

## Chinese infrastructure investments in Southeast Asia and their implications for the region

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Large investments in infrastructure realized in the framework of the Chinese-led Belt-and-Road Initiative will change the political, ecological, and economical structure of Southeast Asia. Narayanan Ganesan summarizes the effects of the initiative on the region with a special focus on Thailand, Malaysia and Myanmar.

As a major power in Southeast Asia, China has always had a tremendous impact on the region. In the period immediately after World War II, when the country became communist Mao espoused a policy of exporting the socialist ideology abroad, China had a rather controversial relationship with many of its neighboring states. This was especially true for countries closely allied with the United States like Thailand and the Philippines.

However, following the premiership of Deng Xiaoping in 1978 and the establishment of a socialist market economy, China began to engage the region by focusing on trade and investments rather than ideology and insurgency. Ironically, at the end of the Cold War in the late 1980s China was forced to help disband the Communist Party of Malaya (CPM) and 1989 the Communist Party of Thailand (CPT) in order to retain some

leverage over ASEAN. ASEAN had begun a policy of rapprochement towards the communist Indochinese countries of Vietnam, Laos and Cambodia in order to expand the regional grouping. This development undermined China's standing with ASEAN that was premised on an anti-Vietnamese policy. Since then, China has actively worked on developing political and economic ties within the region and ranks as the top trading partner of many of its nations.

The promotion of the Belt and Road Initiative (BRI) by Chinese premier Xi Jinping has led to major political and infrastructural investments in the region, with the potential to alter its traditional political economy. Especially significant is China's attempt to establish a number of road and rail networks to bypass the Strait of Malacca and directly integrate the country into the region.

Both of these developments augur the potential to reroute Southeast Asia's transport networks and bridge the gap between the mainland and the maritime regions. Especially the latter has continuously influenced regional politics and policy. This article specifically focuses on Chinese infrastructure development projects and their impact on Malaysia, Myanmar and Thailand.

## Chinese investments in Malaysia

Historically China has always had a robust bilateral trading relationship with Malaysia. In fact Malaysia was one of the first countries in maritime Southeast Asia to normalize diplomatic ties with China in 1974, while Indonesia and Singapore only did so in 1990. The decision to normalize ties early on was partially motivated by the need to assuage the country's Chinese minority after the 1969 racial riots. It demonstrated the kind of foreign policy latitude that would continue on, especially starting from 1981 onwards under Prime Minister Mahathir's "Look East Policy". This policy significantly strengthened Malaysia's political and economic relationship with Northeast Asian countries. Mahathir was also the main force behind closer cooperation between the two regions. However, his early idea of an East Asian Economic Grouping (EAEG) was trumped by the United States with its Asia Pacific Economic Cooperation (APEC) forum that was strongly supported by Australia and Indonesia.

In fact, until today, Malaysia and China share the same vision on the notion of East Asian regionalism. The Asian Financial Crisis of 1997 made Mahathir's dream of East Asian regionalism come true when ASEAN looked towards Northeast Asia for economic support and sustenance in the face of the exodus of Western capital.

China's most noteworthy investments in Malaysia are in railways and ports. While China has always harbored the intention to have a rail network that connects Singapore at the south of the Malay peninsula to Kunming in China's Yunnan province, that plan is in turn dependent upon smooth implementation of China's infrastructure projects in Laos, Cambodia and Thailand (to be discussed later).



The **East Coast Rail Line (ECRL)** connects the east and west coast of the Malay peninsula with a railway line. It will run from Kuantan Port in the east to Port Klang in the west. The former port's railway line will also lead to other east coast ports, e. g. Kota Bahru in the north. The Hutchison Ports Group from Hong Kong already holds a 30 percent stake in *Westports*, which in turn owns Port Klang and is actively involved in joint ventures in China, including managing port operations in Shanghai for 25 years. Consequently, there will be synergetic effects.

Additionally, China is also investing \$2.8 billion to build a port in Kuala Linggi in Malacca, south of Port Klang. That investment is spread over 250 hectares of reclaimed land and includes 1.5 million tons oil storage capacity and dry docks for berthing as well as the repair of large oil tankers. The ECRL is expected to start operations in the next 5 to 10 years.

The east coast of peninsula Malaysia has always been less well developed. Subsequently, this new project will not only have a significant spill-over effect on the development of this region but also help connecting it to the others. Additionally and more importantly, it is a bypass of the Strait of Malacca and accordingly saves

time on shipping and transport costs. It will ease the tense situation in the South China Sea, with regular challenges from the United States, the Philippines, and Vietnam for navigational hegemony.

