“A COMPETITIVE DEVELOPMENT BAZAAR?”: ASEAN DIALOGUE PARTNERS’ POLICIES AND THEIR IMPLICATIONS FOR THE MEKONG SUBREGION

Policy Report
March 2019

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EXECUTIVE SUMMARY

The Mekong subregion is witnessing a “development bazaar” where there is no outright hegemonic development grand plan but a variety of options offered by ASEAN’s Dialogue Partners (DPs) for ASEAN riparian states to choose from. Against this backdrop, this policy report assesses key DPs’ policies and their implications for the subregion as well as provides policy recommendations for Southeast Asian governments to respond to the current dynamics. This paper contends that ASEAN officials should: (i) raise the awareness of ASEAN maritime members about the significance of the Mekong subregion to Southeast Asia; (ii) collectively coin ASEAN’s Mekong policies, (iii) engage the DPs via the existing regional and subregional initiatives, and (iv) incorporate Track II’s recommendations into policymaking process.
INTRODUCTION

Southeast Asia has long embraced assistance from extra-regional states. Thanks to the Association of Southeast Asian Nations’ (ASEAN) reliance on “Open Regionalism” (i.e. an outward-looking and liberal modality to regional economic integration) as a way which ASEAN conducts its external relations, several of ASEAN’s Dialogue Partners (DPs) have played an important role in enhancing regional and subregional cooperation and integration. This is reflected in the Mekong subregion housing five Southeast Asian countries – Cambodia, Laos, Myanmar, Thailand, and Vietnam (CLMTV). Specifically, this area is witnessing a “development bazaar” in which there is no outright hegemonic development grand plan but a variety of options (e.g. loans, grants, foreign direct investment in infrastructure) for the ASEAN riparian states to choose from. Against such backdrop, this paper examines the effects of key DPs’ policies on the subregion by exploring the following questions: (i) What are the key DPs’ policies towards the Mekong subregion?; (ii) What are these policies’ implications for the subregion?; and (iii) What should ASEAN governments do to respond to the current dynamics?

These matters warrant a study because the Mekong developments have potential to alter both economic and security dynamics in Southeast Asia. For example, this zone is where ASEAN’s economic future will lie. With the combined market of 236 million people, the Mekong has recently gained more attention from international investors. In short, these entrepreneurs have shifted their focus toward the Mekong, thanks partly to lower labour costs in CLMTV than that of China. Some Japanese companies are pursuing a “Thailand-Plus-One” model which they extend their supply chains from Thailand to CLMV. Also, because these five nations are parts of regional supply chains, peace and stability in this subregion is crucial to ensure smooth flows of trade and investment. The increased integration of CLMTV into regional economies will not only galvanize intra-ASEAN trade which has been stagnant for almost two decades, but also help cushion the effects of rising protectionism and the United States (US)-China trade confrontations in the region. In contrast, conflicts in the Mekong will disrupt transnational production networks and undermine trade and investment of the whole ASEAN.

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Moreover, greater advancement of Mekong economies, especially CLMV, enables ASEAN to inch closer to regional economic integration envisaged the ASEAN Economic Community 2025 (AEC 2025). AEC 2025 seeks to achieve: “(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-centered ASEAN; and (v) a global ASEAN.” As ASEAN is anticipated to become the world’s fourth biggest economy by 2030, the rise of CLMV is crucial to realise this scenario.

Additionally, the Mekong has increasingly become a frontier where several DPs are competitively wielding their clout. Economic statecraft – the utilisation of economic instruments to pursue foreign policy objectives – usually comes in the form of connectivity projects and other types of assistance. These elements enable providers to gain certain advantage over recipients. For example, it can tip the regional dynamics in the former’s favor, thus eroding ASEAN’s unity and undermining ASEAN’s responses to deal with certain international matters. The failure of the 45th ASEAN Foreign Ministers’ Meeting to coin a joint communique in 2012 is a case in point. If such power play is not well managed, ASEAN can lose its roles and centrality in shaping regional governance.

This paper is organized in three parts. The next section highlights the Mekong policies of four DPs – China, Japan, South Korea, and the US as they are the most influential external players in the subregion. This is followed by the assessment of their effects in both economic and strategic terms. The final section provides policy recommendations for ASEAN policymakers to respond to the ongoing dynamics.

