

**WINNING WITHOUT WARRING?: THE GEOSTRATEGIC
IMPLICATIONS OF CHINA'S FOREIGN DIRECT INVESTMENTS ON
SOUTHEAST ASIA AND SOUTH CHINA SEA SOVEREIGNTY
DISPUTES**

by
Paul J. Lyons

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Abstract

Convention holds that China's deepening investments and growing trade imbalances in Southeast Asian countries has increased regional economic dependency on China. Less clear is whether increased Chinese investments have softened Southeast Asia's positions toward China in general, and specifically, on South China Sea (SCS) sovereignty disputes. Through qualitative and quantitative analysis of China's Belt Road Initiative (BRI) and Outward Foreign Direct Investment (OFDI), this thesis examines whether a correlation exists between China's investments in key Southeast Asia states and achieving a favorable, China-advantaged position on both.

China's investments in Southeast Asia have transformed from securing energy and mineral resources prior to the Global Financial Crisis (GFC), to focused infrastructure investments post-GFC. This shift is emblematic of China's imperative to export industrial overcapacity and to leverage vast foreign currency reserves to satiate structural economic inefficiencies. This manifested in quantum BRI and OFDI expenditures to the region - and in mutual, economic dependencies between China and the Association of Southeast Asian Nations (ASEAN).

However, these investments have not been uniformly embraced across states, nor across domestic political power lines; pitting central government zeal for politico-economic rent seeking against provincial and local power brokers who are crowded out of the inclusive economic benefits of private sector participation, labor, and revenue generation. This dichotomy cross-cuts the notion that China's flood of regional investments yields preferential advantage with recipient states and mollifies SCS sovereignty disputes. In fact, the reverse is true. China's unilateral action on bilateral SCS issues further

emboldens sub-national political opposition who view national-level, elite leaders' embrace of China's economic incentives as non-equitable and high risk.

China's BRI and OFDI serve only as a veneer to the underlying complexity that juxtaposes regional states' economic development and national security as they relate bilaterally to China. China's SCS assertiveness is countervailing its economic carrots - and steeling regional states against firmly bandwagoning to China's orbit.

Thesis Committee

Committee Chair - Dr. Ho-fung Hung

Henry M. & Elizabeth P. Wiesenfeld Professor in Political Economy and Chair, Dept. of Sociology, Johns Hopkins University

Committee Advisor - Dr. David Bulman

Jill McGovern and Steven Muller Assistant Professor of China Studies and International Affairs at the Johns Hopkins School of Advanced International Studies (SAIS)

Committee Advisor - Dr. Carla Freeman

Executive Director of the SAIS Foreign Policy Institute (FPI) and Associate Research Professor of China Studies

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Introduction

Most prominently, America has long viewed the South China Sea (SCS) as a balance of power issue between it and China. Accordingly, most policy prescriptions center on solutions such as the demonstration of naval power and associated Freedom of Navigation Operations (FONOPS) that get at the issues on the surface such as sovereignty and territorial integrity claims. Yet, what these geostrategic policy prescriptions discount is the undercurrent that the political economy of Southeast Asia plays in determining the outcome of the SCS in an era of Great Power Competition. Beneath the competition of sovereign claims for islands and features in the SCS rests an economic contest of persuasion and influence - one that China is leveraging to the full extent of its national power.

If strategic dilemmas continue to look one dimensional, they will be viewed through insufficient lenses and treated with stove-piped solutions, bereft of the consideration, depth, and scale they deserve. Such is the case with the United States and the SCS. As the Department of Defense (DoD) dutifully continues to work on campaign plans and Joint force solutions to China's militarization of islands and features under contested claims, these solutions ignore China's economic statecraft at play in Southeast Asia and its implications to regional states' positions on the SCS.

The heft of the SCS on a day to day basis is the flow of goods, global goods, that fuel markets from the Middle East, to Shanghai, to Seoul, to Sydney, and to Big Sur. It is that geography and the political economy of the Association of Southeast Asian Nations (ASEAN) that warrant diplomatic and economic prime movers, first, as precursors and

complements to military-centric solutions if necessary. Simply, if you get the former right, the latter is pro forma. China learned this long ago.

As the keystone waterway between four of the world's top five economies, the connective tissue between China's "Two Ocean" and "Maritime Silk Road" strategy, the centerpiece to the US and Japan's vision of a Free and Open Indo-Pacific (FOIP), and the pathway for India's "Look East" policy, the political economy of the ASEAN region is a heavy weight in the regional balance of power contest. But that contest is not just beginning as some within the "Great Power Competition" community have heralded. As America awakens to the realities and contours of what Great Power Competition with China looks like, the first chapter of that contest is already being fought - in Beijing and within the capitals of ASEAN.

In 2013, during speeches in Kazakhstan, and Indonesia, President Xi Jinping unveiled China's grand design for sustaining its economic growth and fostering cooperative relations with its neighboring states through massive infrastructure investments and development: the One Belt One Road (OBOR) initiative. OBOR telegraphs Chinese economic expansion across Eurasia through the construction of massive infrastructure projects over both land-based and maritime routes. China's State Council, in 2015, rebranded OBOR to the Belt Road Initiative (BRI) to appear more inclusive and to represent the dual nature of BRI - having an overland silk route and a maritime silk route. On its face, BRI, as billed, appears to be a "win-win" for China and client states in search for infrastructure development to spur domestic employment and gain transport efficiencies for their economies. A sign of BRI's importance to China and to the success

of the CCP, China incorporated the principles of BRI into the CCP's charter at the 19th Party Congress in 2017.

Under the leadership of President Xi Jinping, China began pursuing its economic agenda in the South China Sea region while offering enticements from the Chinese-led Asian Infrastructure and Investment Bank (AIIB) to the Association of Southeast Asian Nations' (ASEAN) member-states to finance their infrastructure development and to promote China-ASEAN economic interconnectivity. In 2013, during the 10th China-ASEAN Expo Meeting in Nanning, Guangxi, China, Prime Minister Li Keqiang proposed a "Diamond Decade" with ASEAN to establish an upgraded China-ASEAN Free Trade Area (ACFTA) and to connect China and the Southeast Asia through road, rail, water, air, telecommunications, and energy.

In October 2014, in his speech before the Indonesian Parliament, President Xi Jinping proposed the formation of a China-ASEAN community with a common destiny that will eventually provide a new blueprint for a new twenty-first century maritime silk road. Specifically, he further promoted the idea of AIIB financing China-ASEAN infrastructure connectivity. He also suggested an AIIB-funded maritime silk road with port facilities. By launching these initiatives, China is advancing a new agenda for China-ASEAN relations that involve familiar themes of closer economic, social, diplomatic, cultural, and security ties - without making any compromise on disputes within the South China Sea.

Demonstrably, China's grand design in Southeast Asia employs BRI as a tool for economic integration and economic accumulation. But larger questions loom, questions that center on economic influence, political influence, and how those may have

implications to the resolution of SCS territorial disputes - for China, for the U.S. and for ASEAN.

Research Question

To answer whether there is a causal relationship between the magnitude of China's BRI and FDI initiatives in Southeast Asia and alterations in regional states' positions on SCS sovereignty, this thesis will compare and contrast the case studies of four Southeast Asian states within ASEAN - Indonesia, Malaysia, the Philippines, and Vietnam - all states with a sovereignty interest in the SCS. Is BRI and FDI uniformly affecting states' positions or are there substantive differences and factors between states? If so, what are the potential reasons driving these uniform or disparate outcomes?

Research Design and Method

Accordingly, the following two hypotheses will be explored:

1. China's economic development projects influence recipient nation's political and corporate elite to alter government positions and perceptions toward China - and to a more favorable position for China on bilateral, disputed, SCS sovereignty claims.
2. Economic dependencies are only one variable. Other interests may alter government positions on the SCS such as national security, domestic politics, and/or parliamentary interests.

The thesis will test the hypotheses by evaluating the case studies detailed in Table 1. Indonesia, Malaysia, the Philippines, and Vietnam were chosen due to their sovereign interests in the SCS and because they have BRI projects ongoing. Taiwan, who equally has sovereign interests in the SCS, was not chosen due to the complexities of the One-China policy and has no active BRI or FDI projects in execution. The specific lead firms were selected because they are the designated lead construction, development, or coordination entity for each of the marquis and high dollar value BRI projects ongoing by China in each country. In most cases, they have a codified joint venture or are involved through a public-private-partnership (PPP) with a lead Chinese firm - an SOE in most cases.

The following specific cases will be examined, compared, and contrasted:

Country	Project	Recipient Nation Lead Firm
Indonesia	Jakarta-Bandung Railway	Kereta Cepat Indonesia China (KCIC)
Malaysia	East Coast Railway	Suruhanjaya Pengangkutan Awam Darat (SPAD)
Philippines	Bicol South Rail Project (BSRP)	Philippines' Department of Transportation (DOTr)
Vietnam	Hanoi Metro Line 2A	Hanoi People's Committee

Table (1) - Case Studies by Project and Lead Firm

Methodologically, as a means to determine causal relationships (if any), the research will explore BRI and OFDI funding over time as well as bilateral and domestic political dynamics associated with hallmark, large dollar development projects to identify what factors shape developmental investments. In addition, investment data will be examined to determine if China's BRI and OFDI target different economic sectors of recipient

nations across two disparate timeframes - pre-Global Financial Crisis and post-Global Financial Crisis to identify if exogenous variables such as industrial overcapacity influence OFDI changes in recipient nations. Lastly, the research will attempt to identify if BRI/OFDI demonstrably influence perceptions of China and whether that corresponds to a recipient nation modifying its sovereignty claims to SCS territorial disputes with China.

Methodologically, the thesis is divided into thematic chapters that provide important macroeconomic, geo-political, and geostrategic perspectives that are intrinsic to the examination of China's economic and major infrastructure initiatives in Southeast Asia. Chapter 1, Internal Development Through External Integration, details the parallel evolution of China's internal development and engagement strategy. It highlights China's leading role in spreading communism throughout Southeast Asia and the importance of the region economically and in security terms to China's prominence relative to great powers post-1949. Southeast Asia's importance to China now is perhaps greater than it has ever been due to the economic growth and opportunity of the region, situated at the nexus of security interests and influence between today's great powers.

Chapter 2, The Policy and Diplomatic Imperative of China's OFDI and BRI, provides a primer on BRI as well as exposure to the state-led nature and intra-state coordinating mechanisms that produce policy and implementation priorities to BRI. While China is a highly decentralized country, national priorities unquestionably rest within the purview of the State Council and the Party. This Chapter makes the case that BRI is a national priority and keystone of CCP performance - not a byproduct of China's multinational corporations or State-owned Enterprises (SOE). While those entities capitalize on BRI, they are not its central genesis. To that end, Chapter 3, The Economic Impetus -

Exporting Excess Capacity, examines the notion that excess, domestic, industrial capacity is a core driver behind the CCP's decision to embark on BRI as a means to employ SOEs, preserve labor capital, and protect vital, provincial and local tax revenues. It examines primary and secondary source economic databases to determine whether there is a fundamental shift in OFDI from energy commodities investments to industrial activity pre- and post-Global Financial Crisis - as bellwethers for excess industrial capacity being exported due to structural economic pressures.

Chapter 4, Regional Case Studies - Mapping BRI/OFDI Investment Patterns, looks at select, major infrastructure (rail) projects in the four countries of interest to determine what factors led these states to embrace China's economic initiatives (and incentives) over other multilateral or other sovereign development donors. The chapter extracts whether or not there is uniformity in how or why states elect to receive China's development loans. Capacity and capability are certainly a factor. But what role do state's own development strategy and foreign policy play? To determine the impact that factor has in a recipient state's calculus, Chapter 5, Investments for Influence - Four Case Studies/Survey Results, utilizes an anonymous survey to U.S. and regional think tanks and academics to gain insight into perceptions on BRI's impetus, influence, and potential impact on SCS sovereignty disputes with China. Centrally, it aims to shed light on whether BRI has soft power effects within recipient nations.

Chapter 6, Investments Versus South China Sea Territorial Disputes, explores the thread on soft power more distinctly; deriving whether increasing levels of OFDI/BRI to a recipient state has a second order benefit for China on mollifying bilateral, territorial issues in the SCS. Lastly, Chapter 7, Conclusions and Policy Recommendations, folds key

findings and insights with actionable, policy recommendations for U.S. policy makers to demonstrate U.S. resolve in Southeast Asia and leverage U.S. economic and developmental investments in this critical region through transparency, incentives, and values-based initiatives.

Background

Since 1949 and its first Five Year Plan, the Chinese Communist Party (CCP) has prioritized economic growth as the keystone to its transformation from an agrarian, peasant-based, command/planned economy to an industrialized, mixed-market socialist economy. This long-view economic focus has, through successive Five Year Plans and disparate CCP leadership, spring-boarded China from lower income status by World Bank Gross Domestic Product per capita thresholds, to the world's second largest Gross Domestic Product (GDP) in nominal terms. Since Deng Xiaoping's Reform and Opening in 1978 following President Nixon's overture in 1972 for China to integrate with the greater global economy, China's economic achievements over the course of five decades is unparalleled in the course of human history. Commonly referred to as the "China Miracle"¹ China's GDP growth rates have surpassed those of the United States year on year since 1979; eclipsing the United States in GDP purchasing power parity (PPP) in 2014.

The consequences of that economic achievement are vast but most notably China's GDP rise is elevating China's standard of living onto the plateau of the World Bank's "Upper Middle Class" income status. That prosperity, coupled with national GDP growth targets,

¹ A wealth of writing has been done on the explosion of China's GDP growth since adopting economic reforms in 1979 and accentuated post-ascension into the WTO in 2001, commonly referred to as the "China Miracle"

is a byproduct of three factors – ascension into the World Trade Organization (WTO), structural economic reforms to embrace a mixed-market socialist economy, and a corresponding shift from an agrarian-based economy to an investment-led economic model characterized by rapid industrialization, urbanization, land reforms, and export-driven growth.

Export-driven growth and industrialization will be the first point of departure for this thesis as it explores China’s geo-economic interdependencies with ASEAN; cementing ASEAN as its third largest trading partner behind the US and the EU, and positioning ASEAN, in its “Intermediate Zone” or near abroad, as a buffer to western influence. It is from this demarcation, that the thesis will explore China’s ability to make inroads in supplanting the influence of former colonialist powers and the Washington Consensus on ASEAN, the region with the second largest GDP growth rates in the world over the last 10 years².

With a projected annual growth rate of over 5.5% per year, ASEAN is forecast to overtake the EU and Japan to become the fourth largest economy in the world by 2050, behind China, India, and the United States. This projected growth is supported by favorable demographics. Over 380 million people are under age 35 in ASEAN (58% of the population), roughly 20% larger than the entire population of the United States. ASEAN also has the world’s 3rd largest labor force, trailing only China and India. ASEAN's middle class* is expected to more than double in size from 135 million (24% of ASEAN's population) to 334 million (51% of the population) by 2030, with nearly 70% of ASEAN’s population expected to live in urban areas by 2050.³

² International Monetary Fund, World Economic Outlook 2019, www.imf.org

³ <https://www.usasean.org/why-asean/growth>

In-stride with double digit economic gains following ascension into the WTO, China seized the opportunities presented by the 2008 Global Financial Crisis (GFC), a crisis that exposed deep structural fissures within the global economy, to stem global contagion and become the global lender of last resort. Through nearly \$586B of stimulus to its own economy and lending to central banks, China raised its economic prestige and clout on the international scene.

Five years on, when China was showing signs that it was approaching the frontier of its investment-led economic growth model due to positive, yet declining GDP growth rates, China exported excess industrial overcapacity through its marquis Belt Road Initiative (BRI) to limit capital accumulation loss. BRI would reincarnate the prominence of China's Silk Road, but onto the contemporary landscape of Europe, Central Asia, South Asia, Russia, the Middle East, and Southeast Asia.

Supporting China's narrative against the Washington Consensus and western-led institutions originating from Bretton Woods⁴, the Asia Infrastructure Investment Bank (AIIB), China Development Bank (CDB), the Silk Road Fund, and China Export-Import Bank (CHEXIM), among others, offered an alternative to the World Bank, International Monetary Fund (IMF), and the Asia Development Bank (ADB) as China-led investment vehicles to provide development "aid" and Chinese outward foreign direct investments (OFDI). This aid varied in the form of commercial loans, concessionary loans, and to a

⁴ The Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference, was the gathering of 730 delegates from all 44 Allied nations at the Mount Washington Hotel, situated in Bretton Woods to regulate the international monetary and financial order after the conclusion of World War II; establishing the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).

limited degree, grants. In aggregate, BRI afforded China the forum to export domestic, economic overcapacity to ASEAN (and others) brought about by the factors of decreasing GDP growth and misallocation of excess economic stimulus to the industrial sector.

Further, as the U.S. withdrew from the Trans Pacific Partnership (TPP) trade agreement in 2017 that, by design, did not include China, China capitalized on the then nascent ASEAN initiative, Regional Comprehensive Economic Partnership (RCEP). RCEP is ASEAN's initiative to forge a pan-ASEAN free trade agreement with additional membership from Japan, Korea, Australia, New Zealand, and India⁵ was an attractive alternative to the TPP (renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership after the withdrawal of the US by the Trump Administration). RCEP's economic integration will combine nearly 30% of the world's population and 30% of the world's GDP. Additionally, China forged a bevy of bilateral FTAs globally and specifically with ASEAN via the ASEAN-China Free Trade Agreement (ACFTA) in 2010. At the macro level, ASEAN, through the cumulative effects and overlap of ACFTA, CPTPP, and RCEP will broaden its economic exposure collectively over historical, intra-regional trade competition largely driven by resource endowments. On balance, after U.S. economic retrenchment from the TPP and RCEP within the ASEAN/Southeast Asia region, China seized the opportunity that the U.S. presented⁶.

⁵ India opted out of RCEP negotiations in November 2019 due to concerns over domestic sector competitiveness.

⁶ The future success of CPTPP and RCEP are unknown. The emphasis here is that the U.S. elected to withdraw from both the TPP and RCEP negotiations, an opportunity to shape both FTA outcomes, member states, and regional perceptions toward the U.S. and China. No intent here to suggest that withdrawing or electing to not join an FTA is economically limiting. ACFTA has realized ASEAN trade deficits with China year-on-year since ratification.

Literature Review

Literature on BRI is abundantly prevalent both from a primary and secondary source perspective. Literature on economic dependency theory and economic statecraft is relatively straight-forward but, specific to economic statecraft, my research will need to decipher the spectrum of literature that covers the range of statecraft theory across desired and intended outcomes (coercive, non-coercive, etc.). As discussed in the Underlying Theory section, major economic theories on dependency theory, economic statecraft, Soft Power, and Smart Power exist and should dovetail well with the central tenets of exploring the research questions and accompanying hypotheses.

Minus primary sources from China, literature on the origins, intent, and objectives of BRI are not of uniform consensus; running along realist, liberal, and constructivist lines. The thesis will need to expose the divergent perspectives on BRI.

There is a wealth of literature on BRI's and China's employment of economic statecraft to gain economic dependencies (debt trap, checkbook diplomacy, non-concessionary loans), etc. But there is a paucity of literature that provides an analytical framework to assess whether there is a causal relationship between BRI projects and investments and how they may influence government policy - in this case, toward SCS sovereignty. That is the unique contribution of this thesis to the literary landscape on BRI, China's economic designs within ASEAN, and SCS sovereignty issues. Most analyses of economic statecraft owe their origins to the influential work of Hirschman⁷ who first postulates that

⁷ Hirschman, A. O. (1945). *National Power and the Structure of Foreign Trade*. Berkeley: University of California Press.

states can utilize economic instruments to achieve their foreign policy goals vis-a-vis other, usually smaller or poorer states. For instance, Krasner⁸ argues that states pursue power and shape national economies to serve their geopolitical ends. He also illustrates how the structure of international trade is to a great extent determined by the interests and power of large, powerful states aiming to attain national goals and maximize national interests. The work of Baldwin⁹ is noteworthy in this regard for he explains potently how the deployment of economic instruments is informed by foreign policy imperatives as opposed to commercial considerations. This strand of research is valuable for its attention to context, drawing from historical to modern day empirical examples. Nevertheless, such studies have mostly drawn on the examples of wealthy democracies such as transatlantic powers of the United States (US) and the European Union (EU), and instruments based on coercive economic disincentives. The historic, economic, and strategic rise of China underlines the need to shift scholarly attention towards emerging powers such as China, to examine how China is reshaping the contours of the global economic order and challenging the status quo through economic incentives such as outward foreign direct investment (OFDI). While most research to date focuses on the macroeconomic-level, there is insufficient examination of diverse, domestic, economic, and political equities at the micro and regional/provincial level that influence bilateral economic incentives.

Existing literature on China-Malaysia economic ties has covered many of these investment projects. For example, Zhang, Song, and Peng¹⁰ examine recent major

⁸ Krasner, S. D. (1976). State Power and the Structure of International Trade. *World Politics*, 28 (3), 317–347.

⁹ Baldwin, D. (1985). *Economic Statecraft*. Princeton: Princeton University Press.

¹⁰ Zhang, M. (2020). Beyond Infrastructure: Re-thinking China's Foreign Direct Investment in Malaysia. *The Pacific Review*.

infrastructure projects invested by Chinese firms in Malaysia, identify the challenges to such projects, and track the Sino-Malaysian responses to these initiatives. For Chinese firms entering the Malaysian market, more efforts should be made to uphold principles like transparency and accountability, in addition to gaining greater awareness of the commercial laws and socio-economic tradition of the host economy. Comparing the development of the East Coast Rail Link (ECRL) to the Philippines' Bicol South Rail Project and Indonesia's Jakarta-Bandung High-Speed Rail, Camba¹¹ argues that the key variable undergirding all three projects' long term viability is the formation and sustenance of a coalition linking Chinese infrastructure firms to national and local level elites within the host economies. When that coalition unravels, these projects will be delayed or face cancellation in the worst-case scenario.¹² Camba¹³ also exposes the impact of South China Sea disputes on the investment climate within the Philippines, offering insight into the ebbs and flows of Chinese investment. This paper is juxtaposed to Camba's in that it examines whether China's BRI and FDI influences that positive investment climate due to favorable state-to-state relations as a result of foreign investment inflows.

Despite their attention to on-the-ground dynamics, these studies explain little about how large, capital-intensive BRI projects are often driven by geopolitical ambitions at an international level. Analyzing the impact of China's foreign direct investment in the rail sectors sheds light on how and whether effective Chinese economic statecraft has been

¹¹ Camba, A. (2020). *Derailing Development: China's Railway Projects and Financing Coalitions in Indonesia, Malaysia, and the Philippines*. Boston: Global Development Policy Center.

¹² Liu, H., & Lim, G. (2019). The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative. *Journal of Contemporary China*, 28 (116), 216–231.

¹³ Camba, A. (2020). The Sino-centric Capital Export Regime: State-backed and Flexible Capital in the Philippines. *Development and Change*, 51 (4), 970–997.

operationalized for both political, topical (South China Sea disputes), and international dividends.

Within China, the Chinese central state is often assumed, explicitly or implicitly, as the overwhelming and overriding determinant in planning and executing China's economic statecraft. For instance, Callahan¹⁴ claims that China is utilizing new economic policies and institutions to construct a 'new regional order', weaving partner countries into a Sino-centric "community of common destiny". While not denying the powers and influence of China's central authorities, recent research on China's internationalization into Africa by Brautigam¹⁵ demonstrates that the campaign of 'Going Global' is driven significantly by China's provinces, with their own provincial commercial interests, business cultures, and political agenda - to include perpetuating local SOEs for employment and tax revenue benefits.

The bulk of the literature makes a priori assumption of cohesive state-business ties linking Chinese firms (especially SOEs) to China's central government, particularly in the advancement of key projects abroad.¹⁶ In this interpretation, central SOEs, and increasingly provincially and locally-owned SOEs and other industrial players are, in essence, the execution arm of China's central government. However, in practice, coordination between the central and provincial governments in China, combined with

¹⁴ Callahan, W. A. (2016). China's 'Asia Dream': The Belt Road Initiative and the New Regional Order. *Asian Journal of Comparative Politics*, 1 (3), 226–243.

¹⁵ Brautigam, D. (2015). *Will Africa Feed China?* New York: Oxford University Press.

¹⁶ Bremmer, I. (2008). The Return of State Capitalism. *Survival*, 50 (3), 55–64.

decentralization and the complexities of overseas project financing is not hermetically sealed.

China's increasingly pluralized corporate sector also entails that the private sector and sub-national SOEs have emerged as key players in the 'Going Global' and the BRI processes. A prevailing assumption that this research paper opposes is that recipient states acquiesce to China's strategic and economic influence.^{17 18} However, studies have shown that elites of ostensibly small, weak BRI recipient countries have their own political and economic agenda that may not necessarily be in line with Chinese objectives. When divergence emerges, it is often the elites and oligarchs, instead of China's policy interests, that drives outcomes.^{19 20} As such, there is a need to better understand the broader and specific political economic context of recipient economies – which this paper addresses. As raised by Camba, another prominent factor in BRI execution is coalitions; specifically the ability to form financing coalitions and to integrate and engage opposition coalitions to achieve consensus on project participation - thereby removing impediments to execution and momentum.²¹

¹⁷ Sanderson, H. , & Forsythe, M. (2013). *China's Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance*. Singapore

¹⁸ Wang, J. (2013). North, South, East, and West – China is in the 'Middle': A Geostrategic Chessboard. In *China International Strategy Review* (pp. 27–52). Beijing: World Affairs Press.

¹⁹ Kiiik, L. (2016). Nationalism and Anti-ethno-politics: Why 'Chinese Development' Failed at Myanmar's Myitsone Dam. *Eurasian Geography and Economics*, 57 (3), 374–402.

²⁰ Liu, H. , & Lim, G. (2019). The Political Economy of a Rising China in Southeast Asia: Malaysia's Response to the Belt and Road Initiative. *Journal of Contemporary China*, 28 (116), 216–231.

²¹ Camba, A. (2020). *Derailing Development: China's Railway Projects and Financing Coalitions in Indonesia, Malaysia, and the Philippine*. Boston: Global Development Policy Center.

Underlying Theory

This thesis will incorporate the modern theories of economic dependency theory, economic statecraft, and the international relations theories of “Soft Power” and “Smart Power.”

Economic dependency theory can be defined as an explanation of the economic development of a state in terms of external influences such as political, economic, and cultural, on national development policies; limiting development and expansion of their economies. These external forces include multinational corporations, international commodity markets, foreign assistance, and any other means by which advanced industrialized countries can represent their economic interests abroad.

Economic statecraft has a bevy of sub-discipline approaches that center on desired outcomes as one state employs its economic advantage in a coercive or non-coercive manner to achieve desired outcomes with the international system. Prominent theoretical works by David Baldwin explore the coercive intent behind economic relations in the international system. Eugene Staley²² examines how commercial actors are considered in driving strategic outcomes relative to the state. Albert Hirschman luminary work highlights Germany’s trade relations with weaker European states to create structural economic dependencies pre WWII. In addition, supportive work by Susan Strange and Richard Cooper²³ on the constraining nature of economic interdependencies of state’s to achieve economic leverage in the international system will be relevant. Specifically

²² Staley, Eugene, *World Economic Development; Effects on Advanced Industrial Countries*, 1944, Published in *Journal*. Volume 36.

²³ Cooper, Richard N., *Economic Stabilization and Debt in Developing Countries*, MIT Press, 1992

pertinent to this thesis will be William Norris' work²⁴ from Cornell who submits that China's economic statecraft is a key component of its grand strategy due to its ability to employ and control State-owned Enterprises (SOE). Therefore, principal-agent theory will apply as it relates to China as the State and SOEs, hybrid ownership firms, and investment arms such as Asia Infrastructure Investment Bank (AIIB), China Export-Import Bank (CHEXIM), or the China Development Bank (CDB) who execute transactions and produce the work on behalf of the State.

More broadly but applicable to this thesis will be the work by Klaus Knorr, Robert Gilpin, Joseph Nye, and Robert O. Keohane who proffer that modern transnational economic power increases the vulnerability of other economic states in the international systems.

Finally, an appreciation will be given to influential international relations theories of Joseph Nye; specifically "Soft Power"²⁵ and "Smart Power"²⁶ - essentially achieving global outcomes through attraction over hard power. Nye's theory of bargaining ("Soft-Balancing") also applies to China's employment of BRI. As Nye states, "because of the rise in the costs to national governments of "winning" in direct confrontations with transnational actors there are more incentives for bargaining. More relevant than "who wins" direct confrontations are the new kinds of bargains, coalitions, and alliances being formed between transnational actors and between these actors and segments of governments and international organizations."²⁷ In addition, Chen Chwee Kuik's theory

²⁴ Norris, W.J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. (1st ed.). Ithaca: Cornell University Press.

²⁵ Nye, Joseph S. "Soft Power." *Foreign Policy*, no. 80 (1990): 153-71.

²⁶ Nye, Joseph S. "Get Smart: Combining Hard and Soft Power." *Foreign Affairs* 88, no. 4 (2009): 160-63.

²⁷ Nye, Joseph S., and Robert O. Keohane. "Transnational Relations and World Politics: A Conclusion." *International Organization* 25, no. 3 (1971): 721-48.

on hedging behavior²⁸ by ASEAN states toward China will underlie perceptions of state behavior relative to China.

To examine OFDI, the research used empirical data from both primary and secondary sources. The use of primary and secondary sources were complementary as China's Statistical Yearbook Database and Almanac of China's Finance and Banking are not historically consistent, year-on-year, in terms of discrete-level data such as sectoral focus of OFDI by country. China's National Bureau of Statistics and the People's Bank of China were accessed to fill in data gaps as much as possible, especially for 2018 onward. This research does not delve into questions regarding data reliability from China. Generally, secondary sources have corroborated primary source OFDI data. Secondary source data originated, for example, from World Bank, International Monetary Fund and research institutions' databases such as the Peterson Institute for International Economics, Boston University's Global Development Policy Center, William & Mary's AidData, American Enterprise Institute's China Global Investment Tracker, and Fitch Connect. Concerning BRI project execution, primary, periodical sources from Southeast Asia and China were used to ascertain regional and domestic insights.

Central to determining specifics with respect to BRI and OFDI and the intersection of the two in potentially influencing perceptions of a recipient nation is data clarity on BRI itself. There is no single definitive database on BRI projects, loans, funding, etc. that is agreed upon by all parties and the international community. One, because much of the debt

²⁸ Kuik, Cheng-Chwee, *Smaller States' Alignment Choices : A Comparative Study of Malaysia and Singapore's Hedging Behavior in the Face of a Rising China*, Baltimore, Maryland, 2010

vehicle and leverage agreements have confidentiality clauses²⁹ and two, because of the lack of consensus on what development projects or investments fall under the rubric of BRI for political, credit, or multilateral concerns. In some cases, China has subsumed pre-existing development projects that pre-dated BRI into the BRI umbrella.

There is considerable debate and robust literature on BRI as a means for “debt-trap diplomacy.” But that debate lacks specific clarity on the lending terms, conditions, risks, and collateral that China and recipient countries confer to execute BRI and OFDI projects on a grand scale. As such, this research employed a participant survey centered on China’s use of BRI/OFDI in the four case study recipient nations - Indonesia, Malaysia, Philippines, and Vietnam. The objective was to identify perceptions regarding China’s motives for BRI/OFDI investments as well as domestic drivers for recipient nations to embrace these overtures over other, multilateral alternatives. This survey was conducted in lieu of in-person interviews.

