. This project will help Malacca gain back its global significance.

On the other hand, the Strait of Malacca, as the longest and busiest strait in the world, is of strategic and economic importance to China’s economic and energy security since most crude oil imports from the Middle East and Africa have to pass through.\(^{60}\) According to Shi (2004), it is no exaggeration to say that whoever controls the Strait of Malacca will also control the energy route to China.\(^{61}\) Therefore, most importantly, this port also significantly mitigates the risk of closure of the Straits of Malacca to Chinese trade.

Besides boosting bilateral trade and securing China’s energy, this port is also interpreted as China’s military defense port because Malaysia is located in one of the most vital maritime choke-points in the whole world. What worries people most is that this new deep-water port is large enough to host an aircraft carrier, which would pave a way for China to deploy its military forces and one day could welcome Chinese warships and submarines.\(^{62}\) As for the Malaysian government, they are very concerned about this project because they do not necessarily need any extra harbor. According to Malaysia’s deputy defense minister, China is building ports and engaging investment from Myanmar to Pakistan to Sri Lanka, implying the strategy known as “the String of Pearls” in the

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Indian Ocean and the Strait of Malacca, crucial to the whole plan. We could see that the BRI seaport projects would be much more difficult to implement in the Southeast Asian countries due to political concerns.
Chapter 6: Challenges

6.1 The Political Concerns of the Southeast Asian Countries

The South China Sea Dispute

Although Chinese officials claimed that the BRI is a win-win initiative for both China and the Southeast Asian countries since China is trying to further strengthen infrastructure, trade, and investment linkages between Southeast Asia and China. However, some countries worry that the BRI also brings a geo-political agenda that China wants to take over the disputed islands in the South China Sea and strengthen its military power. According to the participating countries’ attitude towards the BRI, they can be divided into two groups. The first group is called supportive group, which includes Cambodia, Laos and Myanmar, which are the least-developed countries and basically depend on Chinese aid for economic growth. The second group is called cautious group, which is represented by Malaysia, Philippines and Vietnam, the countries that have ongoing territorial disputes with China in the South China Sea. On one hand, they benefit from the Chinese infrastructure investment. On the other hand, those countries are unwilling to participate fully in BRI or to allow Chinese companies to engage in large-scale projects in their territory. They even request US intervention in South China Sea disputes in order to limit Chinese influence in the region. This call for intervention has raised concerns that heightened tension might lead to conflicts. The Kuala Lumpur-Tumpat Railway gave us a good example that how the political factors influence the BRI projects.

Kuala Lumpur-Tumpat Railway, Malaysia

Kuala Lumpur-Tumpat Railway is a 688 km rail from Malaysia’s main sea port to the Thai border began construction in 2017. The total responded cost of this project is 13.1 billion USD. However, this project is suspended due to the cost concerns. The Malaysian Prime Minister Mahathir Mohamad explained the reason of cancellation:

“It’s all about borrowing too much money, which we cannot afford and cannot repay because we don’t need these projects in Malaysia.”

This 688 km East Coast Rail Link will connect the South China Sea in the east coast of Peninsula Malaysia with strategic shipping routes in the west. It is a major infrastructure project in Southeast Asia for China because its strategic importance.

Since the Pakatan Harapan coalition won the election which surprised the nation in May 2018, Malaysia’s new government that led by Prime Minister Mahathir Mohamad has pledged to cut the national debt, stamp out corruption and review major projects agreed by the previous administration led by Najib Razak. Even though China Communications Construction Company expressed its upset and concern because the suspension would influence the livelihood of more than 2250 local staff and other indirect hires. But the Malaysian Finance Minister Lim Guan Eng pointed out that that the project would only become economically feasible if there was a drastic reduction in costs.

The suspension reasons behind this project is not only economic, but also political. In an interview with The South China Morning Post, Prime Minister Mahathir Mohamad

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said that Malaysia viewed China as strategically important but also had concerns about the terms of economic engagement and its political system. After meeting with Chinese Premier Li Keqiang, Mahathir expressed his concerns:

“We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries.”