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I. DIALOGUE PARTNERS’ POLICIES TOWARD THE MEKONG SUBREGION

Several DPs have been fostering their ties with mainland Southeast Asian nations. For instance, Japan in 1992 created Greater Mekong Subregion (GMS). This programme comprising China’s Southwestern part (i.e. Yunnan and Guangxi provinces), and CLMTV seeks to invigorate subregional integration. GMS has implemented several infrastructure programmes ranging from energy, transport, to trade facilitation.\(^6\) Tokyo also established the Japan-Mekong Cooperation (JMC) initiative in 2007 to supplement its collaboration among itself and CLMTV. The Abe Administration coined its new “Free and Open Indo-Pacific” strategy in 2016 with the main objective of boosting connectivity between Africa, Middle East, and Asia. Pertaining to Southeast Asia, Tokyo aspires to “further promote infrastructure development, trade and investment, and enhance business environment and human development, strengthening connectivity in ASEAN region.”\(^7\) Moreover, Japan and CLMTV at the 10th Mekong-Japan Summit Meeting in October 2018 adopted the Tokyo Strategy 2018 aimed at further advancing effective connectivity, people-centred society, and Green Mekong.\(^8\)

China is another extra-regional player in the Mekong. Beijing’s engagement has intensified since the launch of its Belt Road Initiative (BRI) in 2013. Purposed to bolster connectivity between Asia, Europe, and Africa, this scheme has contributed to Southeast Asia’s infrastructure building. For instance, between 2013 and 2015, ASEAN countries received more than 60 per cent of total Chinese direct investment to BRI nations.\(^9\) Moreover, the state rolled out Lancang-Mekong Cooperation (LMC) in 2015 to foster collaboration among itself and CLMTV in the realms of connectivity, production capacity, cross-border economic collaboration, water resources, agriculture, and poverty reduction.

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Concerning South Korea’s involvement in the Mekong, the country has recently ramped up its roles as part of its effort to expand its diplomatic relations. Seoul’s move is evident in the establishment of Mekong-Republic of Korea (ROK) Foreign Ministers’ Meeting (FMM) in 2011, a formal mechanism between South Korea and CLMTV to narrow development gaps and improve connectivity in the subregion. Moreover, in 2017 President Moon Jae-in unveiled the New Southern Policy which seeks to deepen the state’s collaboration with CLMTV under three P’s: people, prosperity, and peace. Moreover, Seoul will upgrade the FMM process by hosting an inaugural Mekong-ROK Leaders’ Summit by the end of this year.

In addition, the US created the Lower Mekong Initiative (LMI) in 2009 as a mechanism to enhance collaboration between Washington and CLMTV in the areas of connectivity, education, environment, and health. The Trump Administration has bolstered LMI. For instance, as part of the Administration’s Indo-Pacific strategy, Secretary of State Mike Pompeo announced in July 2018 that US$113 million would be put as a “down payment” to fund several initiatives including LMI. Moreover, Washington is reforming its development finance institution as seen in the signing into law the Better Utilization of Investments Leading to Development Act in October 2018 to create the new United States International Development Finance Corporation (IDFC). This entity’s authority over US overseas development assistance will be strengthened and budget will be increased. IDFC is slated to be in operation by the end of this year, which will invigorate Washington’s infrastructure assistance to the Indo-Pacific, including the Mekong subregion.

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13 On the economic front, the strategy focuses on three areas: trade, investment, and infrastructure.
II. THE EFFECTS OF THESE POLICIES ON THE MEKONG SUBREGION

