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Tweaking BRI: What Southeast Asia Can Do

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SYNOPSIS

As China seeks to improve the Belt and Road Initiative (BRI) in response to criticisms, Southeast Asia could tap growth opportunities by leveraging on the strengths of BRI-linked countries such as in finance, partnerships, negotiations and economic development.

COMMENTARY

SOUTHEAST ASIA is an important strategic partner in China's Belt and Road Initiative (BRI). The region serves as a key link in the realisation of BRI's Maritime Silk Road, which aims to connect China's coast to South Asia, the Middle East and Europe through the South China Sea and Indian Ocean.

Southeast Asia is also a critical component for the success of the BRI as it is the mid-point which connects China with the West. However, criticism of the BRI's weaknesses highlight some of the risks of participation. Southeast Asian countries could address these risks by persuading China to adopt multilateral rules in the BRI to broaden participation so as to leverage on ASEAN's potential roles.

Multilateralising Risks

According to Oxford Economics and CIMB ASEAN Research Institute's study (2018), total BRI projects in ASEAN has amounted to more than US\$739 billion. The highest total BRI projects is in Indonesia, which amounted to \$171 billion, followed by Vietnam (\$152 billion), Cambodia (\$104 billion), Malaysia (\$98.5 billion), Singapore (\$70.1 billion), Laos (\$48 billion), Brunei (\$36 billion), Myanmar (\$27.2 billion), Thailand (\$24 billion), and Philippines (\$9.4 billion).

In April this year, China hosted the second Belt and Road Forum (BRF) which was attended by 37 heads of state and government, and international organisations. During the forum, President Xi Jinping said that BRI would adopt multilateral rules and international best practices in implementing the projects.

Xi's willingness to multilateralise the BRI is necessary to prevent BRI projects in Southeast Asia from being exposed to operational risks, policy risks, and project cancellations. One of the criticisms of BRI is its lack of transparency and inclusivity.

In Laos, for example, locals complain that the labour force on the 414 kilometre BRI railway project, which will link its capital Vientiane to the China-Laos border, is mainly provided by Chinese nationals. This echoes the criticisms of BRI in some other countries which have similar complaints.

It is, however, laudable that there would be a BRI Debt Sustainability Framework, which is meant to help the Initiative's partner countries. Having this framework could help allay the growing concerns that BRI is exposing its stakeholders to debt trap.

Last year, Myanmar's Planning and Finance Minister Soe Win wanted to reduce the scale of a China-led special economic zone project in Kyaukpyu, which was estimated at \$10 billion. The Myanmar minister argued that the special zone project should be "lean" by cutting unnecessary expenses.

Interestingly, China is establishing a panel of international mediators from BRI countries to resolve cross-border disputes arising from BRI projects. This is important, especially since a wide range of contracts and deals are already in place between China and ASEAN member states.

Financial Hub and Third-Party Collaboration

Given that President Xi is willing to multilateralise BRI, some ASEAN countries have the opportunity to play important roles to improve the BRI for mutual benefit.

Singapore can play its part in three areas, namely financial connectivity, third-party collaboration, and mediation. According to Enterprise Singapore, the city-state has a large number of international banks with project financing capabilities; 60% of project finance transactions across ASEAN are led by Singapore-based banks.

Moreover, Singapore is well regarded for its transparent business dealings and for being one of the largest offshore Renminbi centres. This puts it in an ideal position for Renminbi trade and investment-related flows. Singapore is also well-positioned as a financial hub for BRI projects because some of its local banks have signed memoranda of understanding (MOUs) with Chinese banks to cooperate in cross-border financing.

Interestingly, Singapore has also the potential to be a third-country partnership hub within BRI. In fact, some of the Singaporean firms are proactive in BRI projects in other ASEAN countries. For example, Surbana Jurong is involved in master-planning for Kyauk Pyu Special Economic Zone and Port in Myanmar.

Singapore and BRI Connect

There is also BRI Connect which serves as a platform to facilitate communications of BRI projects and promote Singapore as a regional infrastructure and financial hub. This platform builds a business community on BRI which Singaporean firms can tap on as partners for BRI projects.

Singapore can also be a dispute resolution hub for BRI. In January this year, Singapore and China inked an agreement to establish an international panel of mediators to handle disputes that might arise from the multi-billion dollar BRI projects. This was signed between the Singapore International Mediation Centre and the China Council for the Promotion of International Trade.

Malaysia also plays an important role to help BRI achieve its goal of building a “community of common destiny”. This was demonstrated when Malaysia successfully renegotiated the controversial East Coast Rail Link (ECRL), which resulted in the reduction of the project’s price tag by about a third.

Under the new agreement signed in April between Malaysia and China, the 640-kilometre and 20-station ECRL will cost \$16.7 million per kilometre, compared with \$23.2 million previously. This success has shown that going back to the negotiating table could help partner countries to come up with more equitable deals.

Diversifying and Forging Sustainable Projects

ASEAN countries can also diversify BRI projects. For example, Myanmar is increasingly becoming a vital intersection in China’s Digital Silk Road due to its strategic geographical location between South Asia and Southeast Asia. In 2018, China’s Huawei was working with Myanmar’s Ministry of Transport and Communications to deploy 5G broadband services in Myanmar within the next five years.

Going beyond infrastructure projects, Indonesia could help promote BRI projects in Islamic finance and halal industries. China is increasingly becoming interested in these sectors, and Indonesia could help as it has the world’s largest Muslim population, providing a huge market for halal products.

Aligning BRI with other initiatives could help BRI projects become more sustainable. In 2017, for example, China and Vietnam signed an agreement to promote connectivity between the BRI and Vietnam through their “Two Corridors, One Belt” project.

In the second Belt and Road Forum (BRF) in April, observers could see the possibility of “[BRI 2.0](#)” – an improved version of BRI – emerging. In sum, since China has pledged to reform this strategic initiative, ASEAN member states can play important supporting roles by multilateralising BRI, with some of the key areas being in financial connectivity, third-party collaboration, mediation, negotiations, and the sustainability of projects.

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