Subject to Johns Hopkins University Institutional Review Board (IRB) approval, pre-COVID-19 pandemic, the intent was to travel to Indonesia, Malaysia, and the Philippines to conduct in-person interviews of government officials, former government officials, academics, and prominent think-tank personnel. Vietnam was deemed too restrictive and was removed from interview consideration. With the onset of COVID, the focus shifted to conducting virtual interviews of candidates.³⁰ A precondition to IRB approval was to

²⁹ Anna Gelpern, Sebastian Horn, Scott Morris, Brad Parks, and Christoph Trebesch, How China Lends, A Rare Look into 100 Debt Contracts with Foreign Governments, Peterson Institute of International Economics (PIIE) Working Paper, May 2021. www.piie.com

³⁰ Note - JHU IRB ceased review of human-subject research applications from March until July of 2020 due to COVID-19. This contributed to the determination to execute a non-identifiable, non-human subject research survey of China-focused think tank and academic centers in lieu of present and former government officials. JHU IRB endorsed this approach in light of constraints posed by COVID.

ensure that all case study country laws and regulations regarding research were identified and complied with. Liaison with Indonesian, Malaysian, and Philippine government officials who oversee foreign research interests was conducted to ascertain the feasibility of conducting virtual interviews and whether existing in-person/in-country research requirements were applicable to remote, virtual execution. In the case of Indonesia and Malaysia, in-person/in-country research approval requirements persisted for virtual execution. As these requirements entailed partnering with a host university or research center, fees, letters of academic endorsement, etc., they were deemed as infeasible to conduct the research within the timeframe allotted (one year). As such, a Qualtrics³¹-based survey was executed; centering on Singapore (due to its regional financial, academic, and think tank prominence), Indonesia, Malaysia, Philippines, and U.S.

Pre-selected participants from China-centric universities, think tanks, and research centers were sent a request via email to voluntarily participate in a survey on China's BRI/OFDI and the perceptions associated with impetus and objective. The goal was to employ a cross-section of perspectives from "China hands" from the region and the U.S. as surrogates for government and former government officials. Each was sent an invitation containing an anonymous Qualtrics link to complete the survey. The survey would then be compared to prevailing literature and perspectives to discern any anomalies.

³¹ Qualtrics is a publically accessible survey platform. www.qualtrics.com. JHU holds a full-access account for student use.

Of 150+ intended survey participants from Southeast Asia and the U.S., the response rate was 18%. This is slightly above the notional survey average of 5-15% for random email-initiated, non-incentivized, web-based surveys.³²

³² <https://www.pewresearch.org/methods/u-s-survey-research/our-survey-methodology-in-detail/>

Chapter 1

Sovereign Conundrum: Economic Development Versus South China Sea Territorial Disputes

It is difficult to assert whether one waterway has more importance over another but the South China Sea has history on its side, and the future as its tailwind. While the Strait of Hormuz beckons images of historical conquests by colonial powers, of naval skirmishes over regional influence, and of the monopoly of the Arabian states on the world's oil commodities, the South China Sea is much more. It has served as the primary artery for trans-ocean shipments of energy commodities, global trade, and economic interdependencies between Asia, the Middle East, and North America, as well as the spur to Asia and China's economic ascendance over the last four decades. The South China Sea has been the fulcrum for the rise of the four Asian Tigers³³ and the pathway for China to follow suit. Home to two-thirds of the world's population and three-fifths of the world's most powerful militaries, the South China Sea rests squarely in the center of Asia's "cauldron"³⁴ and in the forefront of a quest for regional influence and power.

As one of the world's most congested waterways, an estimated \$5.3 trillion in ship-borne commerce transits the South China Sea each year (Figure (1)). In addition, it is estimated to contain both proven and probable oil and natural gas reserves on the order of 11 billion barrels of oil and 190 trillion cubic feet of natural gas.³⁵ That is aside from its abundance

³³ Chow, Hwee Kwan. 2010. Asian Tigers' Choices: An Overview. Asian Development Bank. <http://hdl.handle.net/11540/3826>.

³⁴ Attributed to Robert D. Kaplan and the use of this term in his book, *Asia's Cauldron: The South China Sea and the End of a Stable Pacific*, New York, Random House, 2014

³⁵ <https://www.eia.gov/todayinenergy/detail.php?id=10651>

of fishing grounds that foster sources of food and income across the regional economies. Its strategic location and its sea lines of communication to three of the top five economies in the world impart its importance on both a regional and a global scale. Hence, it is a flashpoint from an economic, energy, and diplomatic perspective.

International law and the United Nations Convention on the Law of the Sea (UNCLOS) assert that outside of the recognized territorial sea limit of 12 nautical miles, the world’s waterways are commonly referred to as the “global commons”³⁶, an expanse of ~65%

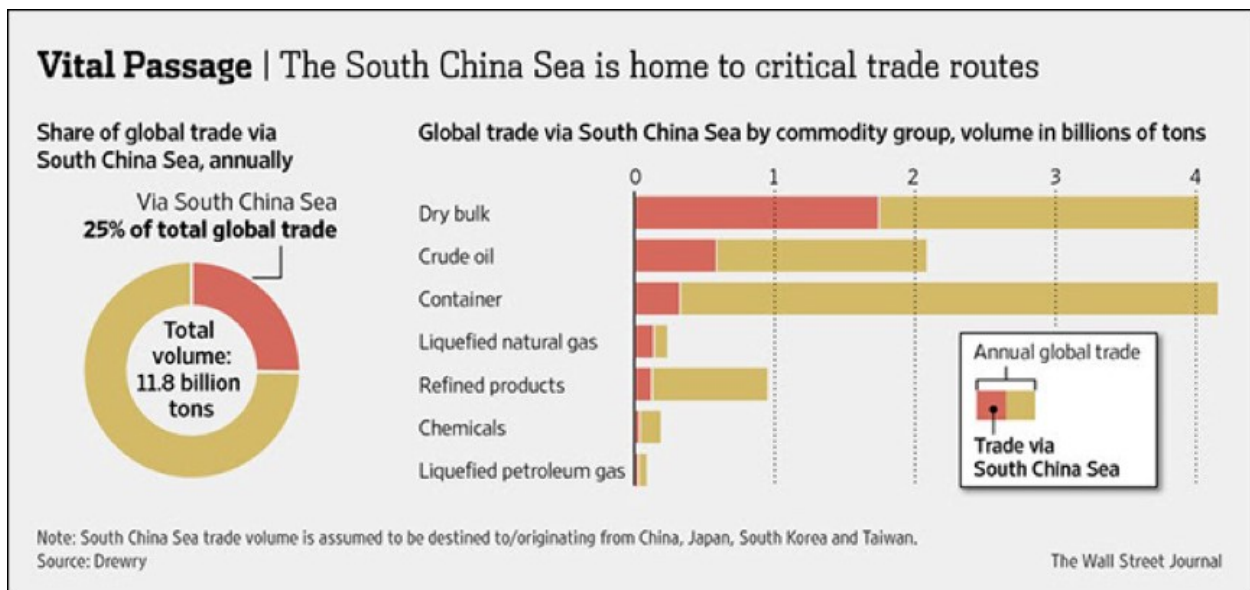


Figure (1) - South China Sea Trade Flows³⁷

of the globe’s surface navigable for global interests - not individual interests. With some restrictions on operations within a nation’s Exclusive Economic Zone (EEZ) (200nm) and contiguous zone (24nm), the world’s “global commons” are viewed holistically as “one ocean with many seas.”³⁸ The assertion by Dai Bingguo in 2009, “then State Councilor

³⁶ <https://stats.oecd.org/glossary/detail.asp?ID=1120>

³⁷ <https://www.wsj.com/articles/competing-stakes-hamper-development-of-south-china-sea-1399996465>

³⁸ <https://oceanservice.noaa.gov/facts/howmanyoceans.html>

for Foreign Affairs, that for China, core interests are those that touch upon how the state is governed: i.e., the continued rule of the Chinese Communist Party, issues of territorial integrity and national sovereignty, and the ability of the PRC to develop its economy and society. Some Chinese and American analysts question whether the Chinese specifically used the term “core interest” in connection with the South China Sea, but China’s behavior suggests that it views the region as, in fact, a core interest.”³⁹

This has upended any notion that the South China Sea is global, free, or united for the communication of sea going goods and services. China’s “Nine-Dash Line”⁴⁰ and sovereign claims on reefs and maritime features under competing territorial claims by regional states has, in addition, raised the stakes on the South China Sea’s importance - and its implications to regional energy security. As the inter- and intra-Asia loci for the flow of vital, global trade, any disruption to its role as a “sea line of communication” (SLOC) will have dire effects on Asia’s and the global energy supply, and more broadly, to Asia’s continued epic rise in GDP growth.

The dynamics of the South China Sea in terms of energy, trade, and national security are much greater than one nation. To the southern, eastern, and western expanses of the South China Sea, the economic prosperity and livelihood of ASEAN play a significant factor in the “taffy pull” between the South China Sea functioning as a “global common” over a “core interest” for a single nation. As with China, ASEAN has, since its formation in 1967, realized collective economic gains as its focus on unity eroded decades of

³⁹ Cheng, Dean, How China Views the South China Sea: As Sovereign Territory, National Interest, November 4, 2015

⁴⁰ Beech, Hannah, and Yang Siqi. “Just Where Exactly Did China Get the South China Sea Nine-Dash Line From?” Time.com, July 19, 2016, p.1

distrust and division. ASEAN’s economic growth over the time period invigorated inter- and intra-ASEAN trade that girded ASEAN’s per capita and regional GDP into one of the world’s strongest regional GDP growth rates over the last 10 years.

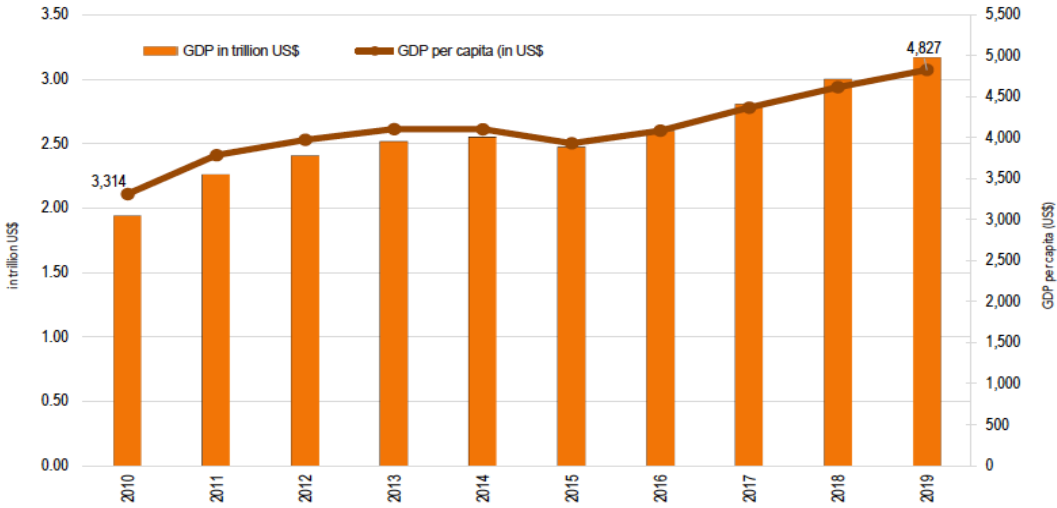


Figure (2) - ASEAN GDP Growth⁴¹

Like China, that explosive growth led to proportional demand for the flow of goods and resources to sustain economic development. Even nations like Indonesia, Southeast Asia’s largest producer and exporter of coal, became an energy importer⁴² to satisfy population growth demands and incorporation of a growing middle class requiring increased electricity, internet, housing, and transportation.

Another factor in the South China Sea real estate panoramic is East Asia. Specifically, Japan, South Korea, and Taiwan have a formidable stake in the free communication of trade resources in and through the South China Sea. For example, as Figures (3) and (4) illustrate, all three countries are heavily dependent on energy commodities from the

⁴¹ ASEAN Statistical Yearbook 2020, www.asean.org

⁴² <https://www.eia.gov/todayinenergy/detail.php?id=23352>

Middle East, Australia, and Southeast Asia. With a paucity of domestic energy resources, the vitality of their economies rely upon the energy lifeline provided by the South China Sea.

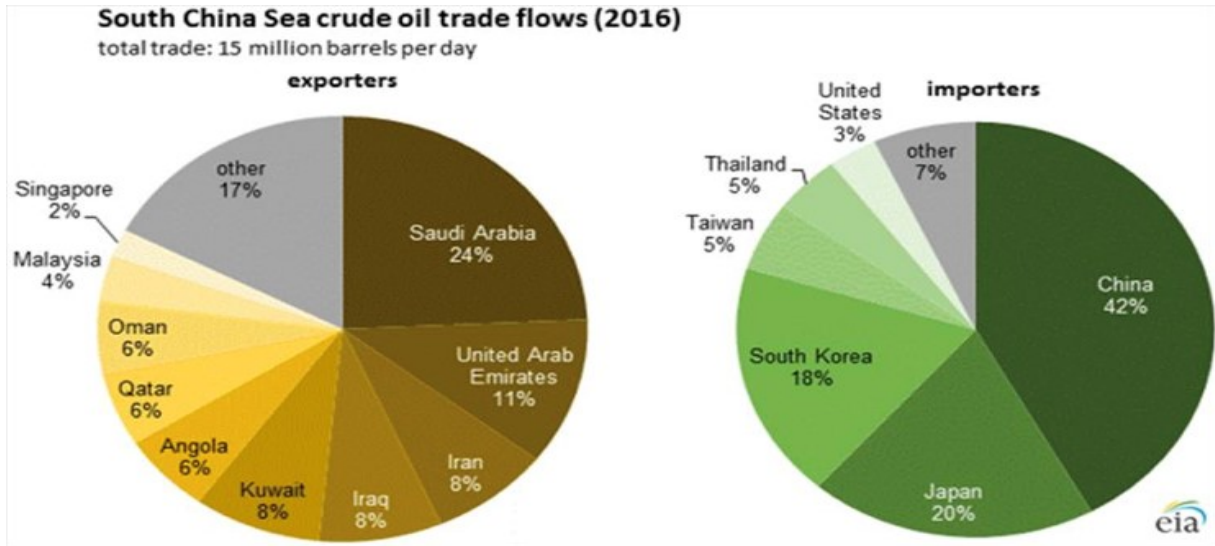


Figure (3) - South China Sea Oil Shipments⁴³

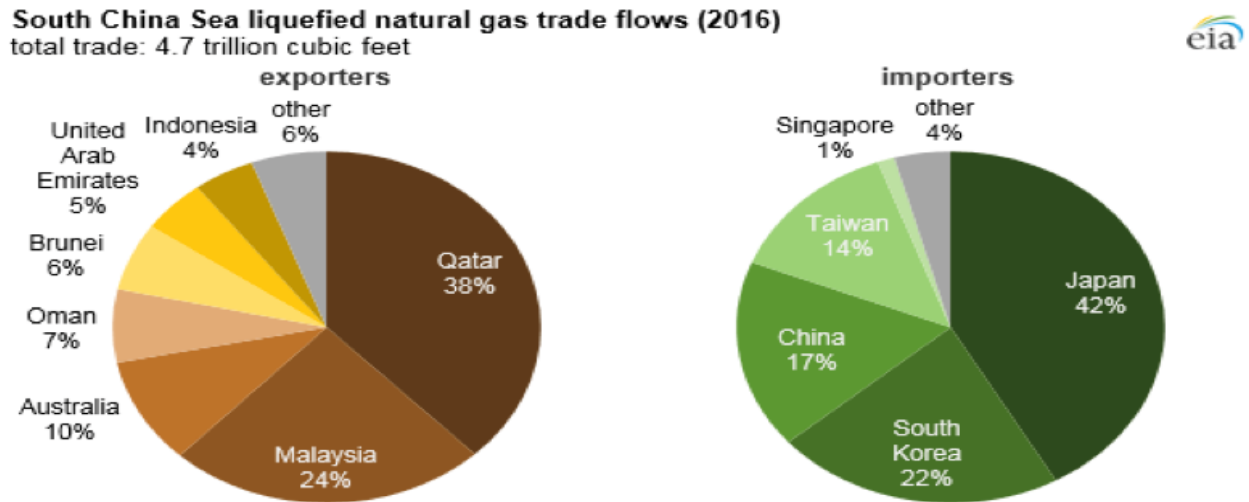


Figure (4) - South China Sea LNG Shipments⁴⁴

⁴³ <https://www.eia.gov/todayinenergy/detail.php?id=36952>

⁴⁴ U.S. Energy Information Administration World Energy 2017

Law versus Lawfare

The South China Sea is a global pathway for vital trade, energy, and resources to fuel the economies of Asia - collectively - and for the greater global marketplace that is underpinned by the free communication of goods via the “global commons.” But the South China Sea has long been the epicenter for disharmony and contention between regional states - over historical claims, over bounds of sovereignty, over empirical evidence, and over revisionist and revanchist history. Those factors dot the current template of tensions within the South China Sea.

The sovereignty disputes among Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam, while prominently showcased today, are a vestige of the ebbs and flows of history within the South China Sea region. An examination of the competing claims is warranted to underscore the complexity of the issue and the macramé of undercurrents that co-exist beneath the free trade agreements, BRI, the panoply of bilateral OFDI expended by China, and the resource trades ongoing amongst all participants in the South China Sea region. In concert with the framework of this research, the claims of China, Indonesia, Malaysia, Philippines, and Vietnam will be examined, culminating in an assessment of whether economic integration and dependency led a state toward an accommodation approach in response to China’s assertiveness territorial claims under contention.

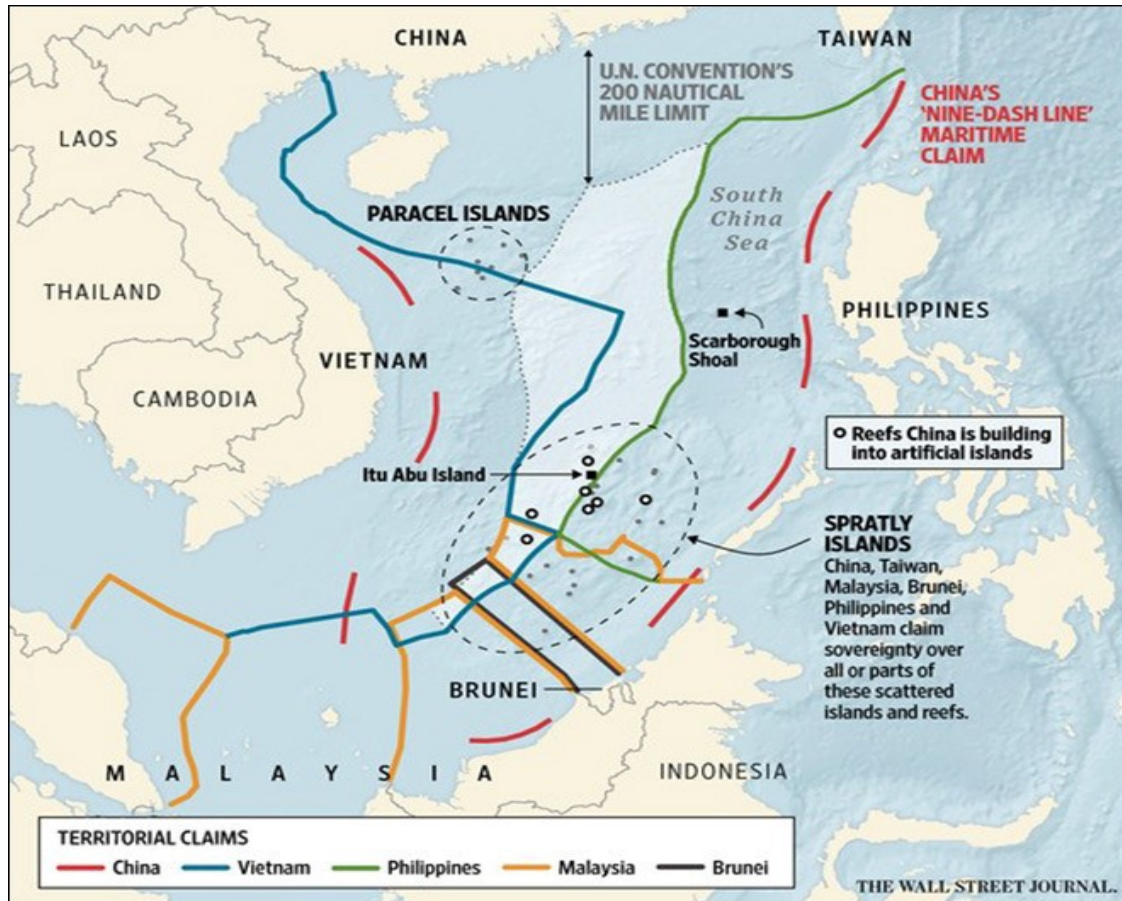


Figure (5) - Overlapping Interests and Territorial Claims in the South China Sea⁴⁵

Contested Waters - Competing Claims

The South China Sea has more at stake than vital shipping lanes and key choke points. It is also about what's below the surface in terms of oil, gas, hydrocarbons, and fishing stocks and what's on the surface in terms of features and land masses. Summarily, this chapter will avoid dissecting the legal basis and ramifications of the features in terms of their composition and characteristics from a legal lens. The seminal point here is that the

⁴⁵<https://www.wsj.com/articles/u-s-set-to-reject-certain-chinese-maritime-claims-in-south-china-sea-11594661229>

sea in the South China Sea territorial debate is actually a secondary concern. The matter of utmost primacy is the “land” itself - above and below the sea.

Custody of land in the SCS through permissive appropriation, non-permissive conquest, historical basis, or opportunism, has been the sport of Southeast Asia since the tributary system. It has involved all regional states that border the SCS, China, East Asian states, and pre- and post-colonial foreign powers. In the modern era, custody provides agency for claims to probable energy and fishing resources, territorial seas around each land feature, and extending Exclusive Economic Zone (EEZ) boundaries greater than the customary 200 nautical miles (nm) from their territorial seas. For all claimants levying claims to SCS land features, the claims signify sovereign rights over the features themselves, the territorial seas (TTS) out to 12nm, and exclusive rights to the seabed and water column out to that limit. Aggregate that across “straight baselines”, each claimant state, by extension, would be permitted to enlarge existing EEZs.

For China, asserting sovereign rights to a majority of the land features would, by international law, provide China, under the *jus cogens* principle of international law, the authority to expand their EEZ into the SCS and secure exclusive economic rights to sea space and territorial seas that do not overlap other states’ exclusive rights. The key distinction here is exclusive economic rights within EEZs - not possessing sovereign rights (the authority to exclude foreign access via “innocent passage” or “transit passage).”

The legal, in force, binding instrument for delimiting sovereignty (EEZ, TTS, access, use, etc.) and rights at sea is the United Nations Convention on the Law of the Sea (UNCLOS)

signed in 1982. For energy and resource-seeking states of the region, securing (or asserting) sovereign and exclusive rights to land features realizes an expansion of their EEZ, TTS around the land features themselves, and greater economic dividends from exclusive economic rights within an expanded EEZ. In addition, an enlarged EEZ and accumulated sovereignty over land features provides greater power projection within the region. As witnessed by China's reclamation and militarization of features under claims of sovereignty, the island also provides greater operational reach, surveillance capability, and anti-access capability.

For the general purpose to illustrate competing claims, there are six regional claimants to SCS territorial claims. China and Taiwan claim a broad region of the SCS that includes the Spratly and Paracel archipelagos. China's "Nine Dash Line" and Taiwan's "Eleven Dash Line" (Figures (6) and (7)) only differ by an agreement that China made with Vietnam, post 1949, on sovereignty of islands west of Hainan Island in the Gulf of Tonkin. Previously, before the KMT lost mainland China and fled to Taiwan, the KMT published an "Eleven Dash Line" claiming sovereignty on nearly the entire SCS. Ultimately, the KMT maintained this position in Taiwan and did not recognize the agreement between China and Vietnam.

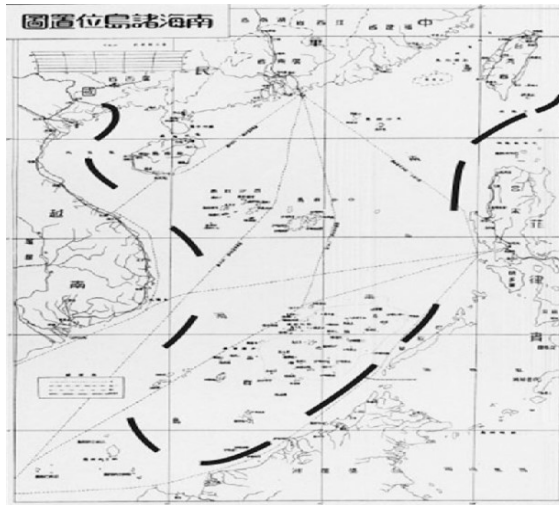


Figure (6) - China's Civil War Eleven-Dash Claim to the SCS⁴⁶

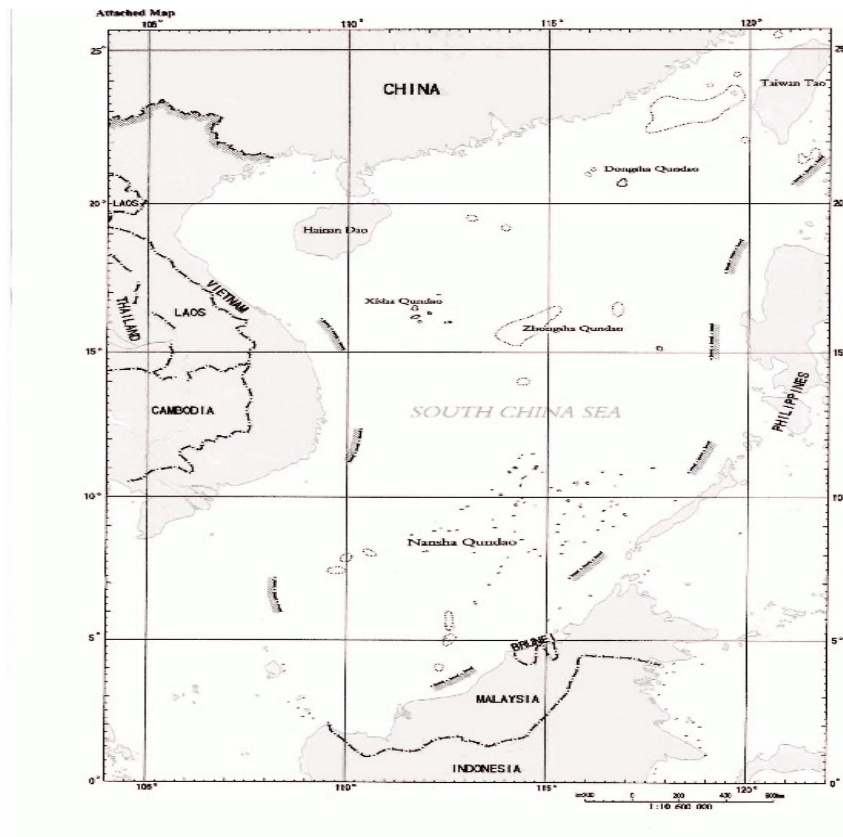


Figure (7) - China's Nine-Dash Line Claim to the SCS⁴⁷

The Philippines claims Scarborough Reef to the northwest of Luzon and the eastern approaches of the SCS that comprise the majority of the Spratly Island chain. The Philippines occupy nine land features. Equally, Malaysia claims 11 features in the southern portion of the Spratly Islands - eight which it occupies and three that are occupied by the Philippines and Vietnam - as well as the entirety of the Luconia Shoals and James Shoal. Malaysia, as the second-largest oil and natural gas producer in Southeast Asia and the third-largest LNG exporter in the world, has a vital interest in the oil and gas resources located within its EEZ - and within China's Nine-Dash Line (Figure (8)). Malaysia also relies on the vital sea communication link between peninsula Malaysia and its territory on the Borneo peninsula.



Figure (8) - Overview of Oil and LNG Reserves - South China Sea⁴⁸

While Brunei has adopted an appeasement policy, Malaysia has adopted a prudent approach that calls for resolution of the disputes in accordance with international law and

⁴⁶ Hossain, Kamrul. (2013). The UNCLOS and the US-China Hegemonic Competition over the South China Sea. *Journal of East Asia and International Law*. p.6.

⁴⁷ Yeoh, Emile. (2014). Emile Kok-Kheng Yeoh (2014), "The Quarter-Century Legacy of June Fourth: Prospects and Challenges in the Struggle of Post-1989 Dissent and Nonviolent Action in the People's Republic of China", *International Journal of China Studies*, Vol. 5, No. 2, pp. 453-553.

⁴⁸ Pratinashree Basu, "High Tide in the South China Sea: Why the Maritime Rules-Based Order is Consequential", ORF Issue Brief No. 325, November 2019, Observer Research Foundation.

UNCLOS. Accordingly, in 2009, “Malaysia and Vietnam made a joint submission to the UN’s Commission on the Limits of the Continental Shelf for an extended continental shelf that covers the seabed between Vietnam and the Malaysian states of Sarawak and Sabah, to which China responded furiously. In its protest submitted to the UN secretary-general, China stated that the joint submission violated China’s sovereignty rights and jurisdiction.”⁴⁹ The moderating voice of Malaysia following China’s forcible take-over of Mischief Reef from the Philippines in 1995 is reflective of its position to not escalate tensions but it is also a symptom of the “ASEAN way” failing to address substantive security and sovereignty issues affecting ASEAN nations.

Brunei claims the Louisa Reef (under Malaysian occupation) and the Rifleman Bank (under Vietnamese occupation). Vietnam occupies 27 features in the Spratlys. All of the aforementioned land features fall within the China-Taiwan Nine and Eleven Dash Line claims. Brunei does not occupy any of its (or others’) claims.

While Indonesia’s principal claim within the South China Sea is its Natuna Islands that fall outside of the Nine-Dash Line, I mention Indonesia because it has been forehanded and vocal in preventing China’s maritime influence “mission creep” from effecting its sovereign interests. One, Indonesia sees itself, as the largest nation in ASEAN, as a counterweight to China due to its history of non-alignment. Two, it sees ASEAN’s response to China as being ineffective and inconsistent with the magnitude of the issue. This has led to forcible efforts to repel China’s fishing activities and the over-watch of MLE and PLA Navy assets in the vicinity of the Natuna Islands such as the June 2016 encounter where the

⁴⁹ Kipgen, Nehginpao. *The Politics of South China Sea Disputes*. Milton: Taylor & Francis Group, 2020. pp.64

Indonesian navy fired warning shots and confiscated a fishing boat and her seven-member crew. Subsequently, China protested that the fishing boats were operating in its territory and accused Indonesia of violating international law. This followed earlier events in 2016 that led to the detention of Chinese fishing boats and their crews as well as Indonesian President Joko Widodo to travel to the Natuna Islands and affirm Indonesia's sovereignty over the waters in question.

Indonesia asserts that China's Nine-Dash Line has no legal or historical basis. As recently as January 2020, a similar event unfolded where Indonesia dispatched its Navy and aircraft to Natuna to repel illegal Chinese fishing activity; leading to diplomatic action by Indonesia against China.

Although evolving with recent events such as Whitsun Reef, China occupies seven features in the Spratlys, nine of the Paracels (under full PRC control), and de-facto control of Scarborough Reef (formerly a Philippine claim). Taiwan occupies Itu Aba and Ban Than Reef in the Spratlys and Pratas Reef in the Pratas Islands.

Beyond competing bilateral claims, structural issues have influenced the laydown in the South China Sea. The UN's Commission on the Limits of the Continental Shelf (CLCS) established a deadline in 2009 for countries to lay claim to the continental shelf beyond the 200nm limit of UNCLOS. This was to recognize geographic cases where nations had a progression of bottom topography that extended beyond the notional 200nm limit and should reap and hold exclusive economic benefit from the same. Malaysia, Philippines, and Vietnam submitted official claims to the CLCS for a greater expanse of the SCS beyond their recognized EEZ. In aggregate, these official claims layered an additional

level of complexity on the SCS territorial claims by adding a sub-surface, seabed dimension to accompany the visible, land feature contest playing out on the surface.