As far as the economic effects are concerned, infrastructure assistance from these DPs can bridge financing gaps in the subregion. One analysis reveals that Cambodia, Laos, and Myanmar will have to spend 12.7, 10.2, and 10.1 per cent of their GDP annually to fulfil their infrastructure needs from 2018 to 2030. However, these nations suffer from financing deficits. For example, Myanmar allocated only 2.5 per cent of its GDP for connectivity projects. Such an issue contributes to their lagged-behind infrastructure, affecting the quality of life. According to the 2018 Logistic Performance Index indicating countries’ logistics capabilities, Cambodia, Laos, and Myanmar ranked 98th, 82nd, and 137th out of 160 countries, falling behind the other ASEAN economies. Moreover, only 49.77 and 57.01 per cent of people in Cambodia and Myanmar respectively had access to electricity in 2016. In short, help from the DPs can mend the Mekong’s financing gap. Beyond fulfilling connectivity needs, such assistance in turn can spur the development and growth of Mekong economies namely CLMV, enabling ASEAN to narrow its developmental gaps among its members. Furthermore, better subregional connectivity will deepen ASEAN’s transnational production networks, heightening intra-regional trade and investment.

Economic benefits notwithstanding, the DPs’ assistance yields certain strategic implications. Consequently, this subregion has witnessed a more intense contestation by these states. For example, the US’ infrastructure assistance effort is the state’s response to China-led BRI. Vice President Mike Pence maintained at the Asia-Pacific Economic Cooperation CEO Summit in 2018 that Washington proffered “a better option,” saying “We don’t drown our partners in a sea of debt. We don’t coerce or compromise your independence. The United States deals openly, fairly. We do not offer a constricting belt or a one-way road.”

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Also, the fact that the DPs prefer setting up their own mechanisms than joining the existing ones stipulates that strategic calculations are behind their Mekong programmes. In short, setting up a new framework allows these states to wield influence within the framework without being restrained by other external powers. LMC is a case in point. Despite being a GMS member, Beijing formed a new LMC and claimed that this new scheme will augment collaboration between CLMTV and the whole of China, instead of between the former and the latter’s Southwestern provinces under GMS. However, a primary reason was that China perceived JMC as Tokyo’s attempt to check its rising influence in the subregion, and accordingly rolled out LMC.\(^{20}\)

Some observers argue that CLMTV are likely to gain from such power competition as it allows these ASEAN states to pick the schemes to best fulfil their interests. Nonetheless, such benefit is outweighed by several negative consequences. For example, CLMTV’s choice can stifle their or ASEAN’s long-term relations with the DPs. In other words, even though CLMTV are offered several alternatives, they are not as free to choose as generally assumed. Even worse, these nations may in the future be forced by greater powers to choose sides. Also, the fact that the DPs tend to advance their own initiatives with little coordination among them raises a probability of conflicts, which does not bode well for Mekong countries. Because different DPs tend to have dissimilar ideas and modalities regarding how to design, implement, and monitor connectivity projects, their frameworks may clash with one another, causing implementation delays and project cancellations. Consequently, ASEAN states will lose from this scenario.

Furthermore, receiving assistance from these DPs in some circumstances can increase CLMTV’s risks of debt unsustainability and sovereignty compromise. The Kunming-Vientiane railway is a case in point. The project costs Laos about US$6.7 billion which is about half of its 2016 GDP of US$13.7 billion. The contract also grants Beijing power to take Lao’s land for 50 meters on each side of the track, raising the issue of the country’s sovereignty being jeopardised.\(^{21}\) Such a case partially accounts for why ASEAN countries are concerned about China’s involvement in the region.

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According to the 2019 survey by the Institute of Southeast Asian Studies (ISEAS), although Beijing’s economic and politico-strategic roles in the region are widely acknowledged,\textsuperscript{22} 45.5 per cent of ASEAN respondents believed that the state will “become a revisionist power with an intent to turn Southeast Asia into its sphere of influence.” Moreover, 47 per cent of these respondents believe that “BRI will bring ASEAN member states closer into China’s orbit.” Vietnam and Thailand registered more skepticism, where 58.7 per cent and 51.3 per cent of the Vietnamese and Thai individuals respectively agreed with the statement.\textsuperscript{23}

To sum up, despite the benefits extra-regional players bring to CLMTV, such help can beget certain negative consequences, which can alter the dynamics of the Mekong and Southeast Asia.

III. POLICY RECOMMENDATIONS

The above triggers a pressing question: How should Southeast Asian governments respond to the current dynamics?