## Chinese investments in Myanmar

Investments in Myanmar are of strategic importance for China since they provide access to the Indian Ocean as well as open up a second corridor into the southern region. The port of Kyaukphyu in Rakhine state has been given to China in order to be developed. Similar to the Dawei region, which received help from Thailand, Sit-twe from India and the port of Thilawa (in operation since December 2015) from Japan.



The government and military in Myanmar have always been keen on engaging all its immediate neighbors and maintaining at least some strategic balance.

Compared to the Japanese development of Thilawa port, the construction of the port in Kyaukphyu has been slow going so far. However, China has expanded its control of the area by constructing a crude oil terminal on *Made Island* which is close to the port. This terminal, which started operation in May 2017, has the capacity to transport 22 million tons of crude oil from Myanmar directly to Kunming in Yunnan province. It is also part of a much bigger project aiming to connect Rakhine state and China.

Similar to the Malaysian case, this connection provides a bypass to the Strait of Malacca and grants China direct access to the Indian Ocean. The area around Kyaukphyu is likely to be declared a special economic zone in order to further facilitate Chinese investments.

China has also invested large amounts of money in other infrastructural projects. The most prominent examples are the large dams planned for the Salween and Irrawaddy Rivers (Myitsone dam), and the copper mine in Letpadaung in Kachin state. The former project was put on hold by the Thein Sein government in 2012, and the latter met with outspoken opposition from locals who complain about the projects deleterious impact on the environment.

There are numerous other issues that affect the bilateral relationship between China and Myanmar negatively. The two countries share a common border that is over 2,200 kilometers long which requires constant diplomatic negotiations. The relentless demand for timber and jade from Myanmar by Chinese companies and the human and drug trafficking occurring between the countries also has an adverse impact on their relationship.

*Location of the port in Kyaukphyu in Myanmar*

Additionally, ethnic insurgency especially that which mainly stems from the northern Shan and Kachin states, also tends to have a Chinese angle. Some of the insurgent groups such as the Wa and the Kokang, are of ethnic Chinese origin and often look towards China to advocate in their favor. While the government of China has always articulated support for the Nationwide Ceasefire Agreement of Myanmar that was initiated by the Thein Sein government in October 2015, it has also shown a keen interest in regular consultations with the Northern Alliance that brings together seven of these insurgent groups.

Myanmar-China relations stabilized when the former became subject to international sanctions. From 1990 to 2010, China became one of Myanmar's closest allies. That relationship deteriorated slightly after the gradual lifting of sanctions from 2011 onwards. After the latest insurgency and the resulting refugee exodus to Bangladesh following the military's clearance of the Arakan Rohingya Salvation Army (ARSA),

the West has again criticized Myanmar heavily in international fora. Thus, they motivated the two countries to reestablish their former, closer relationship.

## Chinese investments in Thailand

Chinese infrastructure developments in Thailand are part of the Southeast Asian Belt and Road Initiative. Thailand is part of the rail network that is supposed to link it to Kunming along the way passing through the Laos border town Boten and Vientiane in Cambodia.

The northern part of the line running through Laos has been under construction since 2016, while work on the line from Vientiane to Nakhon Ratchasima in Thailand has not yet started. The Chinese plan is to connect Nakhon Ratchasima to Bangkok and then integrate it into the Malaysian rail network all the way to Singapore in the south. General Prayuth Chan-ocha used his executive power to approve the project in December 2017 bypassing various local regulations that would have gotten in the way.

The original Chinese plan was much more ambitious and included linking Nakhon Ratchasima to Nong Khai on the border to Laos. The early plan also called for building a line from Bangkok to Thailand's Eastern Seaboard Development Project (ESDP) and its port city of Map Ta Phut. The new plan therefore consists only of about a third of the original plan. Nevertheless, the implementation has already been delayed several times, mainly because of financing disputes. While Thailand appreciated the Chinese loans to fund the project, it has balked at the high interest rates and offered to put up its own share of the capital. The Lao and Cambodian initiatives are likely to be implemented since China has substantial economic and political leverage over both countries which led them to regard China as a major benefactor. Thailand, on the other hand, has been subjected to a fair amount of political turbulence recently. It remains to be seen how the political process will play itself out and what its impact on bilateral relations with China is going to be.