With Vietnam joining ASEAN in July 1995, the four principal claimant states could employ a multilateral approach to Beijing thru ASEAN's measured, peaceful approach (charter language). This followed by ASEAN sponsoring a SCS Code of Conduct. The 2002 Declaration on the Conduct of Parties in the South China Sea (DoC) was signed by all ten ASEAN members and China. The declaration mandated that parties resolve their differences peacefully, in accordance with UNCLOS, and refrain from occupying further land features. Noting that the DoC had no legal authority, it did at least acknowledge that opportunistic activity with respect to occupations threatened competing sovereignty claimants and the mutual, peaceful cooperation necessary within ASEAN and with China. Continuing recognition of the need for multilateral dialogue on competing claims led to all parties signing the Treaty of Amity and Cooperation in October 2003.

China and ASEAN were able to agree to a set of Guidelines for the Implementation of the Declaration on Conduct of Parties in July 2011, but to what end? Irrespective of multilateral agreements and frameworks with ASEAN and bilateral diplomatic overtures, China has undertaken unilateral measures under the rubric of the SCS being a "core interest."

China imposed a SCS-wide fishing ban in 1999 and started to aggressively impose the ban by deploying more ships in disputed waters in 2011. Beijing also demanded that "foreign ships obtain permission from Hainan Province in order to conduct fishing

activities in the SCS in more than half of the disputed waters since 2014.”⁵⁰ Instead, it has employed its maritime law enforcement (MLE) assets that include its Coast Guard and maritime fisheries patrol force, as well as its “maritime militia” to provide an escalation ladder of pressure within the disputed sea space in the South China Sea. This obviates applying a “state” face on coercive activities and it keeps activities below the level of armed conflict - more commonly referred to as the “grey zone.” This mechanism has permitted a level of activity below the level of armed conflict to clashes and encounters as well as implicitly permitting MLE and maritime militia to pressure regional states’ oil exploration surveys, resupply of islands, fishing, and offshore oilfield activities.

Moreover, China has increased the force structure of its South Sea Fleet at Hainan Island - and the ability to apply military pressure in company with diplomatic, informational, and economic instruments of national power. In addition to building substantive military and dual-use facilities on islands and reclaimed territory, the PLA Navy has increased its presence in the South China Sea. Coupled with pressure from China’s Foreign Ministry and its state-run news apparatus, it has pressured foreign companies such as BP, ConocoPhillips, and Shell to abandon oil projects in disputed waters, especially those in support of Vietnam. Unfortunately, regional claimant states have proven impotent to applying tangible, active measures to confront China’s expanding naval and maritime presence. This impugns both them and ASEAN for a tepid response to issues affecting their national interests.

⁵⁰ Kipgen, Nehginpao. *The Politics of South China Sea Disputes*. Milton: Taylor & Francis Group, 2020. pp.40

Following China's de facto take-over of Scarborough Shoal, the Philippines filed a case at the International Tribunal at The Hague in January 2013 under the aegis of UNCLOS; challenging the basis of China's Nine-Dash Line claim under international law. The Hague voted in favor of the Philippines, providing the first international legal interpretation of China's excessive claims in the South China Sea. While a tectonic finding, it was unfortunately short lived. President Duterte, who assumed office shortly after the tribunal's determination in 2016, has relegated claimancy issues as secondary to invigorating bilateral economic ties with China and casting off the enduring security, political, and economic support long provided by the U.S. and the Washington Consensus since its independence. Duterte's economic and foreign policy independence is in stark contrast to the pro-Western approaches that have provided a blanket of security and international assurance to the Philippines over time. While his predecessors preferred a multilateral (ASEAN) resolution to territorial issues in the South China Sea, Duterte is betting that economic ties with China will moderate PLA naval and MLE activity within his EEZ. As history proves, a revisionist and revanchist nation is guided by returning to great eras and reclaiming lost territory. Coupled with the fact that the Philippines' lack credible naval capacity and capability, as well as governmental determination on upholding their territorial claims, China is well positioned to achieve its aims.

Administratively, "China's 2019 announcement to place the islands under the administrative jurisdiction of Hainan is a substantive measure to codify their formal incorporation into China's provincial system."⁵¹ This action met with muted diplomatic

⁵¹ A recent development noted in regional periodicals, spurring reaction from regional territorial claimants, <https://www.scmp.com/news/china/diplomacy/article/3080559/beijing-moves-strengthen-grip-over-disputed-south-china-sea>

response from regional states, which follows the overall tenor of responses to China's assertiveness in the SCS.

Comparatively, Vietnam has been the most consistent and aggressive in repelling Chinese encroachments on its sovereign territorial claims but it has demonstrated fissures in the past. Hanoi cancelled an oil project in its EEZ under threat of economic and military coercion from China in 2017 and in 2018.⁵² It contracted with Russian firm, Rosneft, in 2018 to execute the work (currently ongoing) in its EEZ - counter to China's diplomatic, and military pressure. China pressured Vietnam and ExxonMobil to cease the Blue Whale LNG project in Vietnam's EEZ after China executed patrols by survey and China Coast Guard ships to the area.⁵³ Nevertheless, the project is ongoing.

Vietnam responded diplomatically⁵⁴ at the U.N. but deescalated both situations without military force. This is consistent with Vietnam's reservation to employ active defense measures as opposed to armed clashes in the 1970s over control of the Paracel Islands.

The Philippines response to China's territorial incursions has been meek. During the Aquino Administration (2010-2016), China exercised dense military pressure, to include organized employment of the maritime militia, at Scarborough Reef within the Philippines EEZ. Lacking comparative military capacity and capability, diplomatic responses and levying an UNCLOS case to the International Tribunal at The Hague were the Philippines'

⁵² Bill Hayton, "South China Sea: Vietnam Halts Drilling After 'China Threats,'" BBC News, July 24, 2017, <https://www.bbc.com/news/world-asia-40701121>

⁵³ <https://www.rfa.org/english/commentaries/china-vietnam-09162019204935.html>

⁵⁴ "Statement of the MOFA Spokesperson on the Violations of Viet Nam's EEZ and Continental Shelf by the Chinese Survey Ship, Haiyang Dizhi 8, and Its Escort Vessels," Vietnam Ministry of Foreign Affairs, October 3, 2019, https://www.mofa.gov.vn/en/tt_baochi/pbnfn/ns191003214402

only resort. Duterte's conciliatory approach towards China discredited the Tribunal ruling (in favor of the Philippines), essentially emboldening China to continue its assertiveness in the SCS. It has, as witnessed by increased naval, Coast Guard, Maritime Law Enforcement, and maritime militia near Second Thomas Shoal, Whitsun Reef, Thitu Island, and Reed Bank; essentially ceding sovereign claims to China within its own EEZ.

Malaysia has aimed to minimize tensions in the South China Sea and has not experienced the degree of maritime pressure from China as the Philippines. Most of the tensions center on Luconia Shoals near Borneo. While no armed clashes have occurred, China has increased its maritime presence in the vicinity. Malaysia does support ASEAN's desire for a more substantive Code of Conduct for the South China Sea about "the land reclamations, activities and serious incidents in the area, which have eroded trust and confidence, increased tensions and may undermine peace, security and stability in the region."⁵⁵ But, consistent with Malaysia's balancing with bandwagoning approach toward China, it sees the U.S. as complicit in the region's anxiety with the SCS - not just China.⁵⁶

Indonesia, while having only the Natuna Islands as its bilateral contest with China, has been unswerving in enforcing its sovereign claim and EEZ in vicinity. This includes a military response in 2019 that included sinking Chinese fishing boats that were operating illegally, with armed escort by China Coast Guard vessels, within its EEZ. President

⁵⁵ "Malaysia Voices Trust in South China Sea Pact," The Straits Times; "Joint Communique of the 52nd ASEAN Foreign Ministers' Meeting," Association of Southeast Asian Nations, July 31, 2019, <https://www.asean2019.go.th/en/news/joint-communique-of-the-52nd-asean-foreign-ministers-meeting-bangkok-31-july-2019/>.

⁵⁶ Catherine Wong, "South China Sea 'Likely to Top Agenda' When Malaysian Foreign Minister Visits Beijing Next Week," South China Morning Post, September 6, 2019, <https://www.scmp.com/news/china/diplomacy/article/3026081/south-china-sea-likely-top-agenda-when-malaysian-foreign>.

Jokowi subsequently conducted a Cabinet meeting on a Malaysian naval vessel to announce a major budgetary appropriation to expand the naval base at Natuna.

Throughout, there is no clear causality between China's BRI/OFDI and recipient nations' altering responses to sovereign territorial disputes. Among others, PLAN, China Coast Guard, and maritime militia have continued to test Malaysia at Luconia Shoals, Indonesia in vicinity of the Natuna Islands, the Philippines at Whitsun Reef, and Vietnam with its commercial oil and gas drilling rigs within its EEZ. China's orchestrated maritime coercion has intensified with growing force capabilities, resolve, and a revanchist quest to reclaim historical, sovereign territory that was seized during China's "Century of Humiliation." From Beijing, military and law enforcement activities coupled with economic influence in the region is effectively leveraging instruments of national power to realize China's prominence as a great power - and reclaim what China deems as rightfully theirs after greater than a century of foreign conquests.

With national security and sovereignty concerns omnipresent, why then do regional states leverage China's economic overtures and ready capital to deliver on domestic, economic development agendas? Are these decisions structurally bifurcated within national, governmental, decisional frameworks or is prioritization and risk balancing at play across national interests and objectives? The answer to those questions is best addressed through a framework by Shoafeng Chen of Peking University. Chen's framework will be introduced here⁵⁷ and emphasized later in Chapter 5. To the author, Chen's framework

⁵⁷ Chen S. (2019) Are Southeast Asian Countries Willing to Join the Chorus of China's Maritime Silk Road Initiative?. In: Blanchard JM. (eds) China's Maritime Silk Road Initiative and Southeast Asia. Palgrave Studies in Asia-Pacific Political Economy. Palgrave Macmillan, Singapore. pp. 35-64

stands alone in defining and classifying countries' national approach to China's MSRI. The summary below paraphrases Chen's framework.

Chen assesses the inclination of Southeast Asian states to join China's Maritime Silk Road Initiative (MSRI) relative to demonstration of "symbolic gestures" and "concrete measures." Against those metrics, Chen classifies countries into three tiers (Table 2). Tier 1 is "strongly supportive." Tier 2 is "conditionally supportive" and Tier 3 is "least supportive." Specifically, Chen proscribes symbolic gestures as (1) whether a country's top power-holder has voiced support for the MSRI; (2) whether a country's top power-holder attended the 2017 BRI Summit in Beijing; (3) whether a state has signed the Guiding Principles on Financing the Development of the Belt and Road⁵⁸; and (4) whether a state is a founding member of Asian Infrastructure Investment Bank (AIIB).

Concrete measures tangible actions demonstrating formal, governmental acceptance into an enforceable, bilateral agreement and obligation between a state and China under the rubric of MSRI or BRI. They include: (1) whether a country has signed an intergovernmental cooperation document linking China's MSRI to their development program; (2) whether a country has allowed China to set up an industrial park or special economic zone (SEZ) within its boundaries or has extended related help to China; (3) the number of significant (officially recognized) projects under construction or completed as scheduled; (4) whether any significant project has been postponed due to social

⁵⁸ See People's Republic of China (PRC) Ministry of Finance, "Guiding Principles on Financing the Development of the Belt and Road," May 16, 2017, <https://eng.yidaiyilu.gov.cn/zchj/qwfb/13757.htm>.

opposition; and (5) the situation regarding foreign direct investment (FDI) inflows from China, which can, to some extent, reflect SEA countries' support for the MSRI.

<i>Degree of support</i>	<i>Countries</i>
Tier 1: Strongly supportive	Cambodia, Laos, Thailand
Tier 2: Conditionally supportive	Indonesia, Singapore, Brunei, Myanmar
Swing state	<p>Tier 1: Strongly supportive Malaysia under Najib</p> <p>Tier 2: Conditionally supportive Malaysia under Mahathir; Vietnam after the 12th Party Congress; the Philippines under Duterte</p> <p>Tier 3: Least supportive Vietnam before the 12th Party Congress; the Philippines under Aquino III</p>

Table (2) - Regional States' Positions Toward MSRI⁵⁹

Dissecting Chen's tiering structure, Tier 1 states have clearly prioritized economic development and wealth creation over national security concerns. Tier 2 countries have taken measures to adopt MSRI investments on a limited scale but with reservations and hedging. Tier 3 states unequivocally prioritize national security over economic development with bilateral relations with China. However, it is not binary. In these cases, there remains bilateral trade and dialogue but not to the equivalent scale of adopting MSRI-like investments in a time period preceding BRI/OBOR (2013).

⁵⁹ Chen S. (2019) Are Southeast Asian Countries Willing to Join the Chorus of China's Maritime Silk Road Initiative? In: Blanchard JM. (eds.) China's Maritime Silk Road Initiative and Southeast Asia. Palgrave Studies in Asia-Pacific Political Economy. Palgrave Macmillan, Singapore. p.37

The key, heuristic terrain of Chen’s framework lies within the notion of “Swing States.” Chen’s belief is that Malaysia and Vietnam vacillate between actions and gestures that resemble Tier 1 states and Tier 2 states - and, in some cases, as a Tier 3 state. The dependent variable in each “Swing State” is the ruling elite’s view towards China and the prioritization of economic development or national security over a period of rule. Pertaining to Malaysia and Vietnam, this concept will be explored in more detail in Chapter 6; demarcating divergent foreign policy prescriptions by PM Najib and Mahatir in Malaysia and Presidents Aquino and Duterte in the Philippines.

China’s Investment and Maritime Inflows

To set the stage for follow-on chapters, the following synopsis overviews the sovereign conundrum confronting regional states in the South China Sea post-Global Financial Crisis (GFC) - quantum increases in China’s OFDI coupled with China’s unilateral appropriation of disputed territory subject to competing sovereignty claims. This conundrum has challenged the regional elite’s magnetism to China’s ready investment capital and SOE-centric infrastructure know-how and capabilities.

Tables (3), (4), and (5) exemplify the multi-pronged territorial, administrative, and maritime influence operations that China has conducted in parallel with post-GFC economic “carrots” with regional claimants of disputed territory in the South China Sea.⁶⁰

⁶⁰ A compilation of data from the Council on Foreign Relations’, China’s Maritime Disputes 1895-2020, <https://www.cfr.org/timeline/chinas-maritime-disputes>, China’s Activities in the South China Sea (China’s development activities on the features and trends in related countries), March 2021, Japan Ministry of Defense, https://www.mod.go.jp/en/d_act/sec_env/pdf/ch_d-act_b_e_210421.pdf, and Center for Strategic and International Studies (CSIS) Asia Maritime Transparency Initiative (AMTI), www.amti.csis.org

The list does not include China’s maritime influence activities against Japan or U.S. activities in the South China Sea.

	Claimants	Indonesia	Malaysia	RP	Vietnam	Taiwan	PRC
PRC Territorial Actions⁶¹							
(A) Paracel Islands, Woody Island Reclamation and Militarization 2014-					X	X	X
(B) Scarborough Shoal de-facto control 2012-				X			X
(C) Subi Reef Reclamation and Militarization 2014-				X	X	X	X
(D) Gaven Reef Reclamation and Militarization 2014-				X	X	X	X
(E) Mischief Reef Reclamation and Militarization 2014-				X	X	X	X
(F) Fiery Cross Reef Reclamation and Militarization 2014-				X	X	X	X
(G) Johnson S.				X	X	X	X

⁶¹ According to Japan’s Ministry of Defense presentation of March 2021, China reclamation efforts between 2014-2015 alone amounted to nearly 13km, compared to 0.2km from all other claimants combined.

Reef Reclamation and Militarization 2014-							
(H) Hughes Reef Reclamation and Militarization 2014-				X	X	X	X
(I) Cuarteron Reef Reclamation and Militarization 2014-				X	X	X	X

Table (3) - PRC Territorial Actions in the South China Sea post-GFC

PRC Administrative Actions							
(J) Sansha City and Sansha Security District Established 2012		X	X	X	X	X	X
(K) Xisha and Nansha Security Districts under Sansha City Administration 2021		X	X	X	X	X	X

Table (4) - PRC Unilateral Administrative Actions Regarding South China Sea Control

PRC Maritime Influence Activity							
(L) Douglas Bank 2011				X			
(M) Reed Bank 2011				X			

(N) Vietnam Oil Drilling w/in EEZ 2011					X		
(O) China State Oceanic Administration Established 2013		X	X	X	X	X	
(P) China Oil Drilling w/in Vietnam EEZ 2014					X		
(Q) Second Thomas Shoal 2017-				X			
(R) Luconia Shoal 2016-			X				
(S) Thitu Island 2019				X			
(T) China Hydrographic Survey Ops w/in Vietnam EEZ 2019					X		
(U) Natuna Islands Fishing and Hydrographic Survey Ops 2019-		X					
(V) James Shoal 2020			X				
(W) Whitsun Reef 2021				X			
(X) PLAN Warship Directs Fire Control Sys toward RPN 2020				X			

(Y) China Vessel Rams/Sinks Vietnamese Fishing Vessel near Paracels 2020					X		
(Z) Malaysia "West Capella" Oil Rig 2020			X				

Table (5) - PRC Maritime Influence Activity in the South China Sea post-GFC

Has China’s unilateral actions in the South China Sea impacted regional states’ acceptance of BRI and OFDI capital? Is there evidence of direct correlation between China’s assertiveness with territorial disputes and claiming universal control of the majority of the South China Sea and decreased acceptance of economic incentives? According to Figure (9), a chronology of China’s unilateral actions in the South China Sea (coded to Tables (3), (4), and (5)) and China’s OFDI to regional states of interest in the post-GFC period, the data suggests that with the exception of the hardline position of President Benigno Aquino in the Philippines, Indonesia, Malaysia, and Vietnam gravitated to China’s economic development initiatives, albeit not uniformly. Consistent with Chen’s framework, Indonesia, Malaysia, and Vietnam appear to “conditionally accept” (Tier 2) BRI and OFDI within their national risk calculus; prioritizing economic development while managing national security concerns to varying degrees.

China OFDI to Indonesia, Malaysia, Philippines, and Vietnam

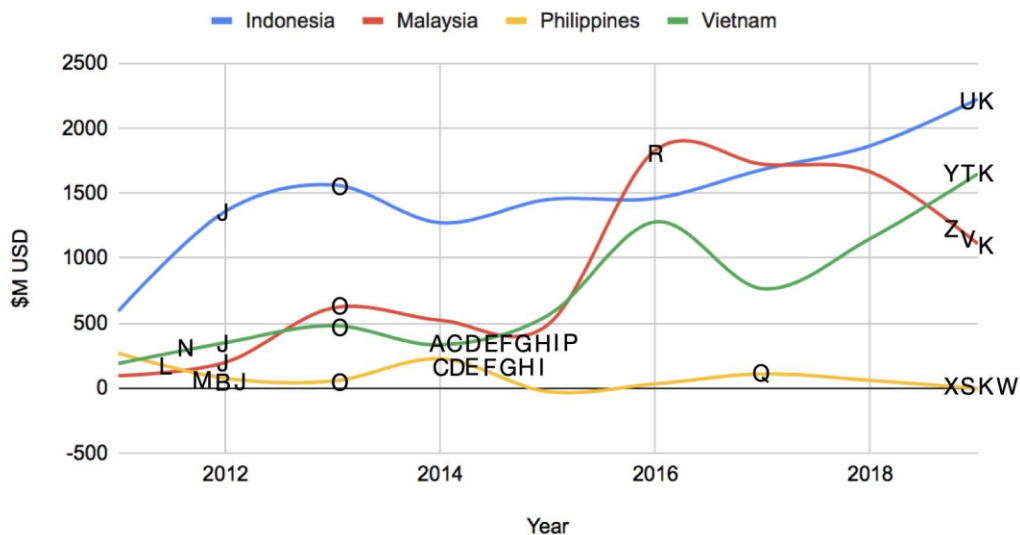


Figure (9) - PRC Maritime Influence Activity in the South China Sea post-GFC

Behind the veneer of Figure (8) data lies key domestic realities that influence the OFDI trend lines - the impact of key leader attendance at the First (2017) and Second (2019) Belt Road Forums, Malaysia's surreptitious financing of its sovereign development fund with China starting in 2009, Indonesia PM Jokowi's courtship of China's economic development capital upon inauguration in 2014, and Vietnam's cautious embrace of BRI and OFDI as part of the "Two Corridors, One Belt" agreement with China that has had episodic traction since 2004 due to SCS disputes - with the exception of the large-scale, medium-speed rail (MSR) Hanoi Metro Line 2A.

Other key determinants to OFDI trend lines were the indictment and removal from office of Malaysia's PM Najib in 2018, leading to former PM Mahathir assuming office in late 2018. Mahathir suspended all BRI project activity in Malaysia; forcing China to re-price and renegotiate projects to acceptable standards. This was a turning point and an

inflection point in Malaysia-China development and foreign policy. The uptick in OFDI observed in the Philippines post-2016 is indicative of President Duterte's renunciation of historical pro-Washington Consensus alignment - and politico-economic overtures to China (inconsistent with preceding administrations and the SCS arbitration findings by the International Tribunal at The Hague). Comparatively, OFDI and BRI agreements by Duterte at the First Belt Road Forum and state visits to China have not translated to large scale execution of development initiatives under his Build, Build, Build program.

While all four leaders of the states of interest did attend the First Belt Road Forum in 2017, it is notable that PM Jokowi of Indonesia was the only one of four not to attend the Second Belt Road Forum in 2019. This was due to domestic political pressure and perceptions that Jokowi was "pro-China" and lending a blind eye to national security and sovereignty concerns.

Therefore, a conclusion can be drawn that SCS territorial activities stunt leveraging China's economic development incentives to their full extent as elite opposition seizes hold of China's assertiveness as a destabilizing political issue. Yet, to the research question of whether or not increased levels of BRI and OFDI positively altered sovereign positions on contested, territorial claims to China's favor, that answer rests in an examination of the case study states (Indonesia, Malaysia, Philippines, Vietnam) and the domestic politico-economic dynamics surrounding major BRI/OFDI projects to follow in successive chapters.

This "taffy pull" between embracing China's economic incentives and diplomatic and military responses to China's assertiveness toward territorial disputes is subject to virulent

debates within regional states and ASEAN writ large. For example, in the Philippines, China's maritime actions against Philippine efforts to upgrade existing facilities on Thitu Island have provided kindling for Duterte's opposition who is opposed to his pivot toward China. "But now China's actions are embarrassing him and his administration. According to Philippines Secretary of Foreign Affairs Teodoro Locsin, "China is pretty close to exceeding" the limits that come with its ties with the Philippine government."⁶² Inflamed SCS issues added to pre-existing chorus from the opposition on social, environmental, and national security concerns with proposed BRI projects derived from Duterte's accommodation to China.

Disputed territorial claims between China and Malaysia have been an ongoing area of bilateral tension. While most of the post-GFC, territorial, flash points in the SCS have been between China, Vietnam, and the Philippines, consistent maritime pressure at Luconia Shoals and James Shoal led to domestic opposition to former PM Najib's appeasement policy toward China. Such policy included increasing military-to-military ties, purchasing China defense articles (for the first time in Malaysian history), and permitted increased PLA(N) access to Malaysia's ports, including those along the Strait of Malacca. PM Mahathir's repudiation of Najib's appeasement policy was evident in his adoption of a non-alignment policy toward China (and great powers). Publishing Malaysia's first defense white paper (DWP) in 2020, Mahathir went so far as identifying Malaysia's maritime claims in the South China Sea as its top security issue. The DWP,

⁶² The South China Sea: China Should Tread Carefully Regarding The Philippines – Analysis. (2019, April 18). Eurasia Review (Asia). Available from NewsBank: Access World News: <https://infoweb-newsbank-com.proxy1.library.jhu.edu/apps/news/document-view?p=AWNB&docref=news/172E0878F8903980>.

accompanied by a note verbale submitted to the UN by the Permanent Mission of Malaysia to the UN in July 2020, symbolizes Malaysia' strategic shift regarding China and the central strategic issue between the two states. Malaysia' note verbale to the Commission on the Limits of the Continental Shelf "asserts that China's maritime claims have no legal basis under international law. Accordingly, Malaysia has claims to the southern cluster of the Spratly Islands, where it occupies five features – Ardasier Reef, Erica Reef, Investigator Shoal, Mariveles Reef, and Swallow Reef."⁶³ Malaysia's note verbale is the most unambiguous stance to date on Malaysia's SCS claims - and an affirmation by the current PM Yassin to retain SCS as the top strategic priority.

In Indonesia, domestic politics and foreign policy have been intertwined within Indonesia's China policy. The chorus of "negative public sentiment about economic and strategic variables has intersected with shifts in Indonesia's domestic polity, which has seen the mobilization of opposition to Jokowi around a multidimensional Chinese threat. "⁶⁴ PM Jokowi's central focus on infrastructure and enabling inclusive economic growth "created strategic economic opportunities for the Widodo government in its alignment with Beijing's geo-economic ambitions, but also had the effect of alienating domestic constituencies concerned both about economic overreliance and specific issue-areas associated with China's economic penetration. Whilst Jokowi's economic development priorities converged neatly with the geo-economic objectives of the BRI and the capital

⁶³ Malaysia's Evolving Policy Towards The South China Sea – Analysis. (2020, September 24). Eurasia Review (Asia). Available from NewsBank: Access World News: <https://infoweb-newsbank-com.proxy1.library.jhu.edu/apps/news/document-view?p=AWNB&docref=news/17DB032574268A48>.

⁶⁴ Nabbs-Keller, G., 2020. The Contending Domestic and International Imperatives of Indonesia's China Challenge', Australian Journal of Defence and Strategic Studies, [online] 2(2), 191. Available at: <https://www.defence.gov.au/ADC/Publications/AJDSS/volume2-number2/contending-domestic-international-imperatives-indonesias-china-challenge.asp>

flows it underpinned, other aspects of Beijing's strategic ambitions were far less palatable. As Xi consolidated power and pursued his 'China Dream', Indonesia began to increasingly feel the pressure of China's growing maritime assertiveness at both the national and regional level. Jokowi's prioritization of economic policy goals over pressing strategic and foreign policy imperatives had the effect of further undermining ASEAN unity and constraining Indonesia's leadership within it."⁶⁵

China's increasing maritime assertiveness further crystalized a domestic polity concerned with increasing economic dependency on China, central government corruption, the influx of Chinese workers, and the lack of transparency surrounding lending terms. This hampered Jokowi's reelection efforts in 2019 - winning by a narrow margin. While seeming to ratify Jokowi's economic development agenda, the election has magnified the lack of economic, labor, and technological benefit to local, private sector entities and adjacent communities to China-led infrastructure projects.

Similarly, Vietnam is trying to perform a similar balancing act between domestic and foreign policy. The pervasive maritime challenges over EEZ fishing and oil exploration, competing territorial claims, as well as armed clashes at sea and on land borders has led to reluctance to tangibly connect economic development agendas with Beijing thru BRI. Even though China has been Vietnam's largest trading partner for over a decade, Vietnam remains reticent to integrate the economies thru connected infrastructure and debt vehicles that favor Beijing more than Vietnam. "Apart from some statements

⁶⁵ Nabbs-Keller, G., 2020. The Contending Domestic and International Imperatives of Indonesia's China Challenge', Australian Journal of Defence and Strategic Studies, [online] 2(2), 196. Available at: <https://www.defence.gov.au/ADC/Publications/AJDSS/volume2-number2/contending-domestic-international-imperatives-indonesias-china-challenge.asp>

welcoming it and proposing principles for its implementation, Vietnam's reactions to the initiative remain largely ambivalent because of the complex political, economic and strategic relationship between the two countries."⁶⁶

Perhaps India, who has taken a steadfast stance against embracing BRI, provides the most lucid explanation of its concern over balancing domestic, economic, and foreign policy in response to China's economic overtures. "We are of firm belief that connectivity initiatives must be based on universally recognized international norms, good governance, rule of law, openness, transparency, and equality. Connectivity initiatives must follow principles of financial responsibility to avoid projects that would create unsustainable debt burden for communities; balanced ecological and environmental protection and preservation standards; transparent assessment of project costs; and skill and technology transfer to help long-term running and maintenance of the assets created by local communities. Connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity."⁶⁷

For recipient nations, with the exception of Malaysia during the Najib administration, the embrace of China's BRI/OFDI appears divorced from responding with diplomatic and military capabilities in the face of China's assertiveness in the SCS. While ineffective from a deterrence perspective, a steady stream of diplomatic demarches and episodic

⁶⁶ Josephine Ma, Lee Jeong-ho and Sarah Zheng. (April 23, 2019 Tuesday). Why Doubts About China's Belt and Road Initiative Persist Among its Neighbours. South China Morning Post.com. <https://advance-lexis-com.proxy1.library.jhu.edu/api/document?collection=news&id=urn:contentItem:5VYC-K9V1-JC8V-1557-00000-00&context=1516831>.

⁶⁷ China's Belt and Road Initiative: Prospects and Pitfalls – Analysis. (2017, December 9). *Eurasia Review (Asia)*. Available from NewsBank: Access World News: <https://infoweb-newsbank-com.proxy1.library.jhu.edu/apps/news/document-view?p=AWNB&docref=news/168AE620EF34D6C0>.

military and coast guard responses continue to communicate national will within the SCS territorial disputes - alongside growing economic integration and dependency with China.

But those responses have not been uniform both within states and across states. Duterte's appeasement and accommodationist policy toward China was a marked shift from the Aquino administration. While that has not translated into territorial shifts, it has not deterred or stemmed China's assertiveness. It has, as recent events at Whitsun Reef attest, emboldened China's activity in parallel with regional, economic initiatives. Indonesia's response has been consistent and steadfast due in large part to Jokowi's understanding of the domestic political concerns on China's growing influence in the countries and the slippery slope of not mounting a formidable and unambiguous response to China's incursions into the resource and mineral rich areas surrounding the Natuna Islands (within Indonesia's claimed EEZ and outside China's claimed Nine Dash Line). Equally, Vietnam has not wavered in its response to China's maritime assertiveness within its EEZ. Unlike other recipient states, it has done so aggressively and with intrepidity under a "cooperation and struggle"⁶⁸ regime against one of its comprehensive strategic cooperation partners. The history of armed conflict with China during the 1979 border war, the 1988 clash at Johnson Reef, pressure tactics at Vanguard Bank in 2019, and continuing local clashes since 2014 over opposition to oil and gas drilling operations within Vietnam's EEZ.

⁶⁸ <https://thediplomat.com/2020/05/reviewing-vietnams-struggle-options-in-the-south-china-sea/>

Chapter 2

Internal Development thru External Integration

China's Reform and Opening - "Going Out" Strategy

China, in many ways, is a study on contradictions. From understudy to Soviet-style socialism, to trotting the path from "incorrect" socialism to the utopia of communism, to morphing a controlled-economic model to one with provincial characteristics and benefits, China has profited from refining (and discarding) the Soviet-style economic development model to one with purely Chinese characteristics - the Great Leap Forward. But this profit came with gross inefficiency, rampant geographic and personal inequity, and reliance on a communist bloc aligned to Soviet-style development. The Sino-Soviet schism evidenced between Mao and Khrushchev in 1960 would, inevitably, set China on its own development path of "self-reliance", of trial and error. That path would lead Mao, to a limited degree, and later Deng, to embrace the West - not ideologically, but economically. The rise of the Asian Tigers⁶⁹ was proof-positive that rapid industrialization was the foothold to economic development and achieving the benefits of a developing nation status.

