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# BRI Projects in ASEAN: Implementation, Mechanism and Suggestions

## **BRI Projects in ASEAN: Implementation, Mechanism and Suggestions**

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As a key strategic partner of China, ASEAN is an important participant in the development of the Belt and Road Initiative (BRI). ASEAN has made a commitment to link its Master Plan in the development

In the field of renewable energy, China and Vietnam, Myanmar and Laos have signed multiple agreements on technology transfer in solar power through the China-ASEAN Technology Transfer Center (CATTC). China General Nuclear Power Corporation (CGN) has also signed cooperation agreement with ASEAN Centre for Energy.

### **1.3 Cooperation on infrastructure**

First, the establishment of financing platforms has helped infrastructure connectivity. The Asian Infrastructure Investment Bank and the Silk Road Fund, with an initial capital of USD 50 billion and USD 40 billion respectively, provide long-term and low-cost funding for connectivity of road, rail, shipping, oil and gas pipelines between China and ASEAN.

Second, connectivity of transport infrastructure has made initial progress. The joint venture consortia of China and ASEAN have undertaken a number of major infrastructure projects -Bandung High-speed Railway, the China-Laos Railway, and China-Thailand Railway, etc. The Trans-Asian Railway (TAR) going through Vietnam, Laos, Myanmar and Singapore is also expected to go operational before 2020.

Third, the first phase of the China-ASEAN Investment Cooperation Fund (CAF), with a total investment of USD 10 billion, has been launched. In Cambodia, CAF helps companies with Chinese background adopt Chinese technologies, equipment and management personnel to build optical fiber backbone network and digital television networks for the region. In addition, CAF also partners with domestic enterprises and Cambodian state television to invest .

### **1.4 Cooperation on industrial parks**

By far, China has set up overseas industrial parks in ASEAN countries, which represents a new model of cooperation between China and ASEAN. A total of 8 overseas parks have been established, including Qin Zhou Industrial Park in Guangxi, China and the Kuantan Industrial Park in Malaysia (Two Countries, Twin Parks), Sinothaizone, Sihanoukville Special Economic Zone (SSEZ), Vientiane Saysettha Development Zone (SCDZ), China-Indonesia Economic and Trade Cooperation Zone, Long Jiang Industrial Park in Vietnam, China-Indonesia Morowali Industrial Park, and the China-Indonesia JuLong Agricultural Industry Cooperation Zone.

Established in 2006, Sinothaizone is a modern industrial park developed by Holley Group Co., Ltd. of China and Amata Corp. PCL of Thailand. By the end of 2016, more than 60 companies from China operating in sectors including electronics, machinery, auto parts and home appliances, had settled in, with an output value of USD 3.75 billion and a cumulative tax payment of over USD 70 million to the local government. While Chinese companies have successfully leveraged the advantages of Sinothaizone in transport, policy preferences and infrastructure, Thailand has benefited from job creation, talent cultivation and technology transfer.

## **2. Mechanism of BRI projects in ASEAN**

Chinese governments, state-owned enterprises and private sectors are involved in BRI projects.

### **2.1 Participation of Chinese government in BRI projects in ASEAN**

BRI in ASEAN mainly aims to build a China-ship on overseas projects.

some cooperation mechanisms -level dialogues. These arrangements, along with the China-ASEAN Exposition (CAEXPO) and the China-ASEAN Center, fully demonstrate a comprehensive and multi-level strategic partnership.

The Chinese government has established the China International Development Cooperation Agency (CIDCA) as a direct agency under the State Council, integrating functions related to foreign assistance projects. On the one hand, the new top design is conducive to the funding of overseas projects in line with the implementation of projects under the BRI; on the other, it can facilitate understanding of the development bottlenecks and needs of ASEAN countries, thus creating customized development plans for each of them.

The Chinese government has advocated the Indo-China Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor and constructed cross-border

economic cooperation zones with Vietnam, Laos, and Myanmar to explore a new model of integrated development of border economy. The Chinese government has also transplanted its own experience of establishing special economic zones and international trade and economic cooperation parks to ASEAN countries. At the same time, the Chinese government proposed

USD 10 billion. In 2015, the Chinese government proposed to add another USD 10 billion to

-ASEAN special loan

## **2.2 Participation of state-owned enterprises in BRI projects in ASEAN**

State-owned enterprises, particularly central enterprises, are the main force of BRI projects in ASEAN countries. Many competitive central enterprises have engaged in the projects in the form of engineering contracting, equity investment and joint ventures.