ASEAN policymakers should do the followings:

1. **Raise the awareness of ASEAN maritime members (Brunei, Indonesia, Malaysia, the Philippines, and Singapore) about the significance of the Mekong subregion to Southeast Asia**

Little concrete and substantial interests by these maritime states partially explains the slow progress of the ASEAN Mekong Basin Development Cooperation (AMBDC) created in 1996. Illustratively, “its flagship project, the Singapore-Kunming Rail Link, remains largely incomplete despite the idea having emerged more than two decades ago.”\textsuperscript{24} Therefore, it is crucial to raise such awareness as it can drive greater political will and ASEAN’s collective effort to coin policies towards the Mekong.


\textsuperscript{23} Ibid. At p. 11.

2. Collectively coin ASEAN’s Mekong policies to manage the subregional dynamics

Doing so can not only boost ASEAN’s roles in the subregion, but also ensure that ASEAN nations, especially CLMTV, will not be marginalised in all phases of the DPs’ programmes (e.g. designing, implementing). Butting heads also affords ASEAN members to have a well-rounded evaluation of the pros and cons of the DPs’ programmes and hence devise effective policy responses to safeguard ASEAN’s interests in the subregion. One platform to discuss Mekong issues and formulate ASEAN’s Mekong policies is AMBDC because its membership comprises ten Southeast Asian nations and the scheme is aimed at enhancing economic and social cooperation in the subregion.

3. Engage the DPs via the existing regional and subregional initiatives

As far as regional schemes are concerned, ASEAN states should utilise AMBDC as a platform to convene ASEAN members and different DPs, thus providing an opportunity for the latter to discuss and find ways to lessen competition and improve complementarities among their initiatives. This platform can also permit all stakeholders to identify gaps in their existing frameworks (e.g. there may be certain areas which lack collaboration or have insufficient cooperation) and explore ways to fill them. Furthermore, at this forum, the DPs and ASEAN countries can together examine how to create synergies between the former’s and the latter’s programmes, namely Initiative for ASEAN Integration (IAI) and Master Plan for ASEAN Connectivity 2025 (MPAC 2025). While IAI is aimed at helping CLMV catch up with the other ASEAN economies, MPAC 2025 seeks to augment infrastructure to accomplish “a seamlessly and comprehensively connected and integrated ASEAN.”\(^{25}\) Moreover, Thailand as the 2019 ASEAN Chair unveiled the theme of “Advancing Partnership for Sustainability.” While it remains to be seen how it will be materialised, AMBDC can be a forum for Southeast Asian policymakers to amend the DPs’ projects to ensure sustainability, hence complementing the theme.

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As for subregional mechanisms, CLMTV should further advance their Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), a collaboration framework among these states to push forward the Mekong development. At the 8th ACMECS Summit in November 2018, the leaders agreed to set up the ACMECS Fund and endorsed the ACMECS Master Plan (2019-2023). While the former will be an investment vehicle used to implement Mekong programmes, the latter identifies three pillars of cooperation: (i) connectivity; (ii) harmonisation of trade, investment, and industry policies; and (iii) human resource development. Although these are steps in the right direction, much work is needed to be done to rally DPs’ participation to contribute to the Fund and implement the Master Plan.

4. Incorporate Track II’s recommendations into policymaking process

Besides inter-government interactions (Track I), ASEAN officials should tap on the expertise of regional think tanks and academics (Track II) especially those specialising in the Mekong subregion and subregional development, and incorporate experts’ inputs into their policymaking process. Relying on Track II mechanisms is essential to craft effective policies benefiting the subregion and ASEAN. For instance, these think tanks and academics can create a model to assess the DPs’ loan conditions which ASEAN officers can use to warn the DPs of their certain unrealistic loan conditions. The fact that discussions at Track II platforms tend to be informal grants an excellent opportunity for participants to explore certain matters too sensitive to be raised at Track I level. Moreover, these dialogues can help devise new solutions to problems such as creating a new modality to achieve sustainable private-public partnership, and developing mobile phone applications for villagers to report water shortage or sanitary issues to local governments. Track II’s ideas can be forwarded to ASEAN authorities to assist the latter’s policy formulation, paving the way for diplomatic consensus and international agreements on infrastructure in the future.

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