Yet, Mao Zedong's "Cultural Revolution" to consolidate and centralize power, following on the heels of the economic and human calamity realized thru the Great Leap Forward, exacerbated the decline of economic growth in a nation bent on defining itself as the "correct style of Communism." Deng Xiaoping, thrice purged from Mao's inner circle for

⁶⁹ Asian Tigers refers to the economies of Singapore, Taiwan, Hong Kong, and South Korea who underwent rapid industrialization and adopted an export-led growth development model starting in the 1960s; realizing sustained GDP growth of ~7% per year onward.

contrarian views on economic development and developing power bases that threatened Maoism⁷⁰, understood the inherent contradictions in transforming China's economic growth model while fomenting a class struggle between Maoist Communists, capitalists, and traditionalists.

Upon Mao's death in 1976, Deng's ascendance to power was fueled by a power base that extolled integrating China within the global economic system rather than a continuation of policy framed on development in isolation.

At the 5th People's Congress in 1978, Deng unveiled his Reform and Opening Policy to transform China's development path to an export-driven economy. Key in this transformation was the opening to foreign investment; leveraging capital inflows and foreign technology into a command, mixed-free market economy. The liberalization of the economy, coupled with rapid industrialization and monetary policy reforms, began the internal challenge of maintaining Party control while opening China to a Bretton Woods-global economic system instituted by the west.

Capitalizing on cheap labor, largely through China's subsidized, state-owned-enterprises (SOE), foreign capital inflows positioned China's export industries as the manufacturing center of gravity for much of the globe's advanced economies. The attendant trade surpluses and development loans from multilateral development finance institutions (DFI) led to a historically unprecedented, nearly two-decade period of economic growth for China. Less than ten years after accession to the World Trade Organization (WTO) and

⁷⁰ Maoism differs from traditional Marxist-Leninist ideology by centering on the agrarian peasantry as the center of gravity for socialist revolution over the proletariat in the Soviet model.

navigating the Asian Financial Crisis of 1997, China replaced Japan as the world's second largest economy.

With swelling foreign reserves due to trade surpluses, China's promoted a "Going Out"⁷¹ policy to invigorate increasing outward foreign direct investment (OFDI) opportunities to complement steady growth in foreign trade and foreign capital inflows. "Its "Going Out" policy was premised on four principle considerations: resource seeking, asset seeking, market seeking, and political gains. China's systemic transformation that began three decades ago has radically transformed the "sleeping giant" into a world economic power."⁷²

Flying Geese and Leading Dragons

To leverage China's competitive advantage following (CAF) approach to industrialization, it could adopt policies similar to the "flying geese" of East Asia and other industrialized economies. As such, China didn't need to invoke protectionist policies to market access but it did follow a "dual track" approach; protecting labor-intensive, resource-centric industries such as SOEs while investing foreign direct investment in manufacturing to advance adoption of key technologies and know-how under the aegis of learning thru importing. "Long term economic trends from the pre-industrial stage of development in a large number of developed countries confirm that at the end of each episode of catch-up, the fast grower's economy had a structure which was closer to that of a developed as

⁷¹ People's Daily, Full Text of Jiang Zemin's Report at 16 Party Congress, November 18, 2002, http://english.people.com.cn/200211/18/eng20021118_106984.shtml

⁷² Shen, R., S.J., & Mantzopoulos, V. (2013). China's "Going Out" Policy: Inception, Evolution, Implication. *Journal of Business and Behavioral Sciences*, 25(2), 121-136.

opposed to a low-income country”⁷³ Therefore, China’s development model would benefit from the influx of foreign direct investment, either through mergers and acquisitions, joint ventures, or technological upgrades.

As China progressed to higher value-added manufacturing, capital goods production, and higher wages, the spillover effect would lend advantages to other developing nations with excess labor to shift to industrialization and early stage manufacturing. Referred to as the Leading Dragons Phenomenon,⁷⁴ this epitomized China’s catch-up phase relative to the Asian Tigers who rapidly transformed from low-levels of capital output to middle-income status.

Another aspect of the Leading Dragons Phenomenon specific to China is capital accumulation. With increasing capital inflows and resulting trade surpluses following accession to the WTO (and Most Favored Nation (MFN) status by the United States), China’s share of foreign reserves ballooned. While alarming from a debt servicing perspective, the abundance of foreign on-hand reserves presented a policy dilemma for China’s State Council - to either continue to invest in enhancing advanced manufacturing capability, human capital development, and research and development (R&D), or allocate capital for outward foreign direct investment (OFDI).

In this case, China had sufficient foreign reserves to begin investing in developing nations who had surplus labor but insufficient entrepreneurial skills and investment capital to

⁷³ Leading Dragons Phenomenon: New Opportunities for Catch-Up in Low-Income Countries, Chandra, Vandana, Lin, Justin Yifu, and Wang, Yan, Policy Research Working Paper (WPS 6000). World Bank, March 2012, p.6

⁷⁴ Leading Dragons Phenomenon: New Opportunities for Catch-Up in Low-Income Countries, Chandra, Vandana, Lin, Justin Yifu, and Wang, Yan, Policy Research Working Paper (WPS 6000). World Bank, March 2012, p.8

undertake manufacturing at scale. Southeast Asia, in its near abroad, was an early focus due to its historical importance to China from a security perspective - and now an economic perspective. It is important to note here foreign direct investments predominantly took the form of investment capital from China's development or policy banks, or in the form of Greenfield investments, Brownfield investments, mergers and acquisitions (M&A) or joint ventures.⁷⁵

China's commitment to increase Overseas Foreign Direct Investment (OFDI) shortly after WTO accession is symptomatic of its rapidly escalating foreign reserves, and its desire to elevate up the value chain of production through the adoption of new technology, know-how, and processes within its catch-up strategy. China is increasingly in need of adequate resource supply at competitive prices to sustain and fuel its economic growth. During the past three decades, its infrastructure and real estate construction industry alone helped strain domestic ability to supply the needed mineral and energy resources. China moved from being East Asia's largest oil exporter to becoming the world's third largest importer of oil in 2008. This parallels accompanying explosive growth in demand for aluminum, copper, nickel, iron ore, and other key commodity products.

Through Reform and Opening, China has been able to market its relatively low-end manufactured products worldwide. Recognizing that it is not feasible to achieve sustained export growth through increasing the quantity of low-end consumer goods, China recognized the need to upscale its value contribution to manufacture higher quality

⁷⁵ Greenfield investments are the establishment of subsidiary operations in a foreign country; building its own, new facilities. Brownfield investments are the same as Greenfield with the exception that buildings, etc. are leased or purchased from existing infrastructure.

products through incorporation of advanced manufacturing techniques and technologies available in more advanced economies. This follows the development path of the Asian Tiger economies who effectively transitioned from low-quality, high-output, labor intensive manufacturing to higher value, upstream production.

This template drove China, in its catch-up phase of development, to seek assets in the global marketplace rather than patiently pursue R&D investments that are capital intensive, create uncertain return on investment, and rarely leap-frog market leaders who continue to innovate and acquire next-generation improvements in production and value. Therefore, China employed asset seeking in developed markets as an expeditious approach to gain key, advanced technologies while mitigating risk in capital expenditures. China's (Lenovo's) "decision to purchase IBM's computer unit was clearly influenced by the motive of seeking strategic assets—in this case, a globally-recognized brand name, and China's; largest independent power producer, Huaneng Group, acquired half of the Australian power generation subsidiary of Shell-Bechtel venture, InterGn, with an aim to obtain operational skills in deregulated markets."⁷⁶ .

Mergers and acquisitions have been one of China's favorite approaches to asset seeking abroad. Thus, China Electronic Corporation acquired Philips Electronics' mobile handset division based in the Netherlands and TCL, an electronics corporation from China, merged with Thomson based in France.⁷⁷ This is in line with China's Twelfth 5-Year

⁷⁶ OECD Investment Policy Review, 2008
<https://www.oecd.org/investment/investmentfordevelopment/41734421.pdf>

⁷⁷ Cheng, Shaoming, and Roger R. Stough. "The Pattern and Magnitude of China's Outward FDI in Asia." ICRIER Project on Intra-Asian FDI Flows in New Delhi, April (2007): p.14

Development Plan which states that: “China will conduct research for overseas investments and enhance scientific evaluation of investment projects.”⁷⁸

Sustained growth requires sustained access to key markets and an avoidance of trade barriers as competitive advantages lead to trade pressures. China’s OFDI began establishing production and manufacturing facilities overseas to mitigate trade barriers, tariffs, and barriers to entry or production. Combining cost-efficient factors of production (labor, land, access) with Chinese capital and manufacturing capabilities creates market advantages for Chinese firms both domestically and in the OFDI recipient nation. A third aspect is that China could circumvent trade barriers to other markets by exporting products from the recipient nation rather than from China itself.

A fourth factor in China’s OFDI is political dividends. As China’s position on the international stage began its ascent in tandem with its economic growth, the size of its OFDI abroad correspondingly began rising and its scope widening. Resource, asset and market seeking are the main motivating factors for China’s OFDI policy but clearly, capitalizing on its political clout is a key motivation into its OFDI decision-making process. OFDI generally seeks investment opportunities abroad that are politically stable and economically reliable. That is, outward capital outflows often avoid economies where the potential for political instability exists. It has not been so with China. Chinese capital has been at least filtering into select low-income countries where occurrences of political strife are not infrequent. According to Fitch Rating in Shanghai, “the jurisdictions where many of these loans are going are places that would have difficulty getting loans from Western

⁷⁸ https://www.uscc.gov/sites/default/files/Research/12th-FiveYearPlan_062811.pdf

commercial banks – their credit ratings are not very good, or the projects in question often are not commercially viable.”⁷⁹ This parallels other similar views that, “Chinese ODI tends to go to countries of high political risks. Chinese investors go to those environments, not because of their risk acceptant preferences, but rather because of the risk-reduction effect of good political relations.”⁸⁰

Codifying OFDI Policy

“Going Out” became a part and parcel of China’s official development policy incorporated into its official 5-year Development Plans (FYP) beginning in 2000.

Summarily, the 10th 5-Year Plan (2001-2005) called for domestic concerns possessing competitive advantages to broaden the scope of their operations abroad. Industries engaged in processing and assembling endeavors were singled out to provide the major thrust in China's overseas ventures.

The document also called for China’s OFDI ventures (1) to cooperate with host countries to jointly explore/develop resources that are short in supply in China, and (2) to capitalize on intellectual resources abroad and to institute research establishments overseas that would expedite and support endeavors of major SOEs both domestically and abroad.

The 11th 5-Year Plan (2006-2010) called for fostering and developing China’s ability and capacity in overseas ventures. The policy promised support for competitive domestic

⁷⁹<https://www.reuters.com/article/us-china-silkroad-finance/behind-chinas-silk-road-vision-cheap-funds-heavy-debt-growing-risk-idUSKCN18B0YS>

⁸⁰ Li Quan, Liang Guoyong Liang, Political Relations and Chinese Outbound Direct Investment: Evidence from Firm and Dyadic-Level Tests, “Research Center for Chinese Politics and Business, Indiana University 2012. p.6

interests entering into foreign markets by way of merger, acquisition, restructuring or simply going public. The policy concurrently directed the systemization of OFDI promotion and security/risk management.

In the 12th 5-Year Plan (2011-2015), the plan emphasized the need for streamlining and strengthening the policy to implement China's "going out" policy. Implementation of OFDI policy is to be within the frame of the state's "guidance and supervision of (its) macro strategy." The Plan re-emphasizes the need for deepening the exploration of energy resources overseas and the necessity of accelerated cooperation abroad in technological research. A pair of novel elements in the Plan also calls for establishing overseas channels that can directly market brand-name products and expanding/extending China's large SOEs' operations overseas, including extensions into foreign financial institutions.

China's economic system is a mixed-market economy that combines the features of free market forces in combination with state-control. As such, China's ability to execute policy imperatives through manipulation of monetary policy, banking policy, and sovereign wealth accumulated through robust trade and current account surpluses gives China extraordinary domestic and international market advantages. When channeled to where the 5-Year Development Plan directs, including OFDI ventures, the outcome can conceivably prevail over determined resistance through varying degrees of economic statecraft.

A History of Influence - Spearheading Communism in Asia

China's foreign policy, like most nations, is a reflection of its domestic priorities, interests, and agenda. Its outward characteristics exemplify internal contradictions and competing

interests that often posit foreign policy objectives at odds with domestic narratives. To Mao and the burgeoning nation of China, foreign policy in its near abroad served as both a fulcrum and a fortress to achieving disparate ends.

Mao's embrace of Soviet technological superiority, bureaucratic structures, and economic incentives girded China's early industrialization and socialist imperatives during the Great Leap Forward and agricultural collectivization. But the larger derivative of joining the Soviet camp was less structural and more ideological. Stalin's delegation of spreading communist revolution in Southeast Asia to Mao provided the intellectual *raison d'être* for Mao to spread "pure" and "correct" socialism - and preserve his communist legacy alongside Stalin, Lenin, Marx, and Engels. The ideological split with Khrushchev over de-Stalinization and his liberal "peaceful coexistence" policies in Europe further moved Mao to propel China and communism in a different direction. "In fact, his inner goal was to surpass the Soviet Union in the pace of socialist construction. For this reason, he had been considering the possibility of taking some different steps from those of the Soviet Union so that China could enter the Communist society ahead of the Soviet Union. Mao soon implemented his ideas along those lines in the form of The Great Leap Forward and the People's Communes Movement. Khrushchev's criticism of the People's Communes reflected "a serious Sino-Soviet difference on domestic policy, which Mao couldn't tolerate. The CCP decided to publicly criticize Moscow, which became a critical turning point in the history of the Sino-Soviet alliance."⁸¹

⁸¹ Zhihua Shen and Yafeng Xia, 2011, The Great Leap Forward, the People's Commune and the Sino-Soviet Split, *Journal of Contemporary China*, 20(72), November, p.861

Mao made this point clear in his speech “On Ten Major Relationships’ (April 25, 1956) ...an eloquent, systematic, and critical reexamination of the Soviet model. He emphasized that China should not blindly follow foreign models but should develop its own path with confidence.”⁸² The pathway to achieving this pedestal was threefold. First, by instituting socialism domestically during the Great Leap Forward and the Cultural Revolution as a road to Communism. Second, by establishing an intermediate zone in China’s near abroad that would serve as a buffer against western-led imperialism and democracy. And third, by enlarging China’s sphere of influence in the Asia region and, by extension, China’s bona fides as a Marxist-Leninist paragon.

To do so, Beijing enabled a “dual track” approach to foreign policy that mechanized the traditional state-to-state apparatus within the CCP’s Minister of Foreign Affairs as well as a simultaneous party-to-party apparatus with the CCP’s International Liaison Department (ILD). In essence, the dual approach provided an official arm of the state as well as a more secretive, ideological artery between communist party apparatus’ that paralleled official foreign policy channels. But it was not without challenges. With China’s pursuit of a guarded foreign policy in Southeast Asia following the Sino-Soviet split, “It did not abandon ties to communist parties in Asia and claimed these ties to be of a different matter than state-to-state relations. This kind of diplomacy was problematic mainly because it fed the suspicion of countries in Southeast Asia regarding Chinese foreign policy as fundamentally double-faced. China’s dual-track diplomacy was also only

⁸² Mühlhahn, Klaus. 2018. Making China Modern : From the Great Qing to Xi Jinping. Cambridge, Massachusetts: Harvard University Press. p.433

arranged in Southeast Asia”⁸³, fomenting distrust amongst states about China’s real motives in the region.

Bandung Conference - a Turning Point

With the ideological divergence between the Soviet Union and China following Khrushchev’s de-Stalinization efforts, Mao seized upon an opportunity to magnetize non-aligned and former, disenfranchised colonial states into the Chinese communist orbit. That would take skillful diplomacy and an artful diplomat to brand China as a partner of choice during the developing Cold War era. Without peer in ability and in Mao’s confidence, Zhou Enlai masterfully made the case for China as a mutually beneficial option for future relations and trade at the 1955 Bandung Conference for Non-Aligned Nations. To the distaste of Nehru and India, Zhou Enlai characterized China in a non-ideological light, to minimize the conference from being seen as an Afro-Asia rebuttal to the growing Cold War between the United States and the USSR, and China’s growing regional prominence as a result of Korean War outcomes.

Central in striking this orchestrated balance of showcasing China as a mature foreign policy actor and assuaging concerns over the efficacy of China’s growing industrial, military, and ideological assertiveness, was the proffering of the Five Principles of Peaceful Coexistence to attendees as the “normative basis for state-to-state relations

⁸³ Mysicka, Stanislav, 2015. “Chinese Support for Communist Insurgencies in Southeast Asia during the Cold War.” *International Journal of China Studies* 6 (3) p.214

with China.”⁸⁴ The Five Principles codified China’s bilateral relations along five themes: (1) mutual respect for territorial integrity and sovereignty, (2) mutual non-aggression, (3) non-interference in each other’s internal affairs, (4) equality and mutual benefit, and (5) peaceful coexistence. Nehru saw these as creating a moral international order different, he believed, from the power politics approach of the Western countries. Beijing saw them as a device for reassuring the newly emerged countries.⁸⁵

The Five Principles were a masterstroke in foreign policy statesmanship but they existed in stark conflict with Mao’s campaign to spread revolutionary communism throughout Asia. Mao’s theory of “strategic patience” was crucial to gaining diplomatic headway with regional states and galvanizing non-aligned nations to the Chinese-led communist camp. On the other hand, US influence in Asia was enduring (especially in Vietnam); offering a substantial threat to spreading Marxist-Leninist revolution to former colonial and established states throughout the region. The inherent contradiction of pacing foreign relations under the aegis of the Five Principles while energizing communist lifelines through parallel schemes of engagement by the ILD imputed the authenticity of the Five Principles.

Communist Party of Malaysia leader Chin Peng visited Beijing in 1961 at the behest of the ILD for party-to-party talks. He “realized the Chinese communists were well down the track of funding the other Southeast Asian fraternal parties. All had representatives in

⁸⁴ Garver, John W. "Revolutionary China's Quest to Transform Southeast Asia." In *China's Quest: The History of the Foreign Relations of the People's Republic of China*. New York: Oxford University Press, 2016. Oxford Scholarship Online, 2016. p.107

⁸⁵ Garver, John W. "Revolutionary China's Quest to Transform Southeast Asia." In *China's Quest: The History of the Foreign Relations of the People's Republic of China*. New York: Oxford University Press, 2016. Oxford Scholarship Online, 2016. p.108

residence and large batches of people under varying training schemes. The Burma, Thai, Cambodian, Laotian, and Indonesian communist parties all had training facilities in China.”⁸⁶ Clearly the Five Principles proposed at the 1955 Bandung Conference were losing their foothold in foreign policy circles as Mao’s revolutionary activism increased in the early 1960’s; prescribing the “correct line” to the international communist movement. Mao rejected Wang Jiaxiang’s, the head of the ILD in 1962, proposal to reduce support to foreign wars of national liberation and return to Bandung-era bilateral protocols. Mao instead insisted that the CCP should increase, not decrease, support for national liberation and socialist revolution in the intermediate zone. In essence, Mao shared President Eisenhower’s “domino theory” of Southeast Asian states falling into the orbit of Communism due to China’s united front in the region. Zhou Enlai espoused the same rhetoric when visiting Africa, “calling for revolution in newly independent post-colonial states, and openly challenging the Soviet Union over the direction of the communist movement in the developing world.”⁸⁷

Examination of China’s dual-path foreign relations protocols with Malaysia, Indonesia, and Burma (present day Myanmar) are illustrative of the dual track approach and the attendant domestic consequences to state stability. Mao’s zeal to engender a Cultural Revolution domestically and spearhead the international communist movement via a dual track, foreign policy approach were mutually supportive to his cult of personality and to affirming his control of the party against internal dissent.

⁸⁶ Garver, John W. "Revolutionary China's Quest to Transform Southeast Asia." In *China's Quest: The History of the Foreign Relations of the People's Republic of China*. New York: Oxford University Press, 2016. Oxford Scholarship Online, 2016. p.200

⁸⁷ Mühlhahn, Klaus. 2018. *Making China Modern : From the Great Qing to Xi Jinping*. Cambridge, Massachusetts: Harvard University Press.. p.457

Malaysia - Communism via Hardwire

Temporally, Malaysia offers a unique perspective on ILD party-to-party engagement in that Deng Xiaoping, the Secretary General of the Central Secretariat in 1959, met with Chin Peng, the Secretary General of the Communist Party of Malaysia (CPM), while Chin was being accommodated by the International Liaison Bureau (ILB, predecessor to the ILD). Deng directly pushed for CPM armed struggle against the imperialists (British post-colonial, post-Japanese occupation influence). This was remarkable on two fronts. One, it was a reversal of the early 1950's Bandung-led peaceful coexistence guidance by the CCP to discard armed struggle and return to political struggle via application of a united front for national independence. Two, it seems antithetical to Deng's post-Mao approach to spreading revolution and expanding China's sphere of influence.

That said, the Malaysia case illuminates the extent of the CCP and the ILB/ILD reach into the internal affairs of Malaysia as early as post-WWII Japanese occupation; a period of opportunity for the CPM to shape the internal political orientation of the country toward communism. Equally, it is clear that the dictates from the CCP to the CPM were followed without exclusion. CCP training of CPM leadership within the secretive ILD compound intensified into the mid-1950's but was closely guarded. China was weary of exposing the extent of its support, both ideologically, militarily, and economically, to revolutionary activities in Southeast Asia with America on guard following the armistice on the Korean peninsula and Chinese posturing near Taiwan. But according to Chin Peng, the revolutionary leader of the CPM spearheading efforts to destabilize post-colonial government alignment with the British and the West, "Peking started funding us in 1961. Each year, our requests, based on US dollar calculations, were lodged with the Chinese.

But we could draw funds in practically any currency we liked. As requirements presented themselves, our budget was expanded accordingly by the Peking authorities.”⁸⁸ The ascension of Deng Xiaoping to the leadership mantle of China and the CCP in 1978 marked the death knell of CCP and ILD support to the CPM. While Mao embraced the dual track approach, clearly Deng’s ideological compass was toward accommodation and formal, official relations. In a press conference in Kuala Lumpur, four years before becoming Chairman, Deng offered that, “China henceforth...regarded her relationship with the CPM as a fact of history...something that should be left behind.”⁸⁹ More broadly, this appeared to be an omen for ILD revolutionary support in general, “since the 1970s the Chinese have reduced, and played down, their support of Communist parties engaged in revolutionary struggles, and the earlier concept of a community of Communist parties and governments no longer underlies Chinese policies in the way it once did.”⁹⁰ Accordingly, CCP and ILD support to the CPM cultivated armed conflict with Malaysian forces in the late 1960’s but dissipated in the mid-1970s.

Another strain in the post-colonial period in Malaysia and its enduring confrontation with the CPM was ethnicity. While Mao’s revolutionary appeal ideologically centered on the proletariat and class struggle, Malaysia, and Indonesia for that matter, offered a unique perspective on ethnicity and mobilizing revolution in the post-colonial period. Malaysia and Indonesia superimpose not only a clash between western democracy and communism, but “the ethnic battle of Malays against Chinese - a political battle against

⁸⁸ Chin, Peng, Ian Ward, and Norma O Mirafior. *My Side of History*. Singapore: Media Masters, 2003. p.436

⁸⁹ Chin, Peng, Ian Ward, and Norma O Mirafior. *My Side of History*. Singapore: Media Masters, 2003. p.483

⁹⁰ Barnett, A. Doak. *The Making of Foreign Policy in China : Structure and Process*, Routledge, 2019, p.48

Communists who were primarily overseas Chinese in Malaya.”⁹¹ The ethnic angle in Malaysia and Indonesia also transcended the proletariat by including urban, educated Malays and Indonesians as well.

Indonesia - Preeminent Employment of the Dual Track Approach

Perhaps no more prolific example of dual track diplomacy is evident than in the case of Indonesia. With an anti-Western and progressive President in President Sukarno and a well-established and formidable communist party in the PKI, Indonesia offered China a firm anchor within Southeast Asia to drive western, imperialist influence out of the region and extend its sphere of influence to a large populace that could be shaped to China’s favor.

With the newly established, former British colonial state of Malaysia extending its territory to the Sabah and Sarawak regions on the Borneo peninsula, Malaysia crowded out Sukarno’s nationalist objective of unifying ethnic Malayan, Indonesian and Philippine people under a single state with him as the sole ruler - and his state as the preeminent regional power. With Malaysia diplomatically and militarily aligned to the West, and specifically Britain, Sukarno established a policy of “Confrontation” toward Malaysia, an opening for China to embrace Sukarno and leverage PKI to confront growing western influence in the region thru its surrogate - Malaysia. The ILD saw the PKI as Beijing’s other policy instrument in Indonesia. By 1964-65, the PKI was the worlds’ largest non-

⁹¹ Frank H. Trager, Communist Signs in Indonesia. 1957. “Red Shadows on Southeast Asia.: New York Times (1923-Current File), Jul 07, p.136.

ruling Communist Party. Following a united front strategy laid out by Lenin and practiced by the CCP itself in the 1920s and 1930s - the PKI's position in Indonesian society had grown rapidly in partnership with Sukarno's effort to create a new domestic social order. The alliance of China, Sukarno, and the PKI and their synonymous aims in the region epitomized Mao's revolutionary struggle. The missing piece was recanting the Army to the communist camp in order to unify Sukarno's power, regional aims, and tool kit.

Sukarno's and D.N. Aidit's, PKI leader, visit to Beijing and meetings with the ILD garnered both ideological approval and military material as well to support the clandestine arming of workers and peasants; essentially PKI armed forces that would bring armed struggle against anti-Communist Army leaders. With the efficacy of the PKI increasing and the Army becoming more suspect of the same, Sukarno could no longer effectively balance both elements, especially in failing health. The uncertainty of the post-Sukarno era precipitated a PKI decapitation strike against six top Army officers with the objective of progressive, pro-Communist Air Force officers replacing them. While six were murdered by PKI death squads, others escaped; spurring a counter-attack against the PKI and a national backlash against pro-China and ethnic Chinese citizenry that would lead to the death of D.N. Aidit, the elimination of the PKI, and surviving PKI leadership being forced into exile in China. The calamitous course of events would taint societal perceptions and sow distrust of China until the late 1980s.

Interestingly, the CCP's support of the PKI followed the party-to-party and united front protocols of the ILD that were employed elsewhere in central and southeast Asia (plus Tibet). But with Indonesian Air Force collusion with the PKI, China's handling of the arms transfers thru "official" channels (President, Foreign Minister, and Air Force) was a

mirage. The transfers “accorded with China’s dual track approach. Technically, China’s arms assistance, even though covert and carefully kept secret from Indonesia’s Army leadership, went to Indonesia’s legal government.”⁹²

Implications and Contemporary Relevance

China’s complex history to nationhood and from nationhood is a difficult predictor of future events and trajectories. Fundamentally, Xi’s China of today is an amalgam of historical pursuits, disparate leaders, and difficult eras that have dotted China’s past and steeled the present to achieve the “China Dream” with the regime at the forefront. That regime is less focused on communist revolution than its predecessors but it is determined economically and nationally to upend the international order and displace the United States as the world's top economy.

As complicated as that is, it is further challenged by a history of double-dealing in foreign relations in its near abroad through a dual track approach of formal state-to-state relations while simultaneously funding insurgencies. The stains of that approach are beginning to fade but they contribute to China’s paucity of formal alliances and partners around the globe. Lee Kuan Yew of Singapore during his banquet speech for Premier Zhao Ziyang in August 1981 shed light on this, “none of the ASEAN countries has any need for communism or communist parties to bring about a better society and a better economic life for its peoples. Every ASEAN government is convinced that its own-communists are

⁹² Garver, John W. "Revolutionary China's Quest to Transform Southeast Asia." In *China's Quest: The History of the Foreign Relations of the People's Republic of China*. New York: Oxford University Press, 2016. Oxford Scholarship Online, 2016. p.223

threats only because of outside assistance and interference.”⁹³ Strategically, China’s Belt Road Initiative (BRI) is displacing communist revolution with economic dependency in China’s near abroad and beyond - to China’s benefit.

⁹³ Heaton, William R. "China and Southeast Asian Communist Movements: The Decline of Dual Track Diplomacy." *Asian Survey* 22, no. 8 (1982): p.798

Chapter 3

The Policy and Diplomatic Imperative of China's OFDI and BRI

Belt and Road Initiative

China's Belt Road Initiative (BRI), formerly unveiled as One Belt, One Road (OBOR)⁹⁴ by President Xi Jinping in late 2013, serves as a hallmark economic and development initiative at the intersection of China's interests and recipient nations' development goals. On the surface, BRI appears to be a prescription for China to spur economic activity, capitalize on its export-oriented economic model, and provide essential trade, capacity and financing to key infrastructure and development projects across Asia, Africa, Europe, and the maritime commons between each.

The Silk Road Economic Belt and the 21st Century Maritime Silk Road refer to the economic and overland transport links connecting China to Europe and the network of interconnecting ports, infrastructure, and maritime routes connecting China to Asia, the Indian Ocean, the Middle East, Africa and Europe. Combined, both the Belt and Road initiatives aim to increase inter- and intra-continental trade and infrastructure networks in Asia, Europe, the Middle East and Africa through multiple corridors; improving regional and extra-regional integration across land and via the sea.

In 2015, bowing to growing concerns in the West that OBOR was a vehicle of geopolitical influence rather than an economic development instrument, China rebranded OBOR into

⁹⁴ People's Republic of China (2015), "Chronology of China's Belt and Road Initiative," March 28, 2015. http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm.

the Belt and Road Initiative (BRI). This was codified in the, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”⁹⁵, a joint release by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MOFA), and the Ministry of Commerce (MOFCOM) at the Boao Forum on March 28, 2015. This document and a jointly issued statement by the three ministries standardized the English translation of the Belt and Road; emphasizing that “initiative” should be employed and that connotations to strategy, project, program, or agenda should not be used.

Consistent with modern Chinese narratives that draw upon China’s historical prominence and dynastic greatness, the references to Silk Road anchor BRI to a rebirth of the ancient trading routes across Eurasia. While that might renew vestiges of cross-continent trading by disparate cultures, to some, especially the West, the Silk Road, in the modern context, is much more than heralded economic and development motives.

At the Belt Road Forum for International Cooperation in March, 2015, China emphasized that, “Jointly building the Belt and Road is in the interests of the world community. Reflecting the common ideals and pursuit of human societies, it is a positive endeavor to seek new models of international cooperation and global governance, and will inject new positive energy into world peace and development.”⁹⁶ The overtures to new models of international cooperation and global governance certainly did not mollify critics that BRI

⁹⁵ http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

⁹⁶ Vision and Actions on Jointly Building Belt and Road. First Belt Road Forum, 2017. <http://www.beltandroadforum.org/english/n100/2017/0410/c22-45.html>

was more than just the “peaceful development”⁹⁷ monikers that have characterized China’s development path since Deng’s Reform and Opening and use of the term “China’s Rise” by Premier Wen Jiabao’s at a speech at Harvard University⁹⁸ in December 2003 at Harvard in 2003.

Unlike western, international development efforts, BRI has been elevated to a signature priority of Xi Jinping and the CCP. Incorporated with the Chinese Communist Party’s constitution during the 19th Party Congress in October 2017, and added as an amendment to the People’s Republic of China constitution in March 2018, these legislative actions underscored the importance of BRI in both nationalistic and Party terms.