First, many Chinese central enterprises started contracting overseas engineering projects many years ago and have rather mature cooperation model. Construction is usually carried out by a single enterprise and its subsidiaries at home or abroad, or by a consortium formed by several domestic central enterprises, or jointly contracted by domestic and foreign enterprises. Usually, the central enterprises that have won the bid will be responsible for project financing, deliver the project and get return on investment. The Sumsel-1  $2 \times 350$  MW Coal-fired Power Generation Project in Indonesia is an exemplary project of the BRI, with SPIC in charge of general EPC contracting and construction.

Second, in the equity investment mode, central enterprises and their subsidiaries will usually invest in relevant businesses and projects in ASEAN countries through equity investment. Generally, the central enterprises buy the shares of relevant projects or businesses through their head offices, domestic and foreign subsidiaries or equity investment funds. The projects are mostly financed by the main investors themselves, and the income will be distributed according to the proportion of shares held. The China-ASEAN Investment Cooperation Fund is a large equity investment fund and is funded by central enterprises including the Export-Import Bank of China, China Investment Corporation, Bank of China, International Finance Corporation, and China Communications Construction Company Ltd.

Third, single central enterprises or a consortium formed by a number of central enterprises may establish joint ventures with ASEAN countries to carry out investment and cooperation. The advantage of setting up a joint venture is that it can improve adaptability and reduce transaction costs operating in foreign countries. The Chinese consortium led by China Railway Corp. established a Sino-Indonesian joint venture to undertake the construction and operation of the Jakarta-Bandung High-speed Railway Project, with 60% of shares held by Indonesia and 40% by China.

### **2.3 Participation of private enterprises in BRI projects in ASEAN**

The operation mode of private enterprises participating in BRI projects in ASEAN countries mainly includes project contracting, labor cooperation and collective investment in overseas projects through establishing industrial parks.

Private enterprises may cooperate with domestic enterprises to carry out equity investment in projects, set up overseas engineering companies through consortium, or establish joint ventures with overseas enterprises. One of the most popular ways for private enterprises to participate in BRI projects in ASEAN countries is to set up industrial parks, so far, Chinese companies had built 23 overseas cooperation parks in ASEAN countries, attracting 421 Chinese enterprises to settle in, with a total investment of about USD 21.3 billion.

## **3. Challenges for BRI projects**

The major challenges for BRI projects in ASEAN countries mainly include political concerns, inconsistent standards and difference in business environment.

### **3.1 Political concerns**

Some ASEAN countries are ambivalent about the BRI project. On the one hand, they support China's opening-up in ASEAN countries and China's continued effort in opening-up, affirming its positive impact and hoping to obtain more funding and technology from China and export their domestic products to huge Chinese market. On the other hand, they worry that the BRI is to export domestic excess capacity and to translate economic clout into political dominance, thus harming their own interests.

### **3.2 Inconsistent standards**

Current inconsistencies in technical standards and norms in infrastructure construction under the framework of the BRI in ASEAN countries can obstruct infrastructure connectivity among ASEAN countries. Therefore, technical standards and norms to some extent are even more important than physical connectivity.

China and many ASEAN countries have adopted markedly different transport technology standards and management systems, which constitutes a major issue in fostering infrastructure connectivity. This has increased the technical difficulty and construction cost of the Trans-Asian Railway in Southeast Asia. At the same time, freight transportation across areas with different gauge standards must go through track adjustment, considerably increasing the time cost.

### **3.3 Differences in business environment**

Currently, there are great disparities among ASEAN countries in economic development and industrial structure, as well as in investment environment and management system. There are also large and various inconsistencies among countries in legislation, market access rules and standards. Certain countries do not have a sound and stable legal system and have relatively high logistics cost, all of which have led to relative unstable business environment and high risks for project development. The situation is further complicated by different languages, customs and religions in ASEAN member states, all presenting difficulties for the investment and operation Chinese businesses.

## **4. Suggestions**

To promote the BRI cooperation between China and ASEAN countries, here are some suggestions:

### **4.1 To enhance mutual trust**

China and ASEAN countries should improve policy communication and strategic alignment, enhance bilateral mutual trust, and bring together main stakeholders to move these projects forward.

In response to the concerns of some ASEAN countries about the BRI, we shall promote in-depth alignment between the BRI and the development strategies of ASEAN countries,

-Development



The focus of cooperation with ASEAN countries in the early stage of industrialization is as cheap labor and land, and to help ASEAN countries industrialize; China can import from these countries much-needed energies and primary products. In contrast, cooperation with countries in their late stage of industrialization, such as Singapore, should focus on research and development, design and management of high-tech products.