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China's Maritime Silk Road: Challenging Test for ASEAN

By Kaewkamol Pitakdumrongkit

Synopsis

The Maritime Silk Road (MSR) holds great potential to foster ASEAN-China economic relations. China could achieve its connectivity scheme while ASEAN states could accomplish their regional integration objectives. However, both sides need to work on developing institutional infrastructure and managing geopolitical conflicts.

Commentary

PRESIDENT XI Jinping introduced the idea of the 21st Century Maritime Silk Road (MSR) to further foster ASEAN-China relations during a visit to Jakarta in October 2013. MSR is the maritime part of China's Belt and Road Initiative (BRI).

BRI's goals are to promote linkages between China and other countries in five areas: policy coordination, connectivity, trade, financial integration, and people-to-people exchanges. MSR, if completed, will connect China with Southeast Asia, the Persian Gulf and North Africa.

Implications for Southeast Asia

MSR promises to bring several benefits to ASEAN nations. For one thing, the scheme could support ASEAN's regional initiatives namely the ASEAN Economic Community 2025 (AEC 2025) and Master Plan on ASEAN Connectivity 2025 (MPAC 2025), as revealed in the [Joint Communiqué](#) of the Leaders' Roundtable of the Belt and Road Forum for International Cooperation issued in Beijing on 16 May 2017.

The above statement indicated that China is willing to support ASEAN's regional frameworks. AEC 2025 aims to accomplish five objectives: (i) a highly integrated and cohesive economy; (ii) a competitive, innovative, and dynamic ASEAN; (iii) enhanced

connectivity and sectoral cooperation; (iv) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (v) a global ASEAN.

MPAC 2025's goal is to "achieve a seamlessly and comprehensively connected and integrated ASEAN" by enhancing physical, institutional and people-to-people connectivity.

Looking at these initiatives, it is likely that ASEAN and China would see their interests converge. As a result, Southeast Asian countries are likely to welcome MSR as the initiative can help ASEAN achieve its regional economic integration. For instance, China desires to boost infrastructure development to enhance its exports of iron, aluminium, cement, and steel sectors.

As these materials can serve as intermediate goods of final products such as automobiles and electrical equipment, one could expect that MSR would not only raise ASEAN-China trade and investment in these industries but also enable Southeast Asian countries to raise their exports of final products which use these materials as components.

Filling in ASEAN's Financing Gap

Furthermore, MSR could help finance the projects under the MPAC 2025 scheme. ASEAN countries are in dire need of infrastructure financing. According to the Asian Development Bank, ASEAN would require about US\$2.3 trillion to \$2.8 trillion of infrastructure investment from 2016 to 2030, or \$184 billion to \$210 billion annually. However, the ASEAN Infrastructure Fund (AIF) has a total equity of \$485.3 million.

Although AIF's portfolio is estimated to rise to \$700 million by end-2017, it is still insufficient to fill ASEAN's financing gap. Such deficit could partly account for the delayed implementation of particular programmes. For example, a study done by the Economic Research Institute for ASEAN and East Asia (ERIA) revealed this.

It found that the Trans-ASEAN Gas Pipeline aimed at linking the region's gas exports and the ASEAN Power Grid to integrate national energy markets into a regional one were less than 50% completed by 2015. MSR could inject additional capital into these projects.

Which Southeast Asian nations are likely to be the main beneficiaries of MSR? At the time of this writing, the immediate gainers are the maritime states in the region. Some evidence suggests that Chinese capital is pouring into these areas to invest in ports and related facilities as well as industrial parks. For example, COSCO, a Chinese state-owned enterprise, holds 49% stake in COSCO-PSA Terminal projects in Singapore.

Beibu Gulf Holding Co. Ltd bought 38% equity to secure a 30-year management of Kuantan Port in Malaysia. Moreover, China and Malaysia are jointly developing an industrial park in Kuantan in Malaysia for steel, aluminium, and palm oil production. Beijing and Kuala Lumpur also signed an MOU on port alliance to boost their bilateral trade.

In addition, Chinese financing is flowing into Indonesia to develop a high-speed railway, a coal power plant, and other infrastructures to gain access to the latter's natural resources.

Challenges Ahead

Physical infrastructure alone would neither help China successfully implement the MSR nor would it enable ASEAN members to reach their regional integration objectives. Soft or institutional infrastructure is also required.

To fully reap the MSR's benefits, Southeast Asian countries and China must work together through the ASEAN-China Free Trade Agreement (ACFTA) and other initiatives to lessen or remove non-tariff and behind-the-border barriers and facilitate trade and financial flows. Doing so would create a more business-friendly environment, further deepening ASEAN-China economic ties.

Also, Beijing and Southeast Asian states need to find ways to jointly ease geopolitical tensions which could otherwise breed suspicion and mistrust. Neither Beijing's neglect of the 2016 arbitral ruling by the Hague Tribunal that its maritime claims had no legal basis nor China's militarisation of the South China Sea bodes well for Southeast Asia-China ties.

Such tensions must be lessened through bilateral and multilateral mechanisms or both. Otherwise, conflicts may escalate and risk jeopardising the future of the MSR and ASEAN's regional integration projects.

The MSR holds great potential to bolster ASEAN-China economic relations. If managed well, it could create a win-win outcome for both sides. China could achieve its connectivity scheme while ASEAN states could accomplish their regional integration objectives. However, this scheme is not without challenges. For it to succeed, both sides need to work on building institutional infrastructure and managing geopolitical conflicts.

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