In terms of implementation as a State priority, BRI garnered implementation via two Leading Small Groups - a coordination mechanism historically implemented within the State Council to drive execution and oversight between ministries. In March 2015, the Leading Small Group on Advancing the Construction of the Belt and Road, within the State Council, and the Office of the Leading Small Group on Advancing the Construction of the Belt and Road within the National Development and Reform Commission (NDRC) were formed. The NDRC, formerly the State Planning Commission and the State Development Planning Commission, is the focal point of government under the State Council responsible for cross-coordination amongst ministries with equities in BRI.

⁹⁷ The State Council Information Office of the People's Republic of China. *China's Peaceful Development Road*. Beijing: China Intercontinental Press, 2005.

⁹⁸ Medeiros, Evan, “China Debates Its “Peaceful Rise” Strategy”. June 22, 2004. www.yaleglobal.edu

Further coordination occurs within the central government ministries and provincial governments via subordinate leading small groups.

BRI is multi-pronged, and fuses key enablers that go well beyond the projects themselves. These enablers include special economic corridors, economic zones, free trade agreements, cross-border mergers and acquisitions, and liberalized trade and investment protocols to advantage access to markets.

According to OECD estimates, “global infrastructure investment needs - for need - for airports, ports, rail, oil and gas (transport and distribution) could amount to nearly \$USD 11 trillion by 2009-2030.”⁹⁹ But that analysis, nine years ago, has been overcome, notably, by the economic and developmental growth of China, ASEAN, and Africa. In 2017, the Asian Development Bank (ADB) concluded that in Asia alone, funding of \$26.2 trillion (\$1.7 trillion annually) for infrastructure projects was required by 2030.¹⁰⁰ PwC, formerly called PriceWaterhouseCoopers, predicts, in a 2016 report, “that BRI will mobilize up to US\$1 trillion of outbound state financing from the Chinese government in the next 10 years (2026). Most of this funding will come in the form of preferential debt funding, but some will be in equity.”¹⁰¹ Unlike multilateral development banks (MDB), China’s investments under BRI are opaque - and not easily calculable. However, China structurally supported BRI investments through establishment of a New Silk Road Fund (NSRF), the Asian Infrastructure Investment Bank (AIIB), leveraging its policy banks

⁹⁹ Strategic Transport Infrastructure Needs to 2030. Paris: OECD Publishing, 2012. p. 17

¹⁰⁰ Asia Development Bank, “Meeting Asia's Infrastructure Needs.”, Manila. 2017. p. 43

¹⁰¹ Yeroen van der Leer and Joshua Yau, “China’s New Silk Route, The Long and Winding Road. PwC’s Growth Markets Centre. February 2016. <https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf>

(China Development Bank and China Export Import Bank among others), and employing its vast foreign exchange reserves. While no official BRI budget has been publicly made available, public-facing announcements provide insights into the scale of investments. For example, the sovereign, Silk Road Fund,¹⁰² was endowed with \$40 billion from China's foreign exchange reserves and policy banks. This was accompanied by the creation of the Asian Infrastructure Investment Bank (AIIB)¹⁰³ - with \$100 billion in investment capital. The China Development Bank announced (in 2015) that it would invest \$890 billion in 900 BRI projects.¹⁰⁴ At the 2017 Belt and Road Forum (forums where most project deals are announced), the NDRC highlighted that China's investments would total between \$600 and \$800 billion¹⁰⁵ (\$120 to \$160 billion a year) over the next five years, an extra \$14.5 billion for the Silk Road Fund, \$56 billion in loans from two policy banks, and \$9 billion in aid.¹⁰⁶ In January 2018, the China Development Bank committed \$250 billion in loans to BRI.¹⁰⁷

With the intention of culminating BRI in 2049 at the hundredth anniversary of the founding of modern China, the geographic scope of BRI continues to expand across Eurasia and into Africa. But who is in and who is out is a matter of perspective. There is no official map showing all the projects undertaken under the aegis of BRI. According to Forbes,

¹⁰² <http://www.silkroadfund.com.cn/enweb/23773/index.html?previePc=true>

¹⁰³ <https://www.aiib.org/en/about-aiib/index.html>

¹⁰⁴ <https://www.nbr.org/publication/a-guide-to-the-belt-and-road-initiative/>

¹⁰⁵ <https://economictimes.indiatimes.com/news/international/business/china-to-invest-800-billion-in-belt-and-road-initiative-over-next-five-years/articleshow/58656367.cms>

¹⁰⁶ <https://www.reuters.com/article/us-china-silkroad-africa/china-pledges-124-billion-for-new-silk-road-as-champion-of-globalization-idUSKBN18A02I>

¹⁰⁷ Sun, Nikki. "China Development Bank Commits \$250bn to Belt and Road", January 2018. <https://asia.nikkei.com/Politics-Economy/Economy/China-Development-Bank-commits-250bn-to-Belt-and-Road>

“while Beijing boasts that the official list of Belt and Road participants is up to 137 countries and 30 major international organizations, in most cases the criteria for “signing up” is a vaguely worded, non-legally binding MOU. Over the first phase of the Belt and Road, we’ve also seen projects retroactively labeled BRI and we’ve seen projects start out waving the BRI flag just to see them yanked down and re-branded as “local” as soon as the tide of public sentiment turns against them.”¹⁰⁸

Various websites and data sources such as AEI’s China Global Investment Tracker Database, AidData.org, Boston University’s Global Development Policy Center Project Database, World Bank Group, Asia Development Bank, and AIIB.org make inroads on determining project numbers, details, and available funding data, but it is not all inclusive nor to the fidelity required to accurately aggregate the scope and magnitude of BRI in toto. In addition, as will be depicted in the four case studies to follow, previously executing OFDI for developmental projects have been subsumed under BRI by China, and not uniformly by recipient nations; offering a glimpse into the nationalistic, geo-economic, and geostrategic importance that China has applied to BRI.

Facing constraints logistically to accumulate resources and energy from, as well as to provide inclusive economic development to Western China, BRI germinated from a domestic challenge to economically and logistically integrate the interior state of Xinjiang to an omnibus solution to resource resiliency concerns and an economic overcapacity problem in the aftermath of the Global Financial Crisis (GFC). To be clear, to resolve

¹⁰⁸ Shepard, Wade. “How China Is Losing Support For Its Belt And Road Initiative”. February 28, 2020. <https://www.forbes.com/sites/wadeshepard/2020/02/28/how-beijing-is-losing-support-for-its-belt-and-road-initiative/?sh=157e70a22199>

China's overcapacity challenge following the GFC, BRI correlated dependency both ways - for China, on having recipient nations to export industrial overcapacity and to absorb development capital, and for recipient nations, on having access to China's capital and industrial scale. Often showcased as dependency toward China, BRI, by design, constructs a structural interdependency for both China and recipient nations. This point should not be lost on recipient nations looking for negotiating leverage and on writings characterizing the shared opportunities and risks associated with BRI.

By design, BRI epitomizes Deng Xiaoping's "Going Out" strategy in its purest sense. Specifically, it is oriented in three principle directions - west/northwest to Europe via Xinjiang, Central Asia, Russia, the Middle East), east/southeast (ASEAN), and south (India, South Asia, and Africa). Figure (10) is the first, official illustration of BRI.



Figure (10) - Silk Road Economic Belt and the Maritime Silk Road Route¹⁰⁹

¹⁰⁹ "How Can the World Be Win-Win? China Is Answering the Question." www.xinhua.net, May 04, 2014. Graphic is one of the first depictions linking both the overland belt and the maritime road concepts of BRI.

Since 2017, BRI has rapidly expanded to include Africa, areas of Latin America, and Oceania. The addition of six “economic corridors” - the China-Mongolia-Russia Economic Corridor, New Eurasian Land Bridge Economic Corridor, China–Central Asia–West Asia Economic Corridor, China-Pakistan Economic Corridor, Bangladesh-China-India-Myanmar Economic Corridor, and the China–Indochina Peninsula Economic Corridor (Figure (11)) correlate activities (largely to resources, logistics, and infrastructure). This framework places China at the center of interconnected land and maritime infrastructure.

Building out the Maritime Silk Road aspect of the BRI, three “blue economic passages” were introduced by the NDRC¹¹⁰ in 2017 - China–India Ocean–Africa–Mediterranean Sea Blue Economic Passage, China–Oceania–South Pacific Blue Economic Passage, and the China–Arctic Ocean–Europe Blue Economic Passage. The passages, like the land-based corridors, centralize maritime activities and objectives across the maritime.

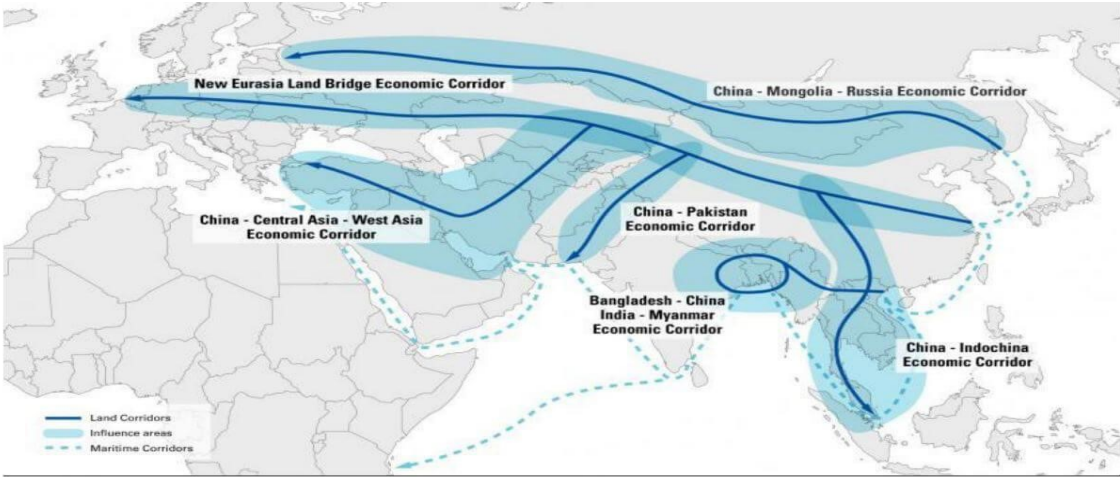


Figure (11) - BRI Land (Belt) and Maritime (Road) Economic Corridors¹¹¹

¹¹⁰ http://english.gov.cn/state_council/ministries/2017/06/21/content_281475692760102.htm

¹¹¹ <https://www.nomuraconnects.com/focused-thinking-posts/the-belt-and-road-initiative-globalisation-china-style/>

BRI, in broad terms, encompasses five “Cooperation Priorities” that were unveiled at the first Belt Road Forum for International Cooperation in 2017.¹¹² Commonly referred to as “five pillars” or “five links”, they prescribe the overarching precepts that guide execution of BRI from the Chinese perspective. While infrastructure and capital lending have come to the forefront and serve as the hallmarks of the Initiative, the five Cooperation Priorities are very much the strategic innards: policy coordination, infrastructure building, unimpeded trade, financial integration, and people-to-people bonds.

The common thread between the Cooperation Priorities is that China is inextricably linked to participating countries and vice versa. This is a point that is less pronounced in coverage because of the political dividends by both China and recipient nations in showing tangible progress and results - especially in the early stages of BRI. What emerges is the potential for a Sinocentric sphere of economic and political dependency - as a byproduct of BRI. Taken together, these five links reflect the Chinese leadership’s vision for a region more deeply integrated around - and through - China. Such a connected framework would embody, in essence, a “community of common destiny” - an aspirational vision of President Xi Jinping to reset global order and institutions to an Asia-centric (read: Sino-centric) inclination. Xi has advocated that a community of common destiny is required to “face the fast changing international and regional landscapes, we must see the whole picture, follow the trend of our times and jointly build a regional order that is more favorable to Asia and the world. We should, through efforts towards such a

¹¹² Vision and Actions on Jointly Building Belt and Road. First Belt Road Forum, 2017. <http://www.beltandroadforum.org/english/n100/2017/0410/c22-45.html>

community for Asia, promote a community of common interest for all mankind.”¹¹³ The implementer for which, BRI, seems to orchestrate.

Funded by China’s policy banks and staffed largely by exported Chinese workers, BRI’s infrastructure projects served as a vital outlet for excess industrial capacity from State-owned Enterprises (SOE) and an inroad to building infrastructure at the global-level of production. In addition, the relocation of low value chain production overseas allowed domestic manufacturers to move higher up in the value chain. Supported by State subsidies, preferential loans from State commercial and policy banks, and vast foreign reserves, China’s SOEs leveraged these market advantages when competing for development projects under the rubric of BRI.

The Chinese Government’s campaign to market its high-speed railway technology is a preeminent example of how it intends to use BRI to upgrade China’s industry. The focus on high-speed rail also illustrates Beijing’s goal of gaining acceptance of Chinese standards. If countries across the region accept Chinese high-speed railway technology as their national standard, it could become the de facto standard across a vast geographical area. This means Chinese manufacturers and suppliers would enjoy a strong, first-mover advantage over other competitors, especially Japanese producers of high-speed rail.

¹¹³ Jinping, Xi, “Towards a Community of Common Destiny and A New Future for Asia”, Boao Forum for Asia Annual Conference 2015. March 28, 2015

The Ministry of Industry and Information Technology (MIIT) expects the transport industry and the high-speed rail sector to play a leading role in encouraging high-end Chinese industrial exports. Chinese economic planners believe significant demand will come from BRI such as Southeast Asia, South Asia, Central Asia, and West Asia.¹¹⁴

The Jakarta–Bandung High-Speed Railway project is illustrative of Beijing’s intent to use BRI to promote China’s high-tech sector and associated technical and engineering standards. Beijing secured the right to build the 142 kilometer high-speed rail line connecting the Indonesian capital and Bandung in West Java after an intense bidding war with the Japanese.¹¹⁵ Beijing won the bid by offering to finance the project itself, and without sovereign guarantees from the government of Indonesia.

The most significant part of the deal for Beijing is the Indonesian Government’s decision to adopt Chinese high-speed railway technology. Xinhua, the Chinese Government official news agency, has reported that the project will adopt “Chinese standards, Chinese technology and Chinese equipment”¹¹⁶ and that a Chinese engineering company will be involved in every aspect of construction, from the initial survey to the management of the railway under a Build-Operate-Transfer (BoT) scheme once the project is completed. For Beijing, it is a major breakthrough in persuading a foreign country to accept Chinese

¹¹⁴ Made in China 2025: Promoting the Development of Advanced Transport Equipment], The Ministry of Industry and Information Technology, <http://www.miit.gov.cn/n11293472/n11293877/n16553775/n16553822/16633922.html>.

¹¹⁵ “China Wins Indonesia High-speed Rail Project as Japan Laments ‘Extremely Regrettable’ U-turn”, South China Morning Post, 29 September 2015, <http://www.scmp.com/news/asia/southeast-asia/article/1862459/china-wins-indonesia-high-speed-rail-project-japan-laments>.

¹¹⁶ Cao Zheng, “High-speed Rail Export Scores Historical Breakthrough, China and Indonesia Will Jointly Build High Speed Rail between Jakarta and Bandung”, 17 October 2015, Xinhua News Agency, http://news.xinhuanet.com/fortune/2015-10/17/c_128327911.htm.

standards and technology - at a scale and complexity that competes within Japan's high-speed rail market dominance.

Apart from the high-speed rail sector, the Chinese Government is also using BRI to push for Chinese standards in other sectors such as energy and telecommunications. Controlling standards means having an upper hand in negotiations, advantages as the lead in the lead-follower technological race, and better profitability as the market leader.

Telecommunications is another important sector in terms of gaining acceptance of Chinese standards. China boasts two leading edge telecommunication equipment makers: Huawei and ZTE. Huawei has a presence in over 170 countries and doubled its overseas profits between 2011 and 2015.¹¹⁷ The former derives 70 per cent of its sales revenue¹¹⁸ from outside of China and is particularly successful in Asia, Africa, and Latin America. ZTE is "deployed across 140 countries globally and overseas business revenue for 2015 accounted for 58% of the company's total business revenues."¹¹⁹ ZTE has a presence in over 90% of the economies along B&R routes.

Huawei, ZTE are complemented by China's Telecom SOEs China Mobile, China Unicom, and China Telecom, all of which have established global subsidiaries in Hong Kong as a global gateway to the international market and finance. While most telecom firms had experienced global growth as a result of market expansion, BRI accelerated growth in stride with projects requiring next generation telecommunications architectures,

¹¹⁷ BMI Research, A Fitch Group Company; Trillion Dollar Trade Route - Winners Along The Belt And Road, April 2017. p.49

¹¹⁸ Cai, Peter, Understanding China's Belt and Road Initiative. Lowy Institute for International Policy. March 2017. p. 11

¹¹⁹ BMI Research, A Fitch Group Company; Trillion Dollar Trade Route - Winners Along The Belt And Road, April 2017. p.49

communications cables, and wireless technology and controls. Profitability has led to extensive R&D to develop market-leading 5G technology - including setting and designing international technical standards. Accordingly, China's telecoms are establishing a prominent presence in international telecommunication industry bodies and associations such as the International Telecommunications Union, the 3rd Generation Partnership Project, and the Institute of Electrical and Electronics Engineers.¹²⁰ The drive to become the global leader in 5G technology and supplant Japan as the high-speed rail industry standard are indicative of China's, Made in China 2025 strategy.

Accomplishing State policy objectives globally with respect to High Speed Rail and telecommunications technology, for example, requires State Council policies accompanied by enabling investments and SOE execution that cross-cut and balance ministerial priorities and resources.

Enabling Policy and Investment Coordination

The conventional notion is that perfect cohesion exists between the State (Ministry of Foreign Affairs (MOFA) and the policy banks (CDB) when it comes to BRI or OFDI execution. On the surface, that appears so. In execution, the details prove otherwise.

BRI and OFDI top-down guidance, either in policy speeches, State Council decisions, or in Five-Year Plans, is thematically broad and overarching. Implementation requires a confluence of interests and actors but most principally, State foreign affairs interests and

¹²⁰ Cai, Peter, Understanding China's Belt and Road Initiative. Lowy Institute for International Policy. March 2017. p. 11

the policy banks. To remain financially viable, policy banks' overarching concerns are the financial feasibility and risks of non-performing loans. From OECD data, it appears that State interests predominate. Per Figure (12), over two-thirds of the lending to BRI and OFDI infrastructure construction projects from 2005-2017 were provided to countries with less than an investment grade (BBB-) sovereign credit rating. This elevates the risk of non-performing loans from nations with the inability to repay in accordance with credit terms and timelines - while prioritizing potential geopolitical dividends of project execution.

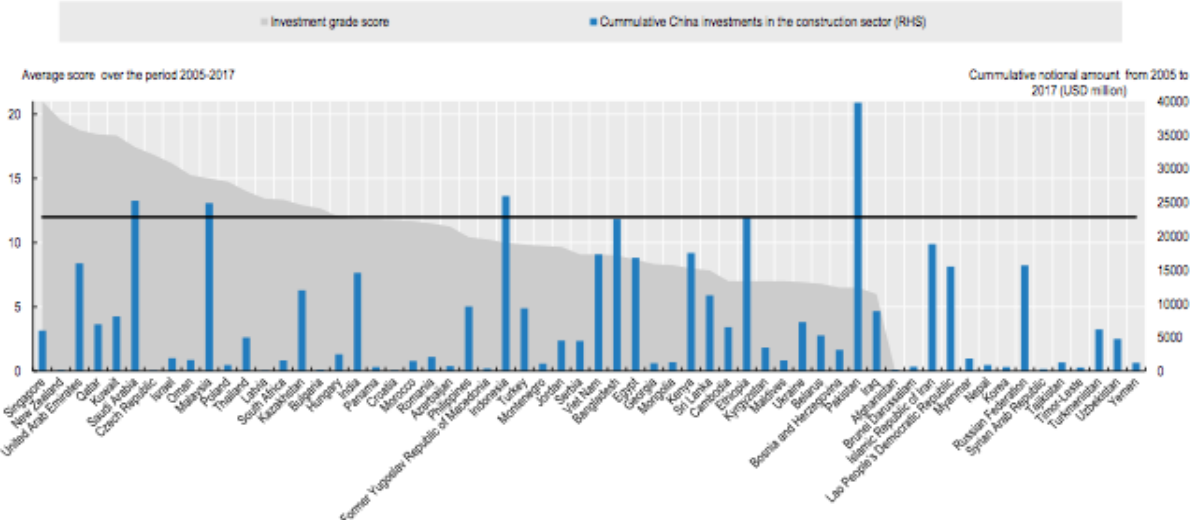


Figure (12) - Sovereign Credit Rating of BRI Financed Infrastructure/Construction Loans 2005-2017¹²¹

To alleviate the risk of non-performing loans and to enhance the nonviable projects credibility, China often requests revenue-based guarantees from recipient governments to hedge against risk. While beneficial to China, this would increase capital debt, leverage positions of host nations and injure their borrowing capacity from other international and

¹²¹ OECD (2018), The Belt and Road Initiative in the Global Trade, Investment and Finance Landscape, in OECD Business and Finance Outlook 2018, OECD Publishing, Paris.

multilateral lenders. In the case of Indonesia, Jokowi refused to provide a sovereign guarantee for loans associated with the hallmark BRI project, the Jakarta-Bandung Rail Project. Another approach was for policy banks and State interlocutors to request commodity-backed repayment which added an additional level of complexity to implementing BRI/OFDI. As evidenced in the case of Angola (oil), Venezuela (oil), and Sri Lanka (Hambantota Port access), incorporating commodities or collateral into negotiations mitigated the risk for China, but increased the “skin in the game” for recipient nations.

In essence, the infrastructure-for-commodity repayment agreements constituted economic statecraft, with China employing its financial agency to secure energy overseas and strengthen political ties with borrowing countries. But this outcome is not purely State driven. CDB, as China’s lead international development lender, has sought international projects since the early 2000’s in accordance with FYP guidance, often incorporating energy commodity collateral for loans in developing countries. The point here is that sovereign guarantees, long-term non-concessional loans, and commodity-based repayment protocols to developing countries with less than average sovereign credit rating provided the pathway for the “win-win.” China mitigated debt leverage risk, secured long-term loans at often above multilateral lending rates¹²², and garnered energy commodity collateral where opportunities presented themselves - in exchange for large-scale infrastructure development. The “loan credits” transformed nonviable projects in

¹²² China Development Bank, China Development Bank Annual Report; 2018. Available from: https://sec.report/nsm/China-Development-Bank/data-migration/LSE20190722120803_14158269

high credit-risk recipient nations that lacked domestic capital accumulation or revenue for key development projects - to become investment viable projects.

The State-policy bank dynamic is at the heart of implementation of BRI and OFDI. The affinity to provide debt leverage to developing economies with insufficient revenue and capital accumulation to fund domestic infrastructure development projects is the value proposition of BRI/OFDI. While the policy banks do leverage central government subsidies to achieve competitive advantages over foreign and multilateral banks, they also raise capital independently through bond issuances and private investors. Therefore, to maintain financial viability, the propensity for policy banks is to not lend below market rates unless there is a government-to-government risk mitigation strategy in place. This doesn't resolve the inherent tension between State and policy bank equities in financing nonviable, high risk projects but it does help balance and mollify the geopolitical dividends versus debt leverage risks of Xi Jinping's hallmark initiative.

Chapter 4

The Economic Impetus - Exporting Excess Capacity

During the global financial crisis, the Chinese Government delivered one of the largest stimulus packages of nearly RMB 4 Trillion (USD\$586 Billion). It saved China (and arguably a host of other countries, including Australia) from recession through measures instituted by China's central bank. A monetary policy of quantitative easing was enacted that infused greater lending capital to both state-owned commercial and policy banks as well as provincial and local banks to spur economic activity.

Quantitative easing followed a monetary policy of tightening measures in 2007-2008 due to domestic real estate inflation and the rise of distressed loans to industry as a result of indications in the global market of credit volatility and economic performance. This resultant global financial crisis in 2008-2009 led to a global slowdown. In the face of declining global demand for industrial orders, the implications were potentially cataclysmic to China's export-oriented economy. To China's credit, monetary policy tightening in the run-up to the global financial crisis buffered China's economy from the onset of a global economic downturn.

On the issue of excess industrial capacity, the prevailing notion is that a byproduct of China's economic stimulus package was fueling excess capacity in industrial sectors - pumping liquidity into most notably, steel and cement SOEs to keep them viable. A closer look shows that factors of production, capacity, and liquidity are not necessarily aligned to that hypothesis.

In the steel industry, for example, China’s annual steel production surged from 356 million tons in 2005 to 823 million tons in 2014. To put that into perspective, the extra ~470 million tons in increased capacity is larger than the combined yearly production of North America, South America, the European Union, the Commonwealth of Independent States, and “other Europe.”¹²³ The steel sector did so linearly with expanding capacity (Figure (13)) and year-on-year output growth (Figure (14)) since accession into the WTO in 2001.

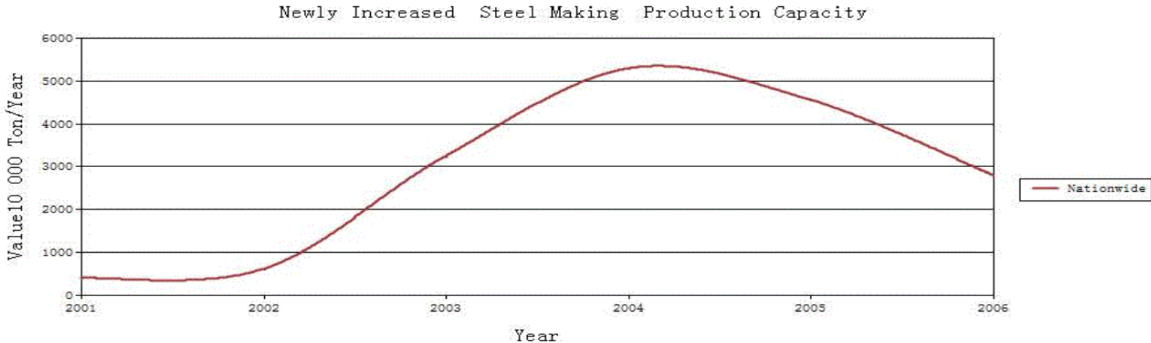


Figure (13) - China Steel Capacity Increase 2001-2006¹²⁴

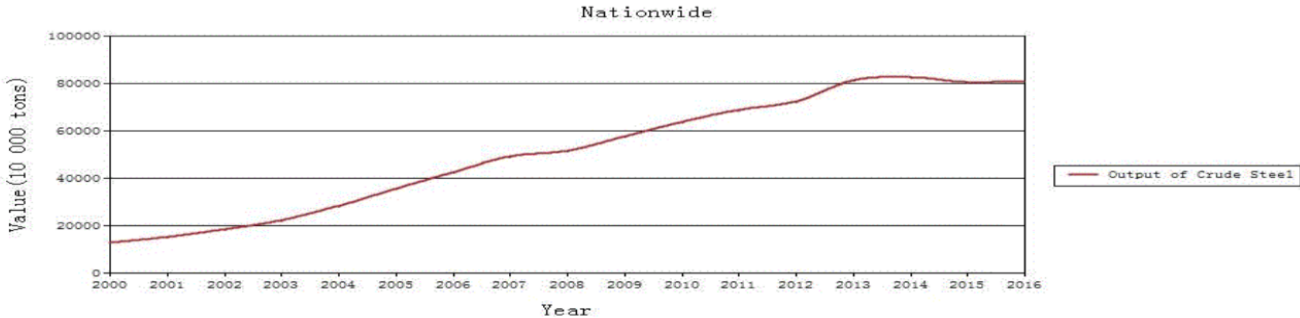


Figure (14) - China Crude Steel Output¹²⁵

¹²³ World Steel Association, Steel Statistical Yearbook 2015, Brussels. 2015 p.1
¹²⁴ Data derived from China Statistical Yearbook (2007), China Statistical Yearbook (2006), China Statistical Yearbook (2008). Newly increased steel production capacity data unavailable after 2008.
¹²⁵ Data derived from, GLORIOUS 30 YEARS (1978-2007), Chongqing Statistical Yearbook (2008), China Statistical Yearbook for Regional Economy (2008), Neimenggu Statistical Yearbook (2007), China Statistical Yearbook (2005) .

Double digit GDP growth from 2000-2010 and rapid industrialization and urbanization spurred domestic consumption for steel, principally in the infrastructure and real estate sectors. Thus, China’s steel sector increased capacity to satiate domestic demand - at a scale double its nearest competitor, the Middle East. In terms of millions metric tons (MT), China dwarfed the Middle East by nearly 2000% in steel production capacity growth from 2000-2014 - and did so with the advent of private sector steel firms.

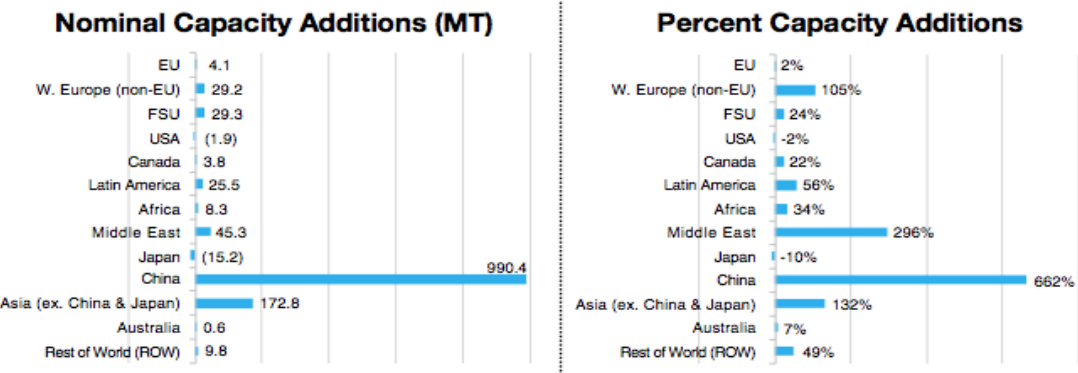


Figure (15) - World Steel Capacity Growth 2000-2014¹²⁶

While disadvantaged against large Steel SOEs with preferential loans from state-owned banks and political backing at the national, provincial, and local level, private sector steel firms, a symbol of free-market liberalization, grew in prominence - and output. Hence, dual ownership firms (private and State) contributed to steel sector output from the mid-2000’s onwards (Figure (16)).

¹²⁶ Brun, Lukas. (2016). Overcapacity in Steel: China's Role in a Global Problem.. September 2016 Center on Globalization, Governance & Competitiveness, Duke University

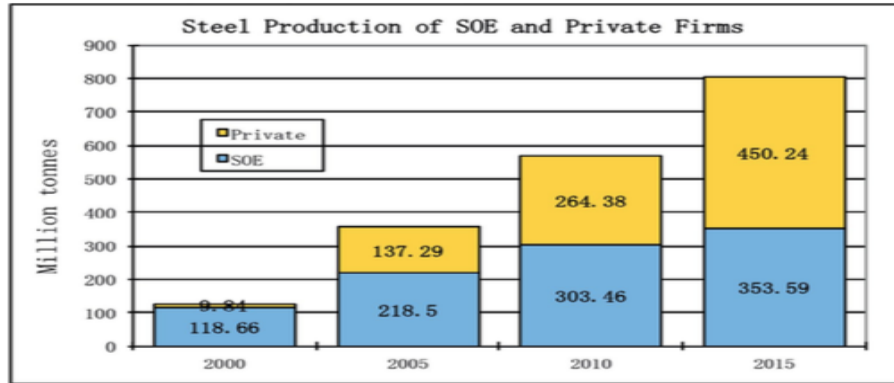


Figure (16) - Steel Production by Ownership Type¹²⁷

A corresponding increase in both steel sector capacity and output from both the private sector and state sector firms manifested in China becoming a net steel exporter in 2006. As depicted in Figure (17), China's Steel capacity utilization rate (otherwise referred to as apparent consumption) was outpaced by domestic steel production and capacity. Therefore, a viable avenue for excess steel production was exports.