## Changing regional trade and development

Without doubt China's Belt and Road Initiative and the Asian Infrastructure Investment Bank (AIIB) will have a significant impact on Asia and in particular Southeast Asia. China's willingness to decouple trade and investments from political issues offers the country significant leverage in negotiations with Western countries. Xi Jinping's recently enhanced status in the Communist Party and the removal of term limits to his office also indicates that the policies initiated by his administration can be relied upon for medium and long term planning. Such certainty gives China much leverage to realize its regional ambitions. Southeast Asian countries are for the most part keen to partake in development plans that benefit their countries and people. China's disavowal of support for Communist parties and willingness to conduct regional foreign policy on the basis of mutual benefit and good neighborly relations is also generally appreciated in the region.

## Implications for regional political economy

There are a number of major implications of Chinese infrastructural investments in the region.

- 1) The first of these is that they will bridge the gap between the **mainland and insular regions** that bifurcates Southeast Asia. During the post-war period, Thailand being the most socio-economically developed country in the region and an ally of the United States, has performed a hegemonic role in mainland Southeast Asia. Burmese isolationism under the Ne Win government from 1962 to 1988, the subsequent military government and political turbulence removed it as a major regional player (during the 1950s, Burma was called the "Rice Bowl of Asia" and together with the Philippines was the richest and best developed country in SEA). The situation was similar for Vietnam, Laos and Cambodia who were caught up in the Indochina Wars at least up until 1989. This situation allowed Thailand to seize the opportunity and benefit finan-



cially from the immediate region through economic expansion and hegemony. While Thailand serves as the geographical bridge between the two regions, its focus has always been on the Southeast Asian mainland.

- 2) Conversely, Indonesia has always exerted disproportionate influence on insular Southeast Asia. While it has undergone some major political transitions and is rather less developed in comparison to other countries in the region its size and population have always made Indonesia a country that could not be dismissed easily. Additionally, Indonesia has for a long time been regarded as *primus inter pares* within the regional grouping ASEAN. And unlike Thailand, Indonesia has for the most part focused its political and economic activities on insular Southeast Asia. It has much closer relations with countries in its own backyard like Malaysia and Singapore than countries from mainland Southeast Asia. All countries from the insular region which were integral to ASEAN have close ties to Indonesia.

China's infrastructural investments in the region offer the possibility of overcoming this geographical, historical and structural divide. After all, China's plan is to connect Kunming in the southwest of China all the way to Singapore by rail. While this plan has not succeeded in its entirety thus far, there is certainly the political will on China's part to push it through.

An example of this plan is, other than the East Coast Rail Link (ECRL), the construction of a double tracked rail line from the city of Gemas in Johor to the southernmost city of Johor Bahru. China hopes to later expand it to Singapore. Plans to connect Kuala Lumpur to Singapore by high speed train are already underway and should be implemented within the next decade. It remains to be seen if China wins the tender. Similarly, China has also won itself standalone projects in Indonesia including the rail line from Jakarta to Bandung; however construction is moving slowly on account of land acquisition issues. China also just won a large \$14.5 billion project in March 2018 to build the longest (5.6 kilometers) bridge in North Kalimantan to connect Bulungan to Tarakan.

- 3) China's development of infrastructure in Southeast Asia has attracted the attention of

other major players like Japan. Japan is eager to share its knowledge of high speed rail technology with Southeast Asia and areas beyond. It has already offered to upgrade the rail network in Yangon/Myanmar and is contemplating a rail line from Thilawa to Dawei and on to Thailand along the old Death Railway. That line would also augur the possibility of linking up with Thailand's Eastern Seaboard Development Project from Myanmar's side as well.

Japan is heavily invested in Thailand and particularly in the automobile sector. Therefore, such interconnections could yield strong economic benefits. The country also has influence on Myanmar as it demonstrated both political will and largesse to win over support and reestablish their special relationship. It can summarily be said that Japan is a major competitor to China in the bidding for infrastructure development projects in Southeast Asia.

There is another political angle to the equation. Japan has recently strengthened its relationships with Australia and India, two other regional democracies, possibly closing ranks to ward off Chinese influence in the region. It is a well-known fact that India is not particularly enthused about China's Belt and Road Initiative and in particular its forays into Pakistan and Sri Lanka, which it considers to be well within its strategic and regional interests. Australia continues to perceive China as a threat and has intensified its defense cooperation with the United States as well as India and Japan.

## Conclusion

China's engagement of Southeast Asia through its Belt and Road Initiative and the expansion of its regional presence in Asia provide it with tremendous strategic and economic leverage. Such involvement allows it to diversify its trade and investments and provides access to the Indian Ocean as well as the ability to bypass the Strait of Malacca. There is political will and capital in China to wave this initiative through that has the potential to bridge the historical mainland-insular divide in the region. Its engagement has also attracted countervailing Japanese strategies that seek to include India and Australia at the political level.

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