From its vague attitude of “neutrality” towards the South China Sea dispute to the government’s delaying of BRI projects in Malaysia conveyed that the new government is unwilling to take sides on major power, which are China and the US. In contrast to the previous government, Mahathir is more cautious about the extent of Malaysia’s engagement with China and the US.

It is obvious that the suspension is only due to the economic reason, which is superficial. The need to cut costs is just one reason government is tempted to rethink infrastructure deals with China. The underlying reason are political. Malaysia also worries about the US-China trade war, transparency, commercial viability, environmental protection, job opportunities for local people and so-called debt-trap diplomacy.

Southeast Asian countries might welcome some of the BRI initiatives, however, their long-term trajectory of their cooperation with China is with caution. The Maritime Silk Road will inevitable arouse geopolitical apprehension among the Southeast Asian countries when China presents its assertive stance in the South China Sea.

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As a result, China do need to adjust its strategies in response to those political concerns. ASEAN aims to improve the integration within the ASEAN member countries and has come up with several initiatives in order to close its development gaps, including the Initiative for ASEAN Integration Work Plan and the Master Plan on ASEAN Connectivity. Therefore, rather than just cooperate with the Southeast Asian countries by themselves, China should also seek for more cooperation with ASEAN. The ASEAN countries needs to change their mindset and believe that the BRI is beneficial for developing their connectivity. If ASEAN would arrive at a regional consensus on engaging the BRI, they would play a more important role for the BRI especially as a whole group.

**The Debt Trap**

We could see that some projects were forced to suspended due to the lack of the funding, however, even though China is willing give loan to the countries that need money for their infrastructure projects under certain conditions, those countries would probably not accept the loan because of the lesson of Sri Lanka.

A recent survey conducted by ISEAS-Yusof Ishak Institute shows that 70 percent of the respondents from the ASEAN countries said that their governments “should be cautious in negotiating BRI projects to avoid getting into unsustainable financial debts to China.”

Malaysia is a good example that the government is trying to withdraw the projects in order to keep the country from falling into the debt trap, just like Sri Lanka did.

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6.2 Funding Issues

The Funding Sources of BRI

The funding of the BRI mainly comes from China and is supported by institutions lead by China, such as the Asian Infrastructure Investment Bank (AIIB), the China Development Bank, the New Development Bank, China’s Export and Import Bank, and the Silk Road Fund.

Since the BRI is supposed to work towards “sharing responsibility, resources and benefits,” some financial innovation will be needed. Among all the banks, AIIB is the most important funding source for the BRI. As of 2019, there are 93 member countries, including Western states that are close to the US. More specially, AIIB is designed to aggregate and allocate capital for infrastructure projects across Asia, primarily in the form of loans. What’s more, AIIB offers sovereign and non-sovereign financing for sustainable projects in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, and urban development and logistics.

There is no doubt that the construction of the BRI is largely dependent on Chinese investment. But if the BRI is only relying on funding from China, it will obviously be insufficient. Therefore, the member countries of the AIIB must invest in exchange for shares, and therefore any member country can contribute to the BRI insofar as they are shareholders. What’s more, Jin Liqun, the President of AIIB has committed to providing

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strong support to ASEAN at the World Economic Forum on ASEAN in 2017. The AIIB committed to providing financial or technical support to infrastructure development in Southeast Asia and promise to collaborate with both the public and private sectors.