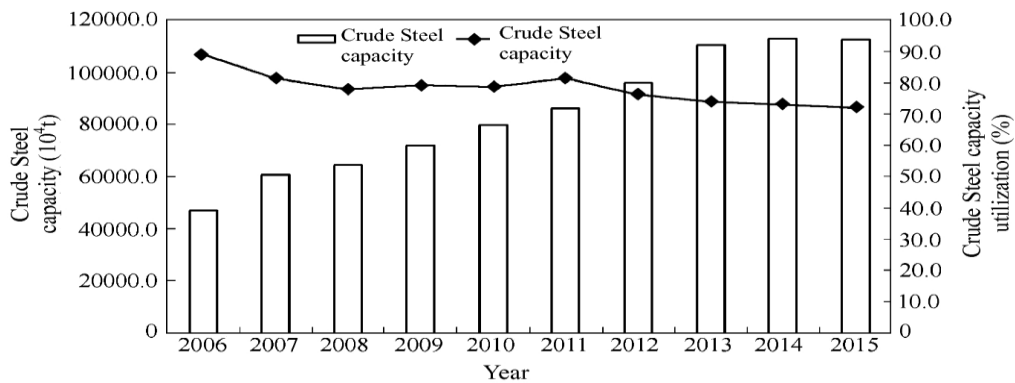


Figure (17) - China Steel Capacity and Utilization Rate 2006-2015¹²⁸

¹²⁷ Song, L., Garnaut, R., Fang, C., & Johnston, L. (Eds.). (2016). China's New Sources of Economic Growth: Vol. 1: Reform, Resources and Climate Change. Australia: ANU Press. 2016. P. 351

¹²⁸ Li, X. (2020). The Road Map of China's Steel Industry: Reduction, Innovation and Transformation. 1st ed. 2020. Singapore: p. 454

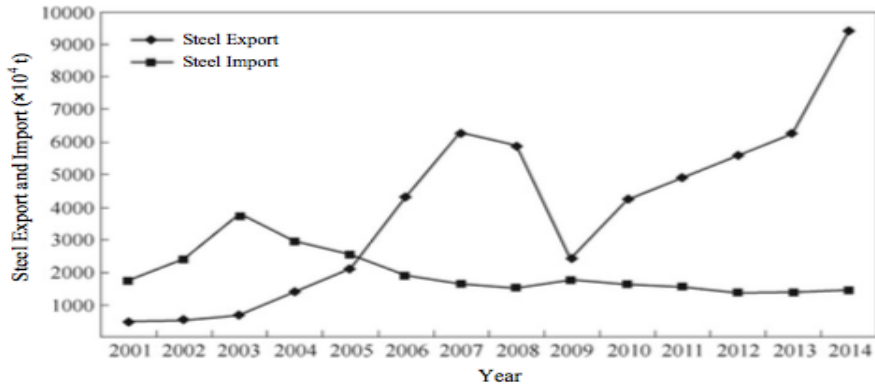


Figure (18) - Aggregate Balance of China's Steel Imports and Exports¹²⁹

Post-Global Financial Crisis, this led to the entry of a glut of Chinese excess steel, introducing market distortions through increasing supply, lowering global steel commodity prices, and negatively affecting profitability of other global producers. This culminated in a backlash of claims on “dumping”, furthering trade imbalances, and crowding out market competitors that could not compete at scale. The outpacing of domestic steel capacity versus domestic demand enabled China to increase steel exports since 2006 and become a net steel exporter for the first time in China’s history.

In 2016, the steel products exports to China’s top ten importers accounted for 55.6%. Among them, exports of steel products to South Korea, and Southeast Asia (Vietnam, Philippines, Thailand, and Indonesia) accounted for 41.1%.¹³⁰ Figure (19) below highlights the nearly 150% increase in steel exports post-global financial crisis until 2015; corresponding to a doubling of export share of production across the period. Calls by the

¹²⁹ Xinchuang Li, *The Road Map of China’s Steel Industry: Reduction, Innovation and Transformation*. China Metallurgical Industry Planning and Research Institute Metallurgical Industry Press 2020 Beijing, China.

¹³⁰ Li, X. (2020). *The Road Map of China's Steel Industry: Reduction, Innovation and Transformation*. 1st ed. 2020. Singapore: p. 453

international community for China to curb overcapacity due to the distortive effects on the steel market were heard - but ineffective.¹³¹

Overall Production and Export Share of Production

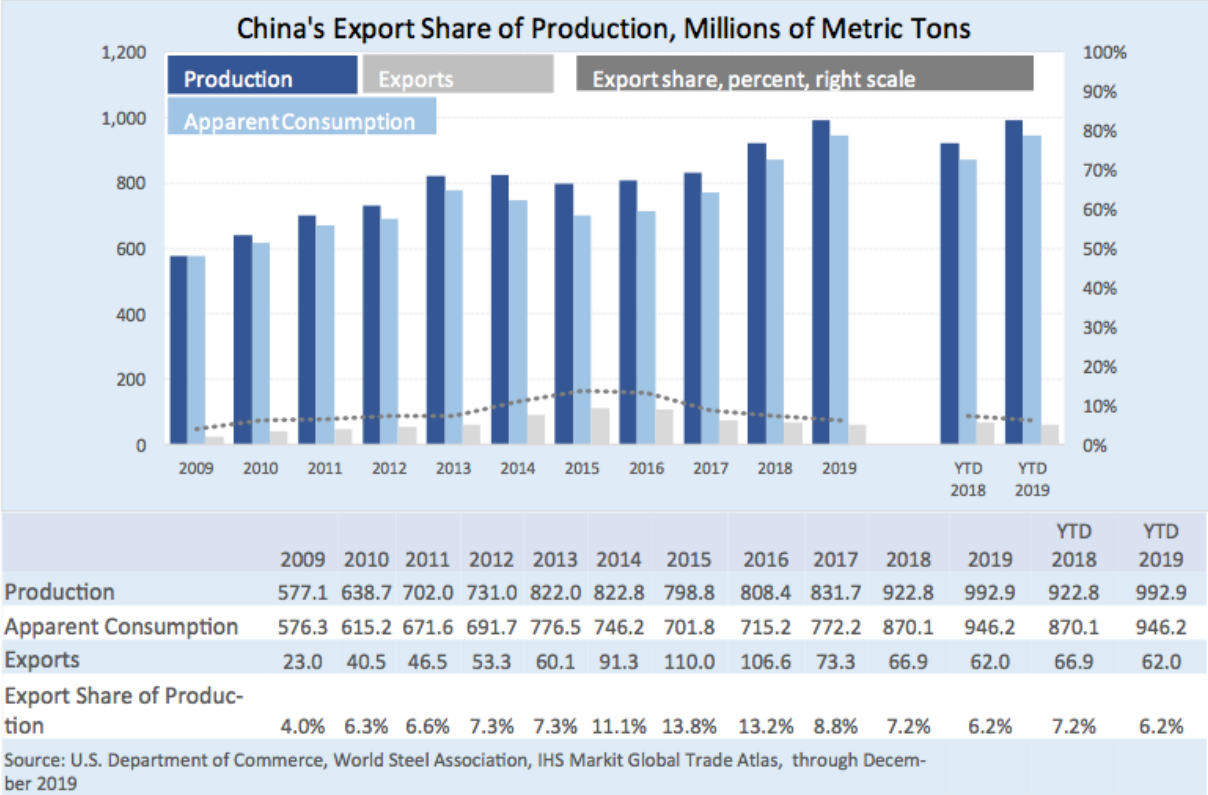


Figure (19) - Aggregate Balance of China's Steel Imports and Exports¹³²

As evidenced in figure (19) above, China continued to expand industrial steel capacity through the global financial crisis and beyond. With clear indications of overcapacity in the steel sector, and in response to international pressure and declining profitability, China enacted a series of policy responses to constrain production, consolidate capacity,

¹³¹ US examples include United States Economic and Security Commission (USCC) hearings and testimony <https://www.uscc.gov/hearings/hearing-chinese-state-owned-enterprises-and-us-china-bilateral-investment> and recurring, bilateral U.S-China Strategic and Economic Dialogue (S&ED)

¹³² Li, Xinchuang, The Road Map of China's Steel Industry: Reduction, Innovation and Transformation. China Metallurgical Industry Planning and Research Institute Metallurgical Industry Press 2020 Beijing, China.

and close non-performing (“Zombie”) steel SOEs in an effort to improve resource allocation within the sector. In 2013, the National Development and Resource Commission (NDRC), a macroeconomic management agency under the State Council of the CCP, in conjunction with the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the special commission under the State Council’s Central Planning Commission (CPC), chartered to manage SOEs, released the “State Council Guiding Opinions on Resolving the Serious Excess Capacity Contradictions.” This guidance was focused on major industrial sectors including steel, cement, and plate glass. The State Council document outlined supply-side, demand-side and other steps to curb the overhang in capacity. This policy action did not address the overhang of debt leverage that co-contributed to the structural overcapacity problem within the steel industry.

The policy response did enact limits on new steel plant construction, elimination of obsolete equipment, and called for a conglomeration of steel producers to centralize production and fiscal resources. By extension, this was a rear-guard action to eliminate non-performing SOEs, distressed debt, and consolidate financial and industrial resources. To a lesser degree, the policy attempted to curtail the proliferation of small, private, non-sophisticated steel producers operating on the margins of the industry as well. Eliminating obsolete capacity, conglomeration of resources, and increasing efficiency were on the leading edge of China’s Made in China 2025¹³³ initiative to move up the value chain by combining information, industry, and advanced technologies.

¹³³ State Council of the People’s Republic of China. Made in China 2025. http://www.gov.cn/zhengce/content/2015-05/19/content_9784.html.

This issue magnified the inherent tension of decentralization within China, specifically pitting central planning and a State-orchestrated monetary and banking system versus the provincial and local tax revenue, labor, and social equities of SOE viability.

In March 2015, MIIT released its “Policy for the Restructuring of the Steel Industry,”¹³⁴ an update to the “Steel Industry Development Policy” issued in 2005. Whereas the 2005 policy provided guidance to transform the steel industry to meet evolving domestic and international demand, the 2015 policy was aimed at reform. Principally, in line with the challenge of overcapacity, the policy aimed to restructure the industry toward greater efficiency (both in output and energy consumption) and environmental compliance. This dovetailed with the 2015 Environmental Protection Law (EPL), adopted by the State Council, which levied stringent pollution and environmental compliance guidelines; precludes to the 2016 Paris Agreement on climate change.¹³⁵

The supply-side reforms of 2016 were introduced as a means to correct fiscal and industrial imbalances; as the global economic stagnation continued in the aftermath of the global financial crisis. After a decade of annual, double-digit GDP performance, China’s industrial capacity, overleveraged economy, and export-oriented growth model outpaced the global demands for China-produced goods. Hence, the supply-side reforms focused on eliminating excess industrial capacity, reducing the stock of unsold housing, deleveraging, and reducing costs. In order to boost economic growth, the Chinese

¹³⁴ Other CCP and State Council directives that pertain to implementing overcapacity controls are the CPC and State Council (Communist Party of China and The State Council The People's Republic of China) (2015), Guiding Opinions on Deepening Reform of State-Owned Enterprise, 24 August 2015. Available at http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm and the State Council (2016), Opinion on Resolving Steel Industry Excess Capacity and Returning to Healthy Growth), Document No 6 (2016), 1 February. Available at http://www.gov.cn/zhengce/content/2016-02/04/content_5039353.htm.

¹³⁵ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

leadership has been contemplating a shift of economic policy from stimulating investment and exports to a focus on the supply-side – eliminating industrial excess capacity, optimizing and restructuring the industrial sector, and making the traditional industries more productive.¹³⁶

As the supply-side sector reforms cross cut against the girth of the steel industry, the overhang in domestic real estate, and the diminishing profitability of the industry post-global financial crisis, a common theme in literature on this topic is that the supply-side sector reforms, as they pertain to the steel industry, were emblematic of fiscal stimulus expansion in the industry. The facts prove otherwise.

Nicholas Lardy, a prominent economist and China specialist at the Peterson Institute of International Economics, “Finally, it is important to note that the investment boom of 2009–10 that was fueled by China’s stimulus program was not focused on expanding production capacity in China’s traditional industries, such as steel. One important indicator of this is the sectoral allocation of medium- and long-term bank loans. These are loans of more than one year that are used to finance investment, as opposed to loans of a year or less, which typically are used to finance working capital. In 2009 medium and long-term bank loans outstanding expanded by RMB4.9 trillion and accounted for almost half of the total increase in Renminbi lending by the banking system that year. Of these

¹³⁶ People’s Republic of China, 13th Five-Year Plan on National Economic and Social Development, March 17, 2016.

loans financing fixed investment, only 10.2 percent, or RMB502.5 billion, were extended to manufacturing firms.”¹³⁷

While that might be true from a sectoral target perspective for China’s fiscal stimulus package, steel sector production growth continued unabated post-global financial crisis (see Figures (20) and (21)). Largely, this was due to nearly 80% of China’s nearly 4 Trillion RMB (USD \$597 Billion) stimulus package being allocated to infrastructure, real estate, and reconstruction efforts (Figure (19))

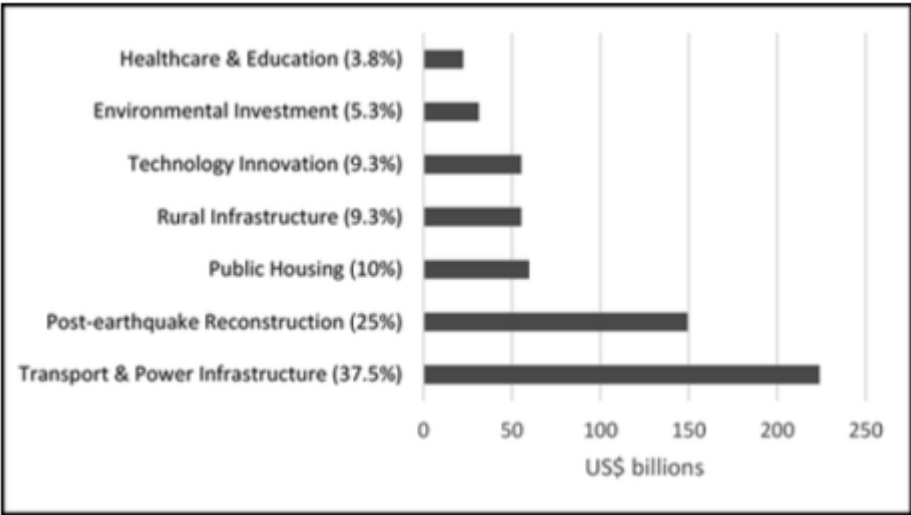


Figure (20) - 2008-2010 China Fiscal Stimulus Spending Plan¹³⁸

As BRI took shape and project complexity and density increased following commitments from participants in Central, South, and Southeast Asia, increased fixed asset investments in China’s SOEs were enhanced from 2016 onward. This was consistent

¹³⁷ Lardy, Nicholas R. Sustaining China's Economic Growth after the Global Financial Crisis, Peterson Institute for International Economics, 2012.

¹³⁸ National Bureau of Statistics; National Development and Reform Commission

with China’s state-orchestrated, investment-led economic growth realized against global market headwinds and declining exports. Fueling growth through increased investments in the manufacturing and real estate sectors came amidst calls by the international community and pledges by the central government that SOE overcapacity would be curbed through supply-side sector reforms (Figure (21)).

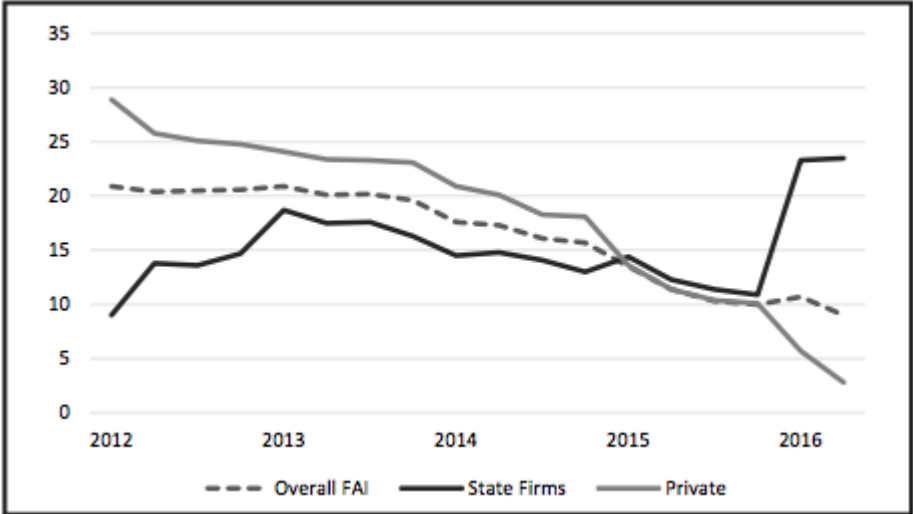


Figure (21) - China’s Fixed Asset Investment Year-on-Year¹³⁹

The global financial crisis stunted China’s decade-long double digit GDP growth. With an export-oriented economic model underpinned by the industrial, manufacturing sector, China’s transition to a consumption-based economy and a higher value chain orientation was beset by declining global demand for industrial production. Dealing with the country’s excess capacity became one of the top economic priorities for the Chinese Government due to the implications for excess capacity to squeeze corporate profits, increase debt leverage, risk local tax revenues, and make the country’s financial system more

¹³⁹ China’s National Bureau of Statistics - CEIC database

vulnerable due to distressed loans to SOEs. A recent report by the Asia Development Bank, *Reforms, Opportunities, and Challenges for State-Owned Enterprises*¹⁴⁰, showcases the inefficiencies in China’s SOEs in terms of debt leverage, return on equity, government subsidization, and industrial value-added.

The figures to follow portray the relative efficiencies of SOEs compared to their private sector counterparts:

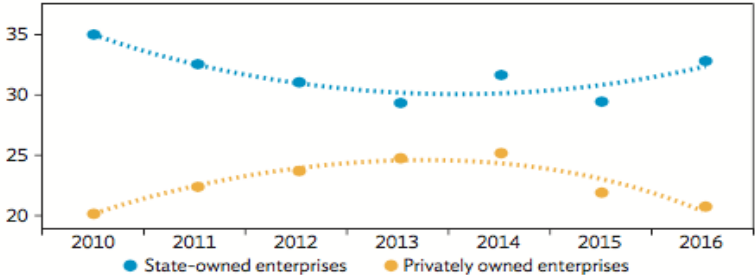


Figure (22) - Bank Loans to SOEs and Private Sector Firms 2010-2016¹⁴¹

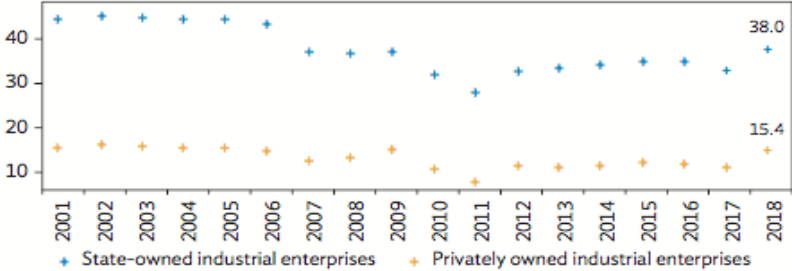


Figure (23) - Share of Loss-Making SOEs 2001-2018¹⁴²

¹⁴⁰ *Reforms, Opportunities, and Challenges for State-Owned Enterprises*, edited by Edimon Ginting, and Kaukab Naqvi, Asian Development Bank Institute, 2020.

¹⁴¹ The People’s Bank of China, National Bureau of Statistics. 2019. *China Statistical Yearbook 2019*. Beijing: China Statistics Press.

¹⁴² National Bureau of Statistics. 2019. *China Statistical Yearbook 2019*. Beijing: China Statistics Press.

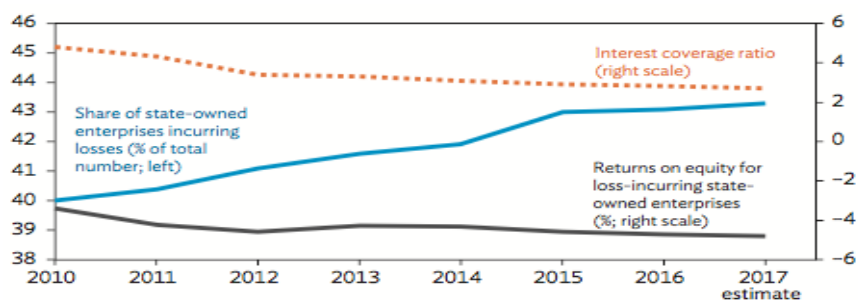


Figure (24) - Return on Equity - China SOEs¹⁴³

With declining profitability, growing inefficiencies, and excess capacity in SOEs, against a downturn in global economic performance across both advanced and developing economies, SOE reform would be instrumental to continuing China’s developmental goal of a “moderately prosperous society” by 2020¹⁴⁴. Amongst the policy responses enacted by the central government was to lay off nearly two million workers from the steel and coal mining industries.¹⁴⁵ BRI offered an exquisite avenue to tackle SOE excess capacity - not through exports - but by exporting excess production capacity out of China and into developing nations. As seen from a policy perspective, “We have a lot of surplus equipment for making steel, cement and pleat glass for the Chinese market. This equipment is of good quality. We want companies to move this excess production capacity through direct foreign investment to ASEAN countries who need to build their infrastructure. These goods should be produced locally where they are needed.”¹⁴⁶

¹⁴³ International Monetary Fund (IMF). 2016. How to Improve the Financial Oversight of Public Corporations. Fiscal Affairs Department Fiscal Policy Paper. Washington, DC.

¹⁴⁴ Achieving a moderately prosperous society was a State Council goal within the 13th Five Year Plan; eliminating poverty and reducing the Gini coefficient, especially between coastal and inner regions.

¹⁴⁵ Peter Cai, “Curbs on Coal and Steel will Test Beijing’s Resolve”, The Australian, 19 January 2016, <http://www.theaustralian.com.au/business/business-spectator/curbs-on-coal-and-steel-will-test-beijings-resolve/news-story/43dfa1b17bd88556d1b8746e0c7d2658>.

¹⁴⁶ Li Keqiang’s Official Speech at the 17th ASEAN–China (10+1) Leaders’ Meeting, Nay Pyi Taw, Myanmar, 13 November 2014, http://www.fmprc.gov.cn/web/ziliao_674904/zt_674979/dnzt_674981/qtzt/ydyl_675049/zyxw_675051/t1210820.shtml.

The policy prescription echoes China's policy bank perspective on BRI serving as a fulcrum for China's development path through structural reform across its economy. "On the one hand, we should gradually migrate our low-end manufacturing to other countries and take pressure off industries that suffer from an excess capacity problem. At the same time, we should support competitive industries such as construction engineering, high-speed rail, electricity generation, machinery building and telecommunications moving abroad."¹⁴⁷ These sentiments reflect China's "Opinion on Shedding Excess Industrial Capacity in the Steel Industry to Achieve Development out of Difficulty" that "encourage enterprises, if conditions permit, to participate in the 'Belt and Road' initiative and carry out international capacity cooperation to transfer part of the production capacity in the principle of mutual benefits."¹⁴⁸

Exporting excess capacity shifts the economic burden of SOEs onto developing countries through non-concessionary loans and export credits. While improving developing nations' industrial bases by enabling China's SOE production domestically through joint ventures, mergers and acquisition, build-operate-transfer (BoT), or public-private-partnerships (PPP), SOEs, in essence, yield China economic and diplomatic dividends. Often, they allow China to circumvent cross-border trade and tariff barriers levied on imports from China. The benefit of exporting industrial capacity to recipient nations is not a unitary benefit to China. BRI bridges dependency both ways - to China, with the need to export excess industrial capacity, and to recipient nations who lack industrial scale and

¹⁴⁷ Hu Huaibang, "Using Development Finance to Service the One Belt and One Road Strategy", China Banking Industry Magazine, 13 January 2016, http://www.cdb.com.cn/rdzt/gjyw_1/201601/t20160118_2187.html.

¹⁴⁸ China State Council, Guo Fa [2016] No. 6, issued 4 February 2016

investment capital. The resulting interdependency is a point of leverage to both, not just to China as much of the study on BRI has asserted.

Benefitting from excess production capacity parallels China's own path of rapid industrialization in the 1980s and 1990s; following in the footsteps of Asian Tiger nations who developed expertise in low value chain industrial production to spur rapid economic growth in the 1960s. As Germany, Taiwan, Korea, and Japan moved up the value chain of production, China profited from receipt of excess industrial capacity in the early 1980s - to begin its own rapid development journey. Exporting excess industrial capacity via China's BRI represents an economic win-win from China's perspective; aiding other nations to rapidly generate economic growth in the early stages of economic development while allowing China to embrace higher value chain economic activity in concert with increased market privatization and domestic consumption.

In addition to India, Thailand, Vietnam, Philippines, Indonesia, and Malaysia are the largest net importers of steel in the world - most of which originates in China and Japan. Their move to develop a domestic steel industry at this stage of their development appears prudent. What remains unseen is whether long-term domestic demand in these countries, as in China's case, will underpin the requirement for domestic steel making capability. Since 2014, growth in "Other Asia" (represented within "Asia" in Figure (25)) slightly exceeded China's share of MT capacity growth (41 MT) for the period 2014-2017.

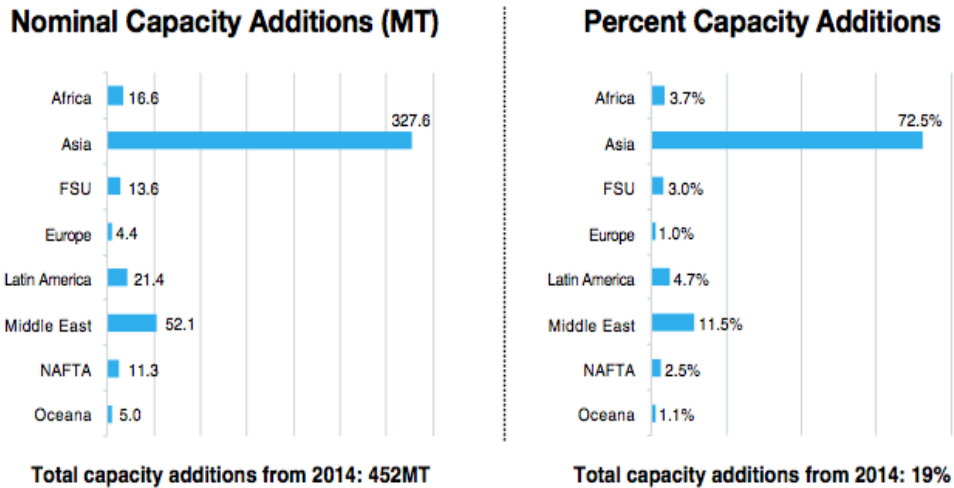


Figure (25) - World Steel Capacity Growth 2014-2017

Domestic steel production capacity growth in Southeast Asia, specifically, is reflective of China’s policy decisions to export excess industrial capacity and growth in China’s OFDI to the region. China’s steel sector production capacity shift to Southeast Asia is but a microcosm of China’s Outward Foreign Direct Investment (OFDI) in the region.

At the global scale, China, since accession into the WTO in 2001 and Jiang Zemin’s 2002 “Going Out” strategy, has risen to the top-tier in global OFDI flows and stock¹⁴⁹ (Table 6).

¹⁴⁹ OFDI flows are transactions recorded during the reference period (typically year or quarter). OFDI stocks are the accumulated value held at the end of the reference period (typically year or quarter).

(Billions of US Dollars)

Year	Flows			Stock	
	Amount	Global Ranking	Year-on-Year Growth Rate (%)	Amount	Global Ranking
2002	2.70	26	—	29.90	25
2003	2.85	21	5.6	33.20	25
2004	5.50	20	93.0	44.80	27
2005	12.26	17	122.9	57.20	24
2006	21.16	13	43.8	90.63	23
2007	26.51	17	25.3	117.91	22
2008	55.91	12	110.9	183.97	18
2009	56.53	5	1.1	245.75	16
2010	68.81	5	21.7	317.21	17
2011	74.65	6	8.5	424.78	13
2012	87.8	3	17.6	531.94	13
2013	107.84	3	22.8	660.48	11
2014	123.12	3	14.2	882.64	8
2015	145.67	2	18.3	1097.86	8
2016	196.15	2	34.7	1357.39	6
2017	158.29	3	-19.3	1809.04	2
2018	143.04	2	-9.6	1982.27	3
2019	136.91	2	-4.3	2198.88	3

Table (6) - China OFDI Flows and Stock¹⁵⁰

As a strategic industry and the upstream material for manufacturing and construction activities, steel production has been expanding rapidly under oligopolistic state support and protection through subsidies and preferential loans from state-owned banks on non-commercial terms.

BRI and the “Going Out” strategy contributed to an increase in China’s investment in the Association of Southeast Asian Nations (ASEAN) member states. The region’s high

¹⁵⁰ 2019 Statistical Bulletin of China’s Outward Foreign Direct Investment, Ministry of Commerce of the People’s Republic of China, National Bureau of Statistics, State Administration of Foreign Exchange.

demand for infrastructure such as rail, highways, bridges, roads, dams, and power plants dovetail with BRI’s development; increasing local demand for steel (and cement).

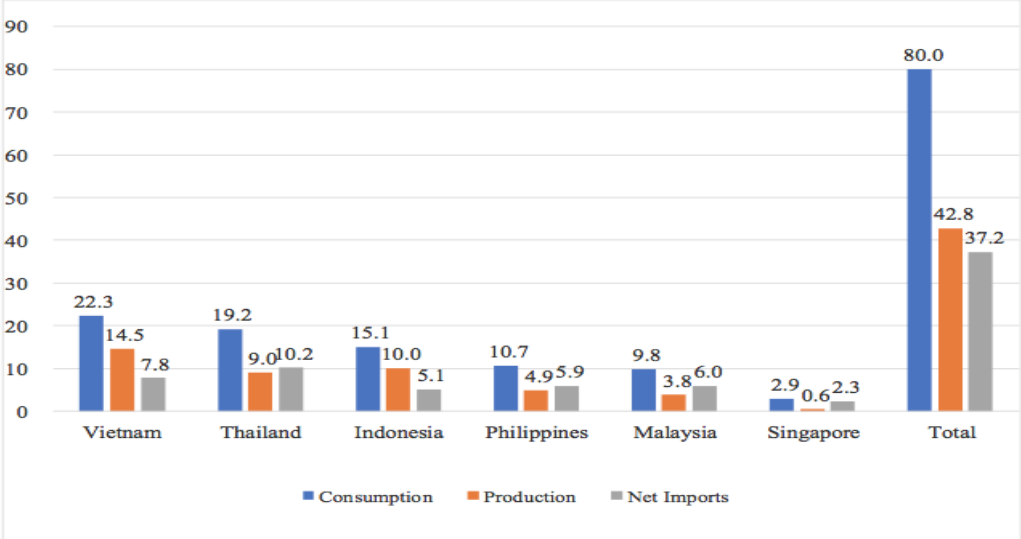


Figure (26) - Net Steel Demand in ASEAN-6¹⁵¹

ASEAN’s construction sector is the largest steel consuming sector; levying up to 70% of the total demand for steel in the region. As Figure (26) depicts, ASEAN’s consistent growth and developmental focus on infrastructure and manufacturing has realized a near 50% shortfall in steel products, much of which is imported from China, Japan, and South Korea.