In addition, the BRI-participating countries also need to fund their own projects. Funding is one of the most common reasons for delayed or suspended projects. Even though the majority of the cost of the BRI is funded by China, supported by the AIIB, NDB and the Silk Road Fund, individual countries within the program are still required to fund their domestic projects, thus leading to delays or suspensions in less wealthy areas. These three financial institutions supporting the BRI have a total capital of $240 billion USD, which is still insufficient to cover all costs. According to the estimation of the Asian Development Bank, the emerging Asian economies need $1.7 trillion per year in infrastructure to maintain growth, tackle poverty and respond to climate change.70

At the Belt and Road Forum for International Cooperation in 2017, President Xi announced that China will increase its financial support for BRI construction by increasing the capital of the Silk Road Fund by ¥100 billion RMB in order to encourage financial institutions to carry out RMB overseas fund business, with an estimated size of ¥300 billion RMB.

The China Development Bank and the Export-Import Bank will provide ¥150 billion RMB and ¥130 billion RMB worth of special RMB loans respectively to support BRI infrastructure construction, production capacity, and financial cooperation. China will also cooperate with the AIIB, the NDB, the World Bank, and other multilateral institutions...
development agencies to support the BRI project. Also, China will work with relevant parties to formulate the BRI financing guidelines.  

In addition, many Southeast Asian countries are facing serious financial difficulty in raising capital to fund the infrastructure projects. As a result, some of the projects are delayed or suspended due to these financial problems and those projects will be analyzed in the following parts. The Jakarta Monorail Project is a representative case of a cancelled project due to the funding issues.

**Jakarta Monorail Project, Jakarta (Special City District), Indonesia**

The Jakarta Monorail Project is a rail project in Indonesia which aimed to improve traffic congestion in Jakarta. It was cancelled in 2015 by the Jakarta city government. The investment of this project was $1.5 billion USD and was jointly built by PT Jakarta Monorail (JM) and the China Communications Construction Corporation.

In this project, $900 million USD was allocated for railway construction and $600 million USD was put toward station construction costs and car purchases. Had this project been completed, it would have carried 800,000 passengers per day, which would help to alleviate the traffic in downtown Jakarta. As one of the most densely-populated and congested cities in the world, Jakarta would have significantly benefited from such a program. However, The Jakarta city administration decided to cancel its contract with JM because it did not fulfill at least 15 requirements proposed by the city.  

Due to the disagreements between the city and the company, the project was cancelled.

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71 “Xi Jinping: China Will Add 100 Billion Yuan to the Silk Road Fund”. 2017. Xinhuanet.  
http://www.xinhuanet.com/world/2017-05/14/c_129604265.htm.  
Most recently, the resistance to China is growing in some mega-funded projects. The Malaysian government is trying to cancel the Kuala Lumpur-Tumpat Railway under the BRI, which is mentioned above. In January of 2019, after failing to lower the price of the projects, the Malaysian government reached a final decision on cancelling the 688 km railway. However, it was put back on the negotiating table again in February 2019, as China asked to continue talks for reducing cost.

Overall, in order to solve the shortage of funding, it remains necessary to encourage more countries and enterprises to invest in the BRI. However, this is a tricky task, since the risk of the BRI projects is higher than investment in the American or European infrastructures.

Therefore, many Chinese bankers are concerned about the feasibility of the BRI projects. They are worried about the many risks associated with overseas loans, including political instability and the economic viability of many projects.

6.3 Does China Have Enough Military Force to Secure the BRI?

As mentioned above, there are some similarities between the BRI and The Marshall Plan. However, we need to note that the Marshall Plan was carried out under the US military’s occupation of Western Europe. In contrast, China doesn’t employ a military force on the scale of the post-WWII United States, and thus may struggle to secure the BRI region militarily, especially in Southeast Asia.

Nearly two-thirds of the BRI countries have a sovereign credit rating below investable grade. Since many Southeast Asian countries are often characterized by political volatility and social upheaval, investment in these regions comes with a particular set of risks and concerns, beyond the physical construction of the BRI. These domestic political concerns raise questions of Chinese military involvement in the areas. BRI investment may necessitate Chinese intervention in local politics throughout South Asia. While the Chinese hope to avoid the label of imperial or hegemonic political actors, securing the region from internal turmoil is vital to the completion of BRI projects. Although military force may seem excessive, the risk of Southeast Asian countries defaulting on BRI loans incentivizes the Chinese to secure the region from risk as much as possible. The Rohingya genocide in Myanmar is a good example of the potential risk in Southeast Asian countries.