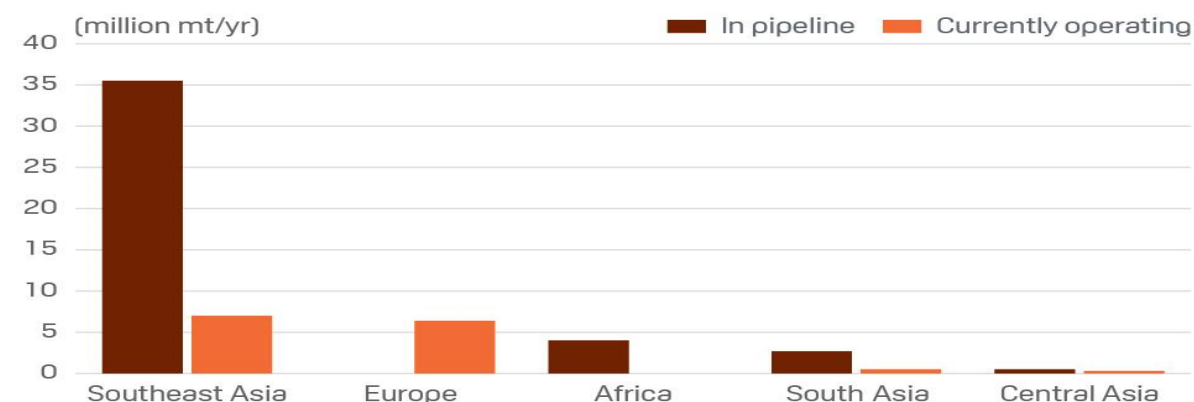
As of 2019, it was estimated that almost half of the 14.2 million tons per year of existing overseas capacity from Chinese mills were located in the region.¹⁵² There are currently three Chinese steel mills which are up and running with a total capacity of 7 MT per year,

¹⁵¹ Tham Siew Yean and Yeoh Wee Jin, Chinese Steel Investments in ASEAN, Perspective, Yusof Ishak Institute, Singapore, 21 May 2020, ISSUE: 2020 No. 50

¹⁵² Zhang, J., Bartholomew, P. and Wells, W., 2019. “Analysis: China Looks Overseas for Steel Expansion”. <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/111919-china-steel-overseas-expansion>

in Indonesia, Malaysia, and Vietnam and another 31.5 MT in development. (Figure (27) and Table (7)).

CHINESE OVERSEAS CRUDE STEEL CAPACITY BY REGION



Source: S&P Global Platts

Figure (27) - China Overseas Steel Capacity¹⁵³

CHINESE OVERSEAS PROJECTS

	Location	Crude steel capacity (million mt/yr)
Currently operating		
Malaysia–China Kuantan Industrial Park	Malaysia	3.5
Tsingshan Holding Group	Indonesia	3
Kunming I&S	Vietnam	0.5
Yaxin Steel	Pakistan	0.5
Jiangsu Huaiye Science and Technology Development Co	Uzbekistan	0.3
Hebei Jingye Iron & Steel	UK	3
Hebei Iron & Steel	Macedonia	1.2
Hebei Iron & Steel	Serbia	2.2
In pipeline		
Wen'an Iron & Steel	Malaysia	10
Dexin Steel Indonesia	Indonesia	3.5
Hebei Iron & Steel	Philippines	8
Panhua Group	Philippines	10
Kunming Iron & Steel	Myanmar	4
Kunming Iron & Steel	Bangladesh	2.7
Jiangsu Huaiye Science and Technology Development Co	Uzbekistan	0.5
Taiyuan Iron & Steel Group	South Africa	3
Tsingshan Holding Group	Zimbabwe	1

Source: S&P Global Platts

Table (7) - China Overseas Steel Projects¹⁵⁴

¹⁵³ <https://www.spglobal.com/platts/en/market-insights/topics/suez-canal>

¹⁵⁴ <https://www.spglobal.com/platts/en/market-insights/topics/suez-canal>

Unless there is significant long-term demand across the region, attempts at import substitution industrialization may create excess capacity beyond near-term regional demand. With ~40 MT of intra-ASEAN steel production capacity and prospects for continued regional growth, spill-overs from the region's steel production into the export market could mimic China's production cycle. As ASEAN's domestic steel production increases, traditional imports from China will continue as a traditional outlet for China's excess capacity.

Exporting excess manufacturing and production capacity to ASEAN does realize synergistic effects for ASEAN and China. For ASEAN, China's OFDI fosters capital accumulation, permits key technology transfers, spurs innovation and secondary markets, and encourages job creation. For China, the benefits go well beyond exporting excess capacity. China will benefit economically through free trade agreements (if in place), reductions in tariff and non-tariffs, trade barriers to market entry, special economic zones (an objective of BRI), and diplomatically through upstream technology and sector/market advantages.

While this research focused on the steel industry as an example of China's export to overcapacity post-global financial crisis, it is not alone. Other strategic sectors such as cement and energy (alternative, renewable energy such as solar/voltaic power) have followed the steel sector's path; agglomerating within ASEAN's mega-construction boom.

This research examined, in light of China's exercising top-tier performance in global OFDI, how the intersection of OFDI and industrial capacity manifested within four recipient nations in ASEAN - Indonesia, Malaysia, Philippines, and Vietnam. Figure (28)

highlights the extraordinary position Singapore plays as a financial intermediary and leasing/business hub between China and much of ASEAN. It also clouds the trends

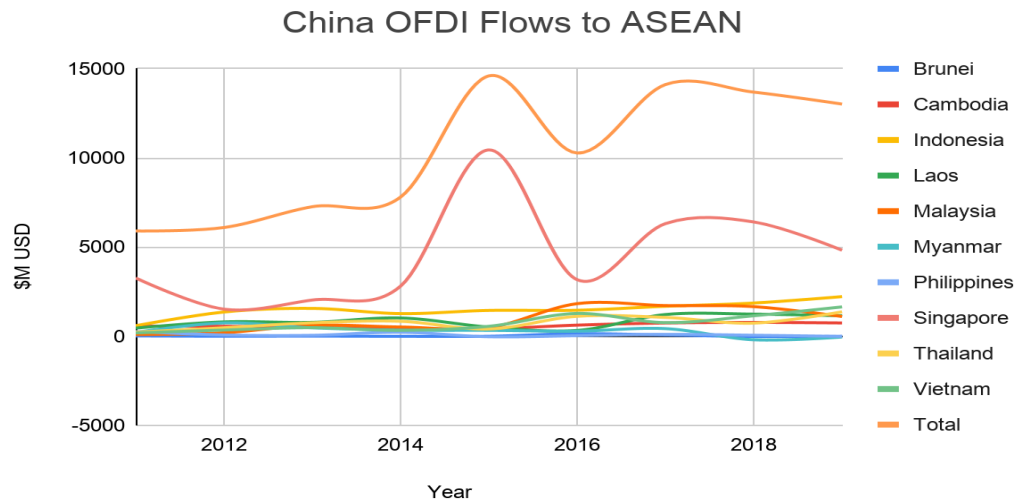


Figure (28) - China OFDI Flows to ASEAN 2010-2019¹⁵⁵

that emerge between the four representative cases explored - with infrastructure-centric development ongoing in Indonesia, Malaysia, and Vietnam, and structural inefficiencies in the Philippines that have hampered project development.

While a single, representative source of OFDI projects, funding, and agreements does not exist,¹⁵⁶ this research drew upon several, authoritative sources to construct a detailed examination of China's OFDI-funded projects in the four cases - from 2000-present. Data was extracted from American Enterprise Institute's China Investment Tracker, AidData,

¹⁵⁵ Author-developed from 2019 Statistical Bulletin of China's Outward Foreign Direct Investment

¹⁵⁶ While data on China's policy banks is available through the Bureau of Statistics, Statistical Bulletins, and Yearbooks, much of the policy bank's project funding is opaque - often with recipient's agreeing not to disclose funding particulars. In addition, while China may claim a project as falling under the auspices of BRI, recipient nations may choose not to for political purposes. A list of BRI projects from China's perspective is available at: <https://www.yidaiyilu.gov.cn/qyfc/xmal/2475.htm>

Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China's Central Government sources.

Of note, the availability of data over consistent timeframes is not common to all data sources. The project spreadsheets¹⁵⁷ compile disparate data sources and serve as databases for study and drawing conclusions. Using those sources, nearly 470 projects were identified and examined under the umbrella of OFDI. Principally, the data was used to understand whether China's OFDI reflected, post-global financial crisis, a greater emphasis on exporting industrial capacity.

Figure (29) represents China's OFDI to Indonesia, Malaysia, Philippines, and Vietnam from 2010-present.

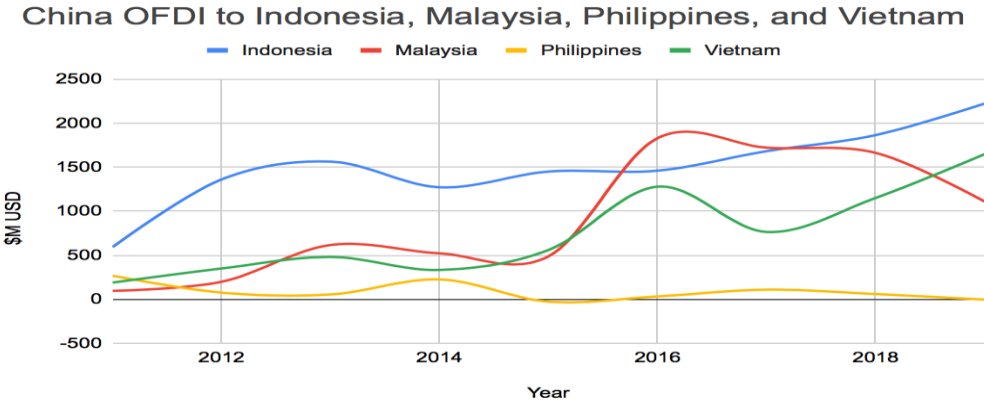


Figure (29) - China's OFDI to Representative Cases¹⁵⁸

¹⁵⁷ Project spreadsheets available from author upon request - plyons4@jhu.edu

¹⁵⁸ Author-developed from 2019 Statistical Bulletin of China's Outward Foreign Direct Investment

Upon examination of OFDI Stock, the aggregate value of investments year-on-year, patterns in value across the representative cases emerge post-global financial crisis. Indonesia, with a larger share of BRI investments and major infrastructure projects due to PM Jokowi’s early embrace of BRI and China OFDI, and tracks with its role as a major resource and energy supplier to China. Malaysia and Vietnam followed with BRI rail, highway, and industrial development BRI commitments. Conversely, the Philippines flat-lines across the period with steady-state FDI from China and many unrealized, delayed projects promoted by President Duterte at the 2013 Belt Road Forum.

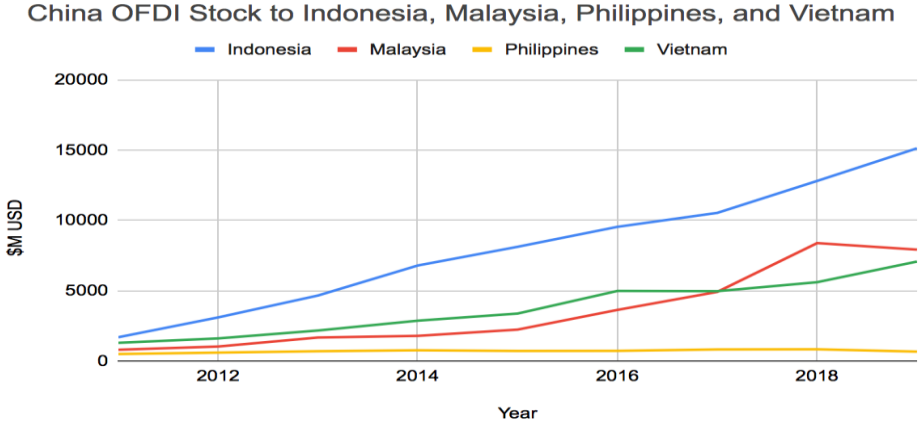


Figure (30) - China’s OFDI Stock to Representative Cases¹⁵⁹

To follow are key insights from examination of the nearly 470 projects covering 20 years of China OFDI/BRI investments in the four, representative cases.

¹⁵⁹ Author-developed from 2019 Statistical Bulletin of China’s Outward Foreign Direct Investment. OFDI stocks are the accumulated value held at the end of the reference period (typically year or quarter).

BRI/OFDI Flows to Representative Cases 2000-2020

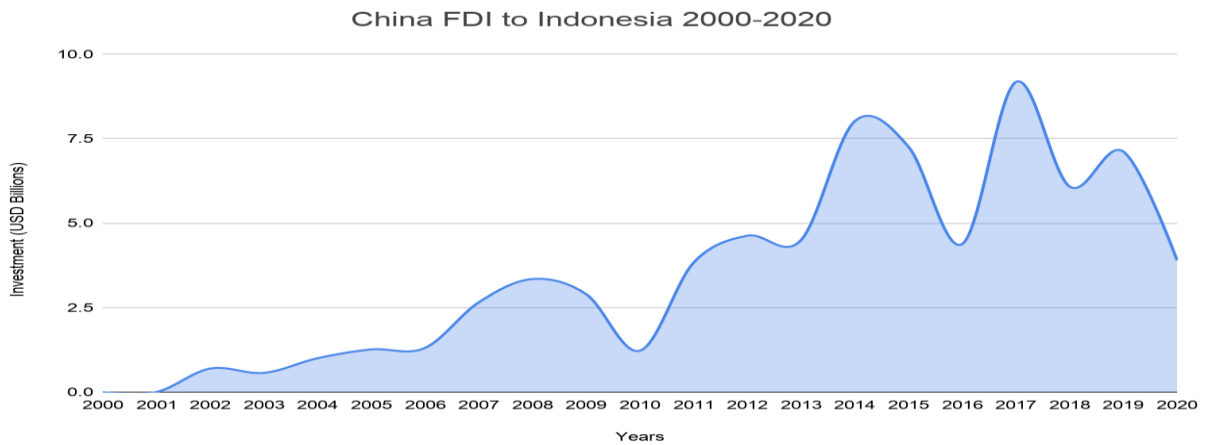


Figure (31) - FDI Flows to Indonesia¹⁶⁰

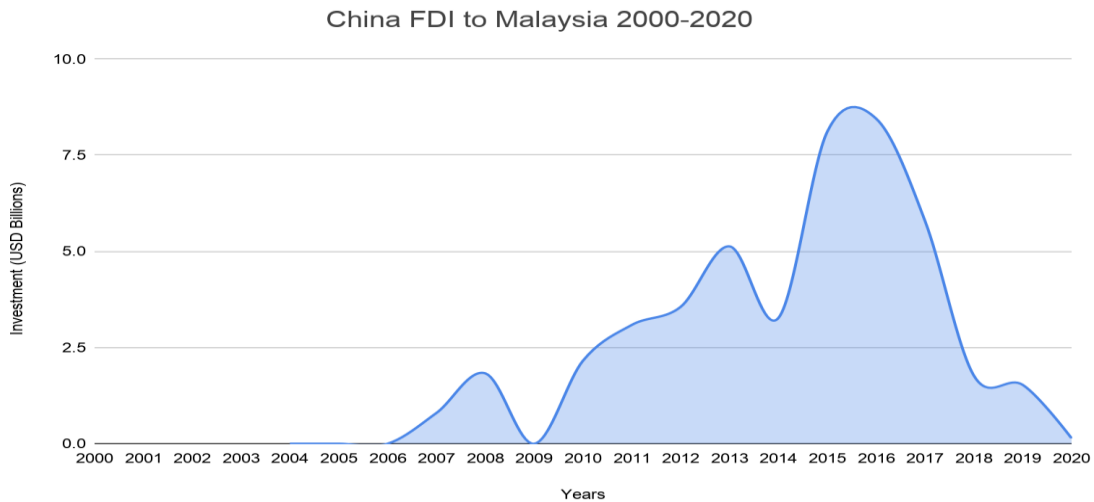


Figure (32) - FDI Flows to Malaysia¹⁶¹

¹⁶⁰ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶¹ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

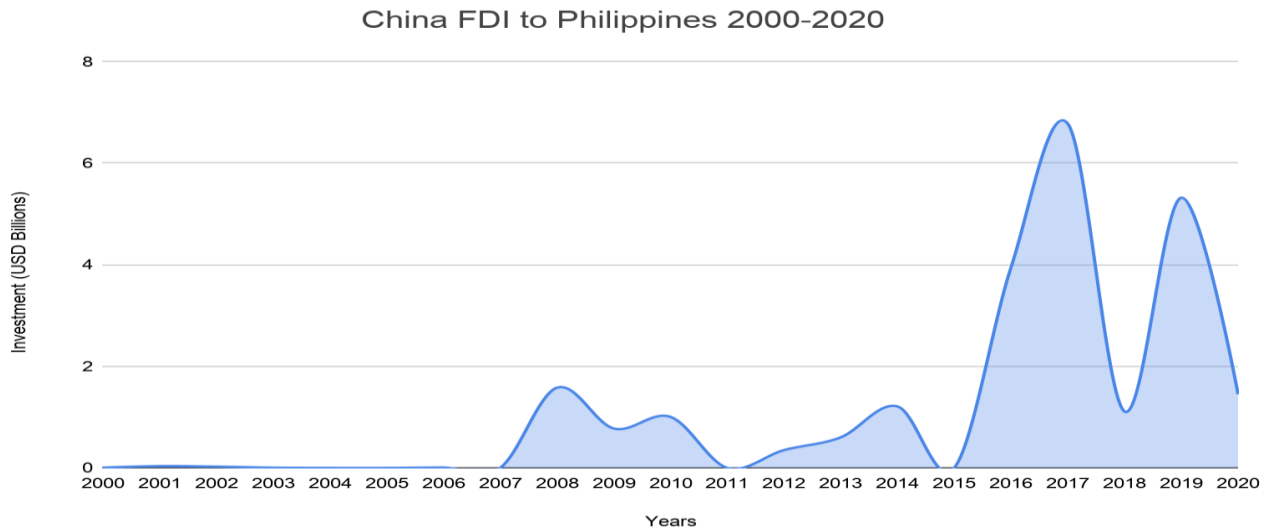


Figure (33) - FDI Flows to Philippines¹⁶²



Figure (34) - FDI Flows to Vietnam¹⁶³

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶² Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶³ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

BRI/OFDI Sector Investments within Representative Cases 2000-2020

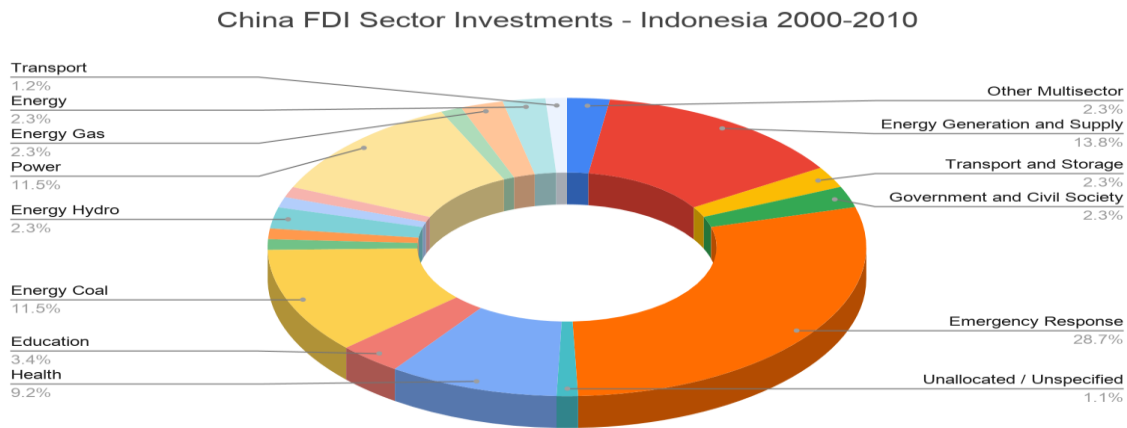


Figure (35) - Sector Investments Pre-2010¹⁶⁴

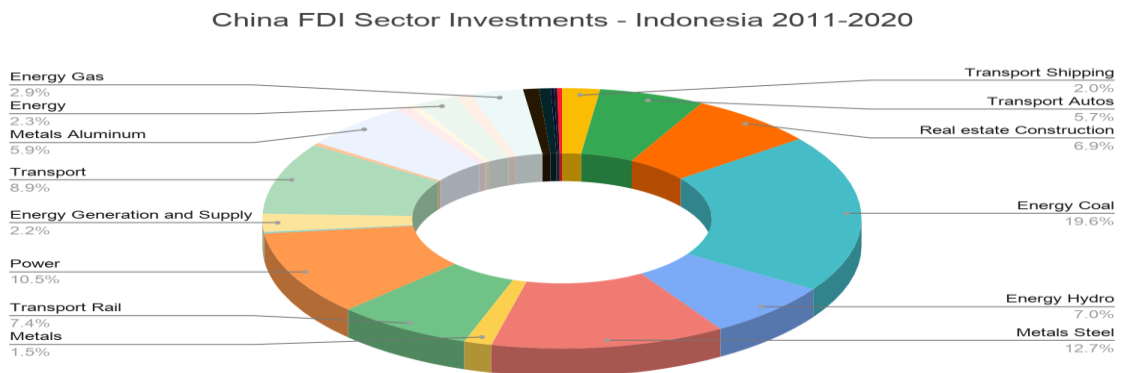


Figure (36) - Sector Investments Post-2010¹⁶⁵

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁴ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁵ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

China FDI Sector Investments - Malaysia 2000-2010

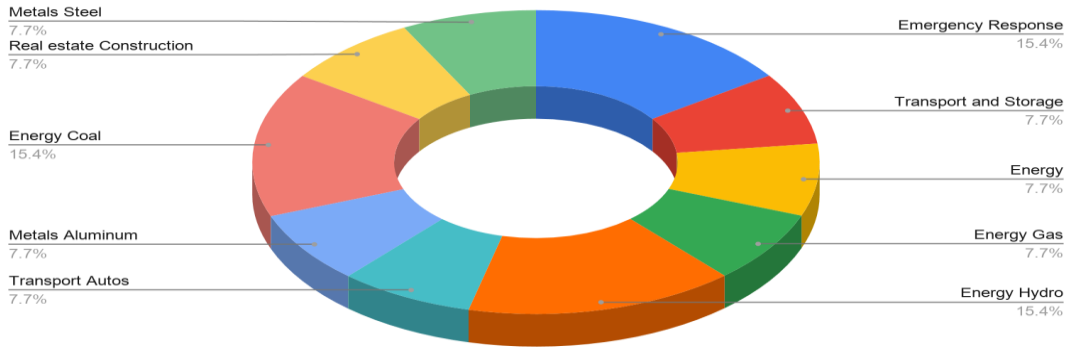


Figure (37) - Sector Investments Pre-2010¹⁶⁶

China FDI Sector Investments - Malaysia 2011-2020

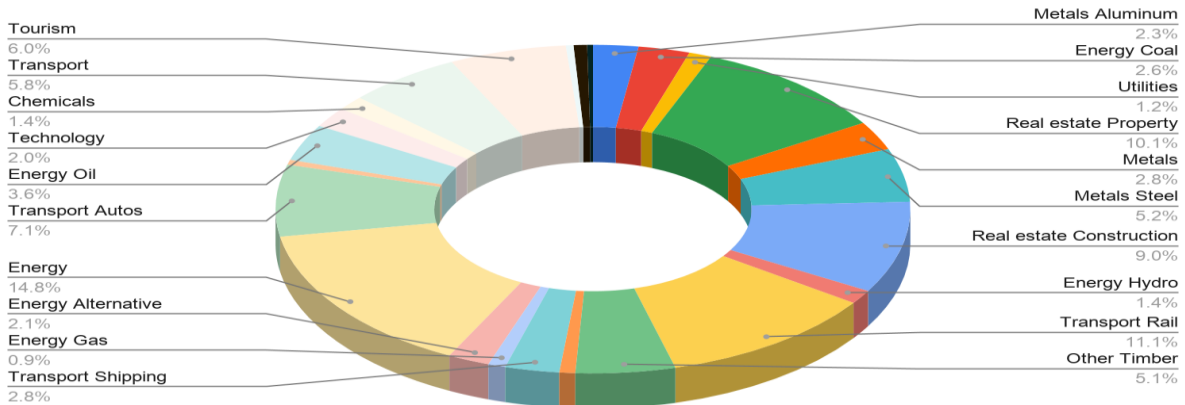


Figure (38) - Sector Investments Post-2010¹⁶⁷

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁶ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁷ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

China FDI Sector Investments - Philippines 2000-2010

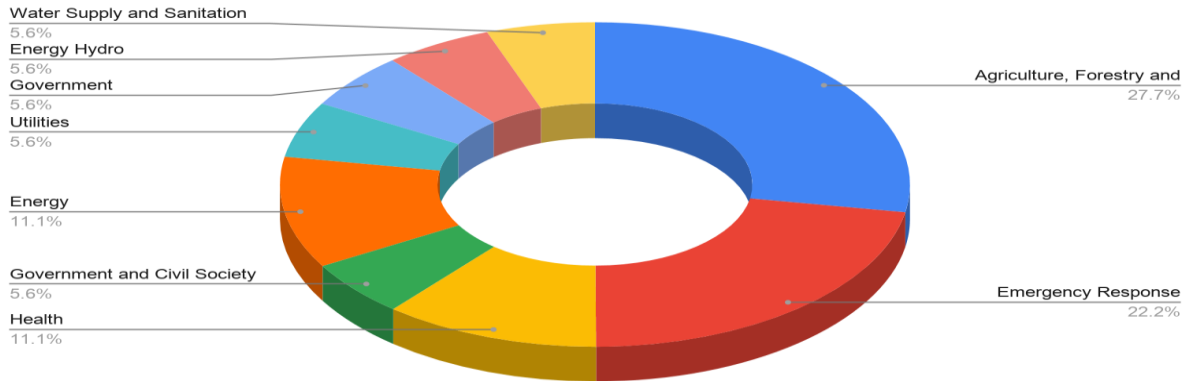


Figure (39) - Sector Investments Pre-2010¹⁶⁸

China FDI Sector Investments - Philippines 2011-2020

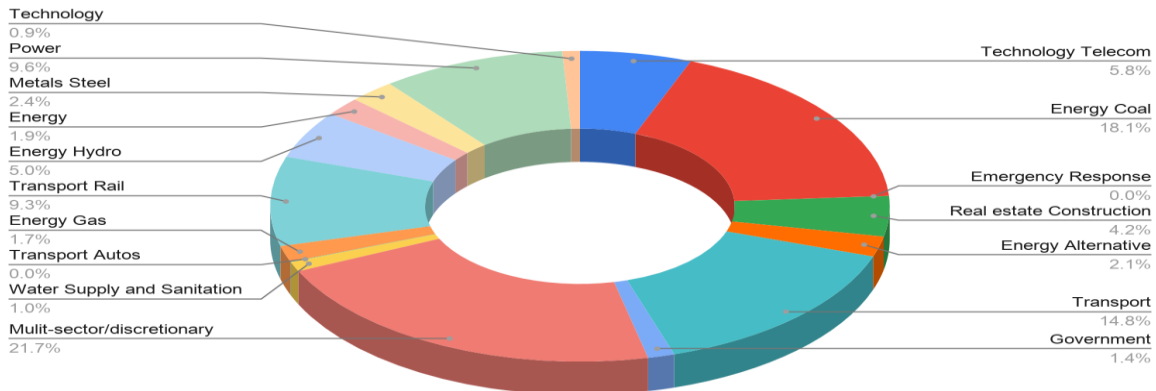


Figure (40) - Sector Investments Post-2010¹⁶⁹

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁸ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁶⁹ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

China FDI Sector Investments - Vietnam 2000-2010

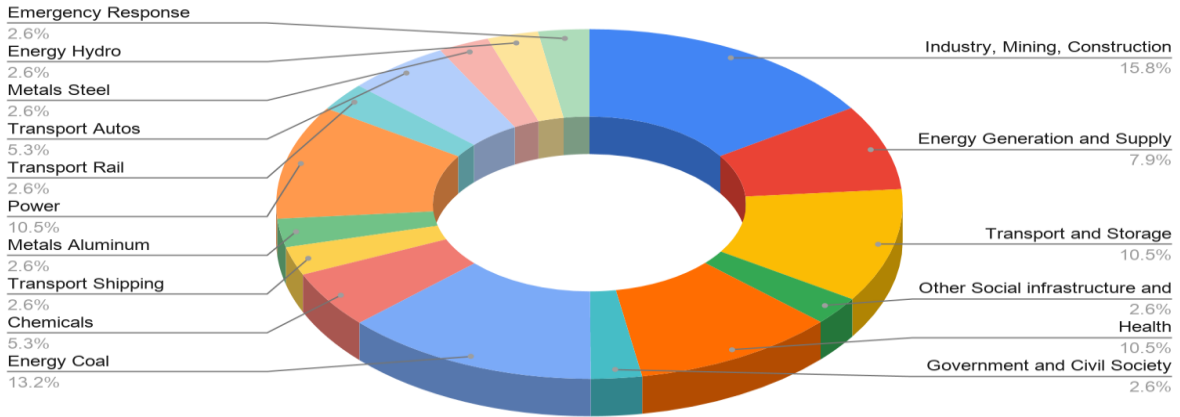


Figure (41) - Sector Investments Pre-2010¹⁷⁰

China FDI Sector Investments - Vietnam 2011-2020

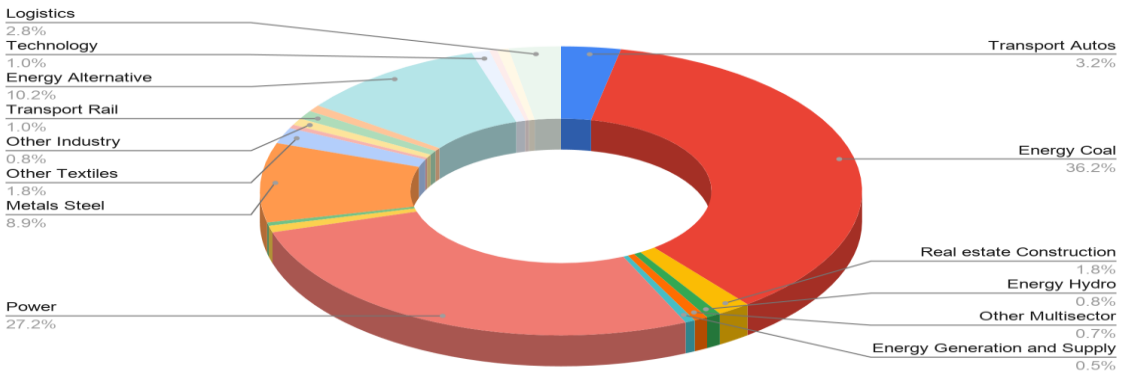


Figure (42) - Sector Investments Post-2010¹⁷¹

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁰ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷¹ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

BRI/OFDI Categorized Investments within Representative Cases pre-GFC (2000-2010) and post-GFC (2011-2020)

To determine if shifts occurred in BRI/OFDI investment prioritization post-Global Financial Crisis, the ~470 cases were coded into the following categories: (1) Foreign Relief Aid, Educational, Technical Assistance, (2) Commodity/Asset Resourcing, (3) Development Fund Investments¹⁷², and (4) Infrastructure Construction.