Recently, aside from Myanmar, the politics of Southeast Asian countries are relatively stable and their policies toward China are continuous and predictable. But, based on historical precedent, this situation can possibly deteriorate at any time.

Although there has been marked stability in the region, there have been a few events that have demonstrated the capacity for crisis. In recent years, unstable political events have occurred in Southeast Asia rather continuously. In 2015, the General Commander of the Royal Thai Army, Prayut Chan-o-cha launched a coup, which resulted in 6 months of political crisis in Thailand; The Myanmar National Democratic Alliance led by Aung San Suu Kyi won an absolute majority in the upper and lower houses of the parliament in the general election, winning a historic victory and ending the military-backed rule; The Philippines’ political black horse, the authoritarian Rodrigo Duterte was
elected President, breaking the long-held monopoly of traditional family groups on state power. Those are challenges, as well as opportunities for the BRI.
Since the BRI is different from traditional regional cooperation models, it does not put trade and investment as its priority. Instead, the BRI works to improve infrastructure connectivity within the region to stimulate the economic growth.

The BRI can be viewed as a win-win cooperation between China and the Southeast Asian countries, which helps China to solve its overcapacity, to upgrade China’s economic structures, and to export Chinese standards, while at the same time, helping Southeast Asian countries to improve their connectivity through infrastructure projects. Also, it can also be interpreted as China’s tool to gain political leverage over its neighbors if mutual trust is lacking among the countries.

Lack of political trust between China and the Southeast Asian countries is a huge obstruction for the project’s implementation. China needs to understand its neighboring countries’ concerns about their sovereignty. There are three main factors that have played a major role in shaping their concerns over China’s rise to global superpower: China’s aggressive involvement in the South China sea; China’s military expansion; and China’s increased overseas military presence. While most leaders in Southeast Asia do not take China as an immediate threat and focus on their own development and acquisition of capital, there is still concern regarding whether the economic investment is in fact a disguised financial trap.

Now, the most effective means to promote the BRI is the completion of projects. As long as Southeast Asian countries benefit from the projects, the BRI will garner more enthusiasm and thus they would be more willing to take on additional projects. It is more reasonable to view the BRI as China’s ambition to lead Asian economic growth by
deepening regional cooperation rather than an imperial hegemony that looks to dominate the Asia-Pacific region and compete with the US. However, since Southeast Asia is located in the Asia-Pacific region, the politics is complicated due to its geopolitical position. After analyzing some BRI projects in Southeast Asia, we should note that the success of a project depends on many different factors, ranging from economic conditions in each country to political struggle between the countries and even to military concerns around the BRI’s security. Although this initiative is mainly for economic growth, its strong political and security dimension should not be ignored, especially in the context of Southeast Asia.

We should also understand that it is difficult for Southeast Asian countries to eliminate all their concerns, and it is also hard for those countries to accept the BRI if they characterize their every move with doubt and fear. Even though the BRI projects are facing various problems in Southeast Asia, it has been shown to improve living standards for the people in Southeast Asia, when completed. Vietnam does not have to deal with frequent electrical blackouts anymore, due in some degree to the 8 completed power plants under the BRI. The completion of National Road 6A has created new development opportunities to advance cross-border trade in Cambodia. Putting all the underlying motivation of the BRI aside, it certainly does help countries pave a way for future development. In this regard, the Beijing Consensus has been shown to work much better than the Washington Consensus in helping developing countries achieve a better life, at least in this area.
Indeed, if the BRI can be implemented in Southeast Asia, it may have the power to reshape the geopolitics of the region and bring it into a new era of economic growth, which would make the region be more competitive in the world market going forward.
Reference