The assessment of the four recipient cases follows:

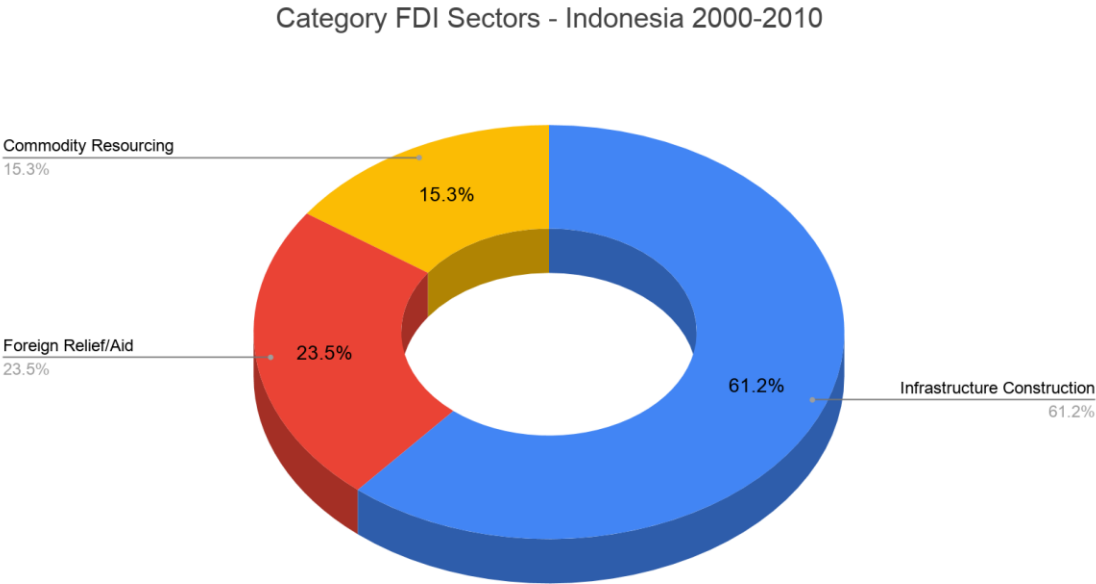


Figure (43) - Indonesia Sectoral Focus Pre-2010¹⁷³

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷² The connotation to “Fund” implies, in some cases, where China has provided debt leverage to a central Development Fund for the recipient nation in question, rather than for a specific development project.

¹⁷³ Author-developed using composite data from American Enterprise Institute’s China Investment Tracker, AidData, Boston University’s Global Development Policy Center - China’s Overseas

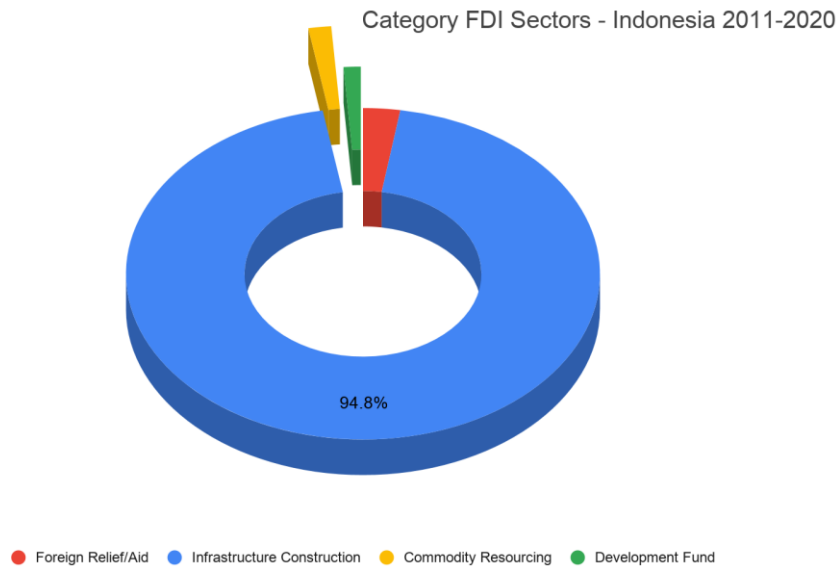


Figure (44) - Indonesia Sectoral Focus Post-2010¹⁷⁴

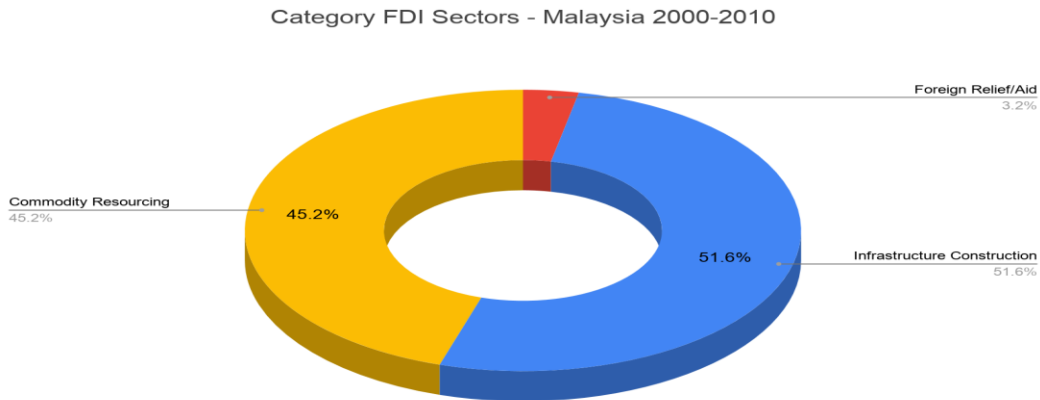


Figure (45) - Malaysia Sectoral Focus Pre-2010¹⁷⁵

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁴ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁵ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

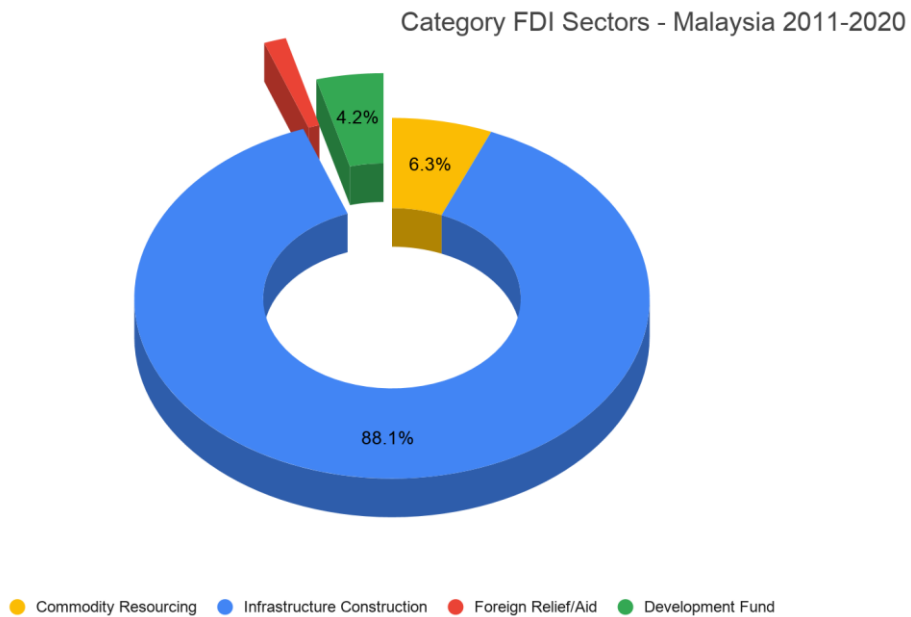


Figure (46) - Malaysia Sectoral Focus Post-2010¹⁷⁶

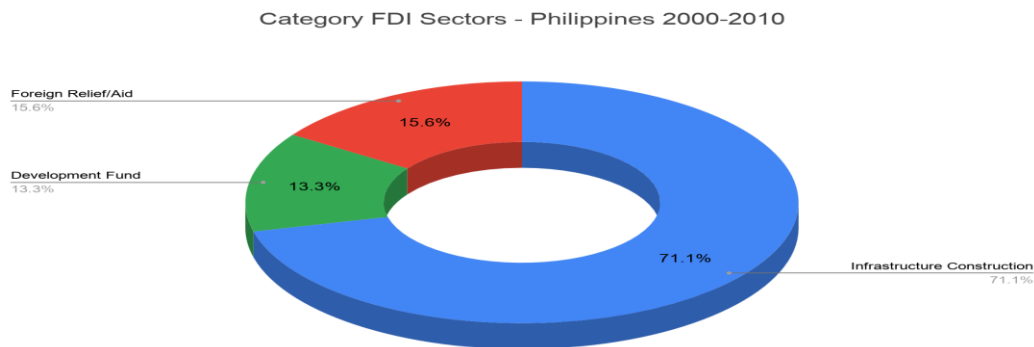


Figure (47) - Philippines Sectoral Focus Pre-2010¹⁷⁷

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁶ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁷ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

Category FDI Sectors - Philippines 2011-2020

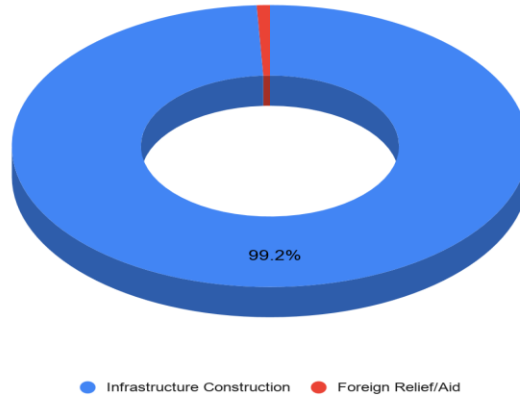


Figure (48) - Philippines Sectoral Focus Post-2010¹⁷⁸

Category FDI Sectors - Vietnam 2000-2010

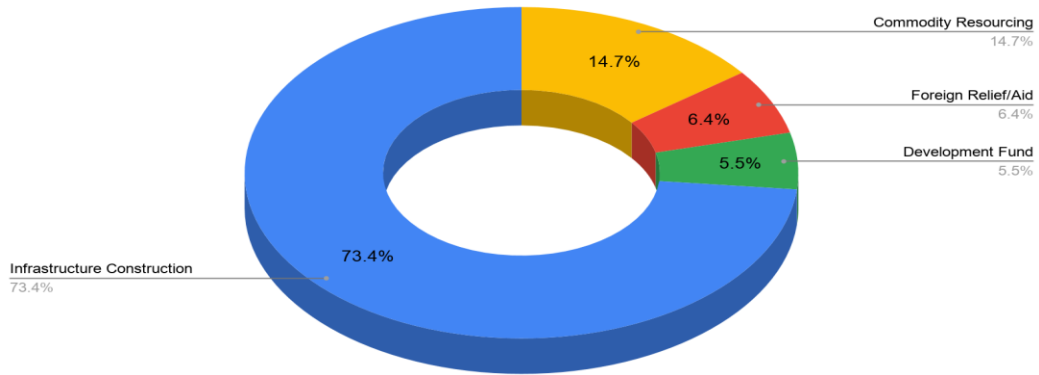


Figure (49) - Vietnam Sectoral Focus Pre-2010¹⁷⁹

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁸ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁷⁹ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas

Category FDI Sectors - Vietnam 2011-2020

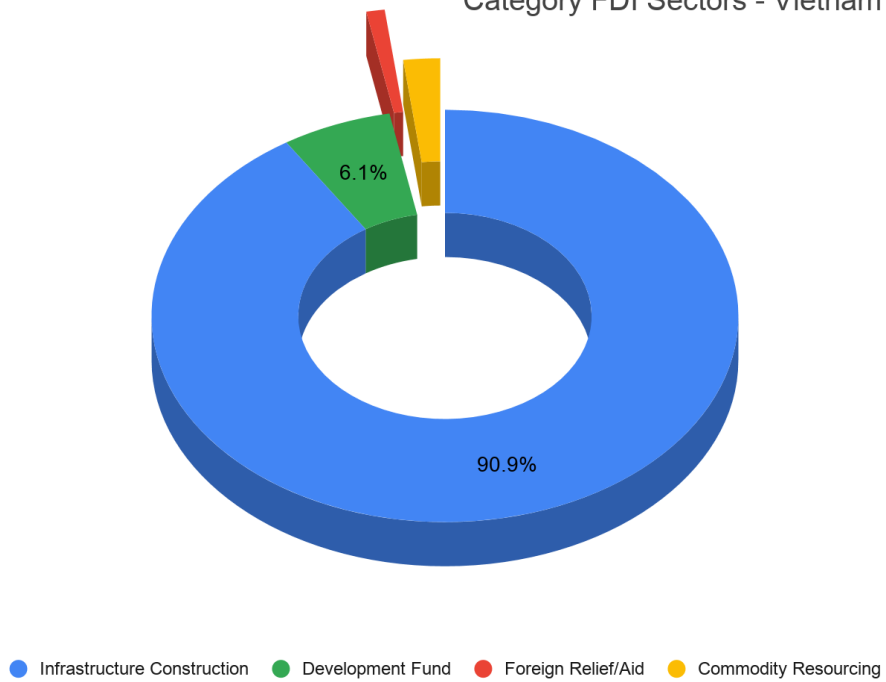


Figure (50) - Vietnam Sectoral Focus Post-2010¹⁸⁰

Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

¹⁸⁰ Author-developed using composite data from American Enterprise Institute's China Investment Tracker, AidData, Boston University's Global Development Policy Center - China's Overseas Development Finance, Asia Infrastructure Investment Bank (AIIB), World Bank, Asia Development Bank, and, as available, China Central Government sources.

BRI/OFDI 2000-2020 to Representative Cases - Key Insights

	Indonesia			Malaysia			Philippines			Vietnam			
OFDI Categories	Pre-2010*	Post-2010	%Change	Pre-2010*	Post-2010	%Change	Pre-2010*	Post-2010	%Change	Pre-2010*	Post-2010	%Change	Avg. Change
1. Foreign Relief Aid, Education, Tech Assist	23.5	3	-87.2	3.2	1.4	-56.3	15.6	0.8	-94.9	6.4	1	-84.4	-80.7
2. Commodity, /Asset Resourcing	15.3	1.2	-92.2	45.2	6.3	-86.1	0	0	0.0	14.7	2	-86.4	-66.2
3. Development Fund Investments	0	1	100.0	0	4.2	420.0	13.3	0	-100.0	5.5	6.1	10.9	107.7
4. Infrastructure Construction	61.2	94.8	54.9	51.6	88.1	70.7	71.1	99.2	39.5	73.4	90.9	23.8	47.3
Sum	100	100		100	100		100	100		100	100		
*Includes 2010													

Table (8) - Alterations in BRI/OFDI Post-Global Financial Crisis

The following key insights emanate from the aggregated data:

1. The variations in Development Fund investments are subject to bilateral lending agreements (with China's policy banks or AIIB) in size and scope. The data is unremarkable and is of insufficient fidelity to discern relevant insights.
2. In terms of the premise for this work, the data does support the notion that OFDI (enabled by BRI post-global financial crisis) does correlate to an off-ramp in resource-centered investments to infrastructure/construction related investments. It is from this vantage that the thesis seeks to determine if escalation in OFDI, and synergy with recipient nations' developmental plan in terms of infrastructure development, correlates to official, government perceptions of China - and - whether there are any dividends to China in terms of attaining favorable pro-China outcomes on bilateral sovereignty disputes in the South China Sea.
3. China's shift away from Official Development Assistance (ODA) to greater levels of OFDI non-concessionary loans (see AidData data). Foreign "aid" is highly specific to need and bilateral interests. Discerning systemic commonalities between cases in terms of foreign aid fluctuations post-global financial crisis is speculative.
4. Embracing the "Going Out" mantra from Jiang Zemin by investing in resource commodity supply streams and enterprises to fuel domestic growth pre-global financial crisis. Having developed its industrial and energy supply lines and sector resilience, OFDI (and BRI) shifted from resource-seeking to infrastructure/construction-seeking as an outlet for excess industrial capacity.

BRI comports with China's "Going out" strategy as part of Deng Xiaoping's Reform and Opening agenda. Deng understood that entering foreign markets through trade, investment, mergers and acquisition (M&A), and joint ventures would provide economic expansion and resilience to trade regimes and agreements, cross-border legal and financial frameworks, and provide strategic access and influence. "Going Out" was in every way, a repudiation of Mao's internally-focused Great Leap Forward and Cultural Revolutions that stunted China's growth and development.

As the available BRI/OFDI data depicts, as China's economic momentum took hold in the early 2000's, China's OFDI focus was predominantly resource-seeking; securing vital energy resources for energy intensive industrialization and urbanization. In parallel, China established the roots of an energy resilience and security strategy by investing in and procuring foreign energy firms in Southeast Asia.

Post-GFC, the data provides evidence that China shifted toward infrastructure development; leveraging excess industrial capacity and vast foreign reserves that were bottlenecked amidst the global economic downturn. Absent global demand for public-sector, SOE-driven industrial output and declining domestic GDP rates that affected the labor and real estate sectors, China capitalized on the infrastructure deficit and development agendas within Southeast Asia to "export" excess industrial capacity - not just raise exports to this vital, intermediate zone of influence on its periphery.

This policy prioritization shift provided a life-line to the "national champion" SOEs in key construction, steel, and cement sectors. Equally, it exported lower-end, labor and capital intensive construction SOEs to its near abroad to refocus investments on higher,

upstream value industries to reach its own development objectives, with the aim of lowering the poverty headcount and achieving moderately high income status by 2020.

Chapter 5

Regional Case Studies - Mapping BRI/OFDI Investment Patterns

Representative case studies in Indonesia, Malaysia, Philippines, and Vietnam were examined to empirically illustrate Belt Road Initiative investment dynamics within the context of recipient nation development projects. Centrally, the case studies were employed as means to compare and contrast China's investment decisions, engagement protocols, and developmental project implications at the recipient nation level. The goal was to determine commonalities and dissimilarities between cases and what potentially the drivers were for one approach over another. Centrally, this thesis looks to examine the national and local governmental and political factors that shaped BRI and OFDI project approval, loan terms, and project execution.

First, a note about what is construed as a BRI project and what isn't. The answer to that question is in many ways, in the eye of the beholder. Generally, in terms of China, pre-existing OFDI projects have been rebranded under the BRI umbrella. This is particularly acute with developmental investments conferred by China's policy banks such as the China Development Bank (CDB), New Development Bank, and the China Export-Import Bank (CHEXIM). This has burnished the scope and magnitude of China's BRI program in terms of the number of countries, projects, and investments devoted to this marquis initiative. This has ramifications to both China's messaging in the international sphere and, perhaps, more importantly, domestically within China to support nationalistic narratives and party legitimacy in meeting and delivering economic benchmarks.

The answer to that question at the recipient nation level is not so clear. A cross examination of the World Bank, OECD, ADB, China's Development Banks, ASEAN statistics, and AIIB funding data yields that there is no consensus "BRI Project List."¹⁸¹ AIIB, a China-originated and centered multilateral development bank with an international board of directors, for instance, is transparent with the details of its financing projects, whether they are sovereign, non-sovereign, sole-financed or co-financed, etc. Even though AIIB is affiliated with BRI, it does not connote projects specifically with BRI in their detailed project sheets - similar to World Bank and Asia Development Bank protocols. Yet, the China Development Banks, New Development Bank, China Export-Import Bank, and the Silk Road Fund have taken a more liberal approach and rolled BRI and pre-existing OFDI under the rubric of BRI. BRI in strict investment terms "appears to be a vague concept that even counts amongst its projects those announced or started before it was launched in 2013."¹⁸²

While there is a compendium of information on BRI and associated projects from multilateral development banks, think tanks, and research center data such as American Enterprise Institute's (AEI) China Global Initiative tracker, AidData, CSIS's Reconnecting Asia project, and Boston University's Global Development Policy Center, there is no consensus on a "master list." There are cases where China has not signed a specific Belt and Road Memorandum of Understanding (MOU) with a recipient country but has signed overarching cooperation agreements - and accounted for projects within the Belt and

¹⁸¹ OECD (2018), "The Belt and Road Initiative in the Global Trade, Investment and Finance Landscape", in OECD Business and Finance Outlook 2018, OECD Publishing, Paris

¹⁸² Gong, X. (2020). China's Belt and Road Initiative Financing in Southeast Asia, Southeast Asian Affairs, 85.

Road for International Cooperation reporting. “In the case of the Philippines, there has been both explicit mentioning and silent attribution.”¹⁸³

In the case of the four case studies examined here, there are other factors at play. In the case of Indonesia, a position of post-colonial non-engagement with China and the West during the Cold War, and long-held suspicion about Chinese communist sympathizers following the 1965 coup have fostered a history of anti-Chinese sentiment within Indonesia. The lure of BRI developmental investments is set against the backdrop of a prominent, rising entrepreneurial ethnic-Chinese class encouraging rapprochement with China and a spirited, domestic, party politics feeding notions that national leaders are cozying up to China’s overtures, oversubscribing national accounts to debt servicing arrangements, and under leveraging indigenous capacity and capability. Hence, to maintain the delicate political balance that is Indonesian politics, “Jokowi must appear robust to anti-China forces at home. But, for the economy to grow, he must court Chinese money.”¹⁸⁴ This quandary is not germane to Indonesia. Vietnam and Malaysia follow similar political-economic prescriptions, albeit for different reasons.

Like Indonesia, the ethno-Chinese population of Malaysia, numbering approximately 20.6% of the population (compared to Indonesia’s 1.2%), is a vocal minority.¹⁸⁵ While Malaysia prides itself on its ethnic plurality, prominent political figures have traditionally arisen from Bumiputera (Malay) origin. That said, Malaysia has taken steps following colonialism to accommodate the ethno-Chinese minority through a Malaysian

¹⁸³ Rabena, A. J. (2018). The Complex Interdependence of China's Belt and Road Initiative in the Philippines. *Asia & the Pacific Policy Studies*, 5(3), 688.

¹⁸⁴ Economist, “Indonesia’s Government Wants To Get On With China In Private”, February 13, 2020

¹⁸⁵<https://www.cia.gov/library/publications/resources/the-world-factbook/attachments/summaries/MY-summary.pdf>

government policy to “make the Chinese accept Malaysian “national symbols”, including the use of the Malay language, to make them politically loyal to Malaysia, but to retain their separate ethics identity.”¹⁸⁶ The resultant quandary facing Malaysian politicians is therefore how to embrace China’ BRI overtures without seemingly discounting popular support from larger political and ethnic blocs of Malays - and appearing to cater to the ethnic Chinese minority. Yet, Malaysia’s pursuit of BRI investments is in stark contrast to the political tightrope walked by President Jokowi in Indonesia. Malaysia zealously embraced BRI to build and deliver on vital infrastructure promises central to economic development initiatives of the Najib administration; gaining political dividends with regional and local constituents due to the diversity and expanse of China-funded projects, and to (as now known) elicit Chinese government funding to buttress losses in Malaysia’s 1MDB (name) sovereign fund - as well as his personal accounts.¹⁸⁷ In the case of Malaysia, there was no political or national sensitivity to being a marquis recipient of BRI projects and funding.

Of the regional case study nations, the Philippines has followed a path most similar to Malaysia - for many of the same reasons but not all. The Philippines has been a prominent supporter of China’s BRI for investment aid to develop critical infrastructure projects. The incursion of foreign direct investment dollars under the aegis of BRI has been stewarded by President Duterte. Duterte saw the domestic political dividends of attending early BRI forums in China¹⁸⁸ as well as a means to mollify China-Philippine

¹⁸⁶ Suryadinata, L. (1985). Government Policies towards the Ethnic Chinese: A Comparison between Indonesia and Malaysia. *Southeast Asian Journal of Social Science*, 13(2), 15-28.

¹⁸⁷ https://www.wsj.com/graphics/1mdb-money-flow/?mod=article_inline

¹⁸⁸ Duterte attended both 2017 and 2019 BRI Forums in China - even after the International Criminal Court ruling on the South China Sea in 2016

relations following the International Criminal Court decision on South China Sea sovereignty claims.¹⁸⁹ Lacking the ethno-Chinese diaspora issues of the other case study nations, Duterte has not delicately approached China's BRI investment opportunities. Rather, he has aggressively sought developmental assistance and used it domestically to underscore and frame his political power at the provincial and international level.

Vietnam garners a more precarious position with respect to a perception of fully embracing BRI funding and projects due to the historical animosity with China (and attendant national disposition) resulting from the 1979 war and China's maternal posture during the Vietnam War¹⁹⁰ The other factor in play is China's long standing assertiveness in Vietnam's sovereign claims in the South China Sea over disputed territory and vital oil reserves.¹⁹¹ Accordingly, Vietnam has cautiously embraced BRI funding and projects for historical, economic, and national reasons. It is well aware of BRI's incursions into Sri Lanka's sovereignty issues as a result of an inability to pay loan premiums on debt vehicles with China surrounding the Hambantota port. That aside, the lure of improving infrastructure, notably rail, would connect Vietnam to its number one trading partner and beyond via the 21st Century Silk Road. Vietnam has a bevy of projects under the guise of BRI but some pre-date BRI and have been accumulated and characterized under the BRI rubric by China - and not by Vietnam¹⁹²

¹⁸⁹ Rapp-Hooper, Mira, and Harry Krejsa. *Reefs, Rocks, and the Rule of Law: After the Arbitration in the South China Sea*. Center for a New American Security, 2016.

¹⁹⁰ Vietnam has historically rejected China's positional role within Communist ideology; embracing Soviet relations, military, as well as economic support to the distaste of China as well as taking unilateral steps in Indo-China to influence domestic affairs in Laos, Cambodia, and Thailand.

¹⁹¹ These are detailed in Chapter (6).

¹⁹² While railway projects fall under the purview of BRI Silk Road connectors, Vietnam prefers ODA/OFDI-financed projects be accounted for separately.

As the regional case studies will illuminate, conferring BRI projects to support national development objectives do not follow a uniform approach or a standard protocol. While China increasingly rebrands existing and new OFDI projects under the BRI umbrella, recipient nations approach BRI developmental assistance largely due to domestic agendas and political considerations. As depicted in the case studies to follow, national postures toward BRI run the spectrum - a function of the intersection of the national, political, leadership dynamic, magnitude of political opposition, constituent plurality (most notably the presence and prominence of an ethnic-Chinese diaspora), nationalism, and international optics.

Indonesia

As the largest, most populous country, and the largest economy in Southeast Asia,¹⁹³ Indonesia presents an appealing investment landscape for BRI. A nation with vast infrastructure needs due to its geographic expanse, it can also capitalize on its endowment of rich, natural resources and a young, eager workforce in search of prosperity.¹⁹⁴ As such, Indonesia's national development agenda seeks to broaden economic revitalization not only to urban and traditional economic centers, but to rural areas where seaports, airports, and industrial zones would benefit the national economy and local communities. Two decades of positive, average GDP growth of ~4.8%¹⁹⁵ following the Asian Financial Crisis, including during the 2008 Global Financial Crisis,

¹⁹³ ASEAN Statistical Yearbook 2020 www.aseanstats.org

¹⁹⁴ <https://data.worldbank.org/indicator/SP.POP.DPND?locations=ID>. The age dependency ratio in Indonesia has fallen from a high of 87% in 1970 to ~47% in 2019.

¹⁹⁵ https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=ID&most_recent_value_desc=true&start=1998

Indonesia's economic development program and accompanying inclusive growth gave rise to new economic opportunities for an increased share of the population. Therefore, "with the poverty level below 10 per cent in 2018,¹⁹⁶ Indonesia's economic narrative has shifted from survival and subsistence to infrastructure. The country needs connectivity to link the vast archipelago, so that people, goods and services can be transported easily and at affordable rates. The growing middle class is also restless to travel more and seek new economic opportunities, which are currently inhibited by numerous bottlenecks."¹⁹⁷

Jokowi's first term infrastructure budget of nearly USD\$350B was to do just that - enable outlying areas by developing complex infrastructure projects that would provide jobs, opportunities, and an interconnected logistics network to ease communication of people, goods, and services - on the national level. Central in that economic development plan was Indonesia's Regional Comprehensive Economic Corridor (RCEC) initiative. Formally envisioned and instituted in 2015, it centers on development projects in North Sumatra, North Kalimantan, North Sulawesi, and Bali. These areas situated external to Indonesia's main archipelago, Java, encompass a holistic, developmental focus of the Jokowi Administration. As Deputy for Infrastructure Coordination Ridwan Djamaluddin noted in a press release, incident to the Indonesian Business Visit and China International Contractors Association (CHINCA) forum in 2019, "Indonesia was still prioritizing Java. The government is optimistic of realizing equitable infrastructure development across all regions. Java still contributes some 80 percent to our GDP. In Indonesia, we are aware

¹⁹⁶ Indonesia cut the poverty rate by almost half from 1999 to 9.8%.
<https://www.worldbank.org/en/country/indonesia/overview>

¹⁹⁷ Wahono, S. (2019, Jun 19). Indonesia Must Get Infrastructure Financing Model Right. The Business Times

of the need for equitable progress in development, so our efforts currently are directed to driving development in areas outside Java.”¹⁹⁸ So while the Jakarta-Bandung Railway exists as the marquis developmental project of Jokowi’s first term in office, his second term will capitalize on a broader developmental aperture - to projects outside Java. Therefore, according to Kyle Springer, senior analyst at Perth USAsia Centre, “Jokowi’s primary economic challenge is to continue high-speed economic growth at a rate that meets his government’s targets, makes full use of the country’s demographic dividend, and delivers tangible benefits for all Indonesians. Indonesia has to close a gigantic ‘infrastructure gap’ to make its economy more efficient, open up new markets, and fully integrate with global supply chains.”¹⁹⁹

An expansive, and ambitious economic agenda across an ethnically, geographically, and demographically diverse country cannot succeed without political capital and alliances. Accordingly, Jokowi sought to expand his coalition government and form key cabinet positions along diverse lines to build advocacy with his second term reforms - specifically infrastructure. To that end, Jokowi negotiated, “the allocation of ministries with the powerful oligarchs who wield great influence in the political system.”²⁰⁰

While economically advantageous to the local community, the four regions present advantages to Chinese investment as well. North Sumatra is the focal point of Indonesia’s palm oil industry as well as being in proximity to leverage the Strait of Malacca and the vital trade routes stemming from the world’s second most transited sea line of

¹⁹⁸ Indonesia: Ministry Facilitates Chinese Entrepreneurs to Develop Infrastructure. (2019, Jun 17). Asia News Monitor

¹⁹⁹ Wilson, K., & Yang, K. (2019, May 23). Jokowi’s agenda: Economy and infrastructure. China Daily

²⁰⁰ Wilson, K., & Yang, K. (2019, May 23). Jokowi’s agenda: Economy and infrastructure. China Daily

communication (SLOC)²⁰¹ North Kalimantan has long been a focus of hydropower development for Indonesia due to its mountainous topography and the challenges of providing power to support the local populace and economic development. Indonesia believes that capturing hydropower would also magnetize Chinese smelting industries to relocate there. North Sulawesi to the northeast of Java has been the focus of seaport and airport expansion in order to connect it to Indonesia's broader economic efforts and to lure potential foreign investment. Lastly, Bali, with its robust tourism industry, is the most developed of the regions, offering a ready-made talent pool of businesses and a vibrant economy largely driven by an influx of foreign tourists and capital.

The four economic corridors exist as part of Indonesian President Jokowi's "Global Maritime Axis Fulcrum" vision; promoting Indonesia's vast maritime landscape and resources as essential to ASEAN's economic growth. This was an extension of Jokowi's pledge to boost and transform infrastructure and economic activity across the country of more than 17,000 islands in order to raise its prominence as a hub for maritime commerce. But clearly, in Jokowi's first term (2014-2019), the focus of effort on economic revitalization was centered on Chinese investment. Thomas Lembong, head of Indonesia's Capital Investment Coordinating Board (KPM) conveyed that, "the four zones, especially the three in Indonesia's northern reaches, overlapped with the maritime corridors identified in the BRI and would reduce project "duplication or lack of synchronization that could lead to waste and poor quality outcomes...each economic corridor had advantages for investors. For example, North Kalimantan's hydropower

²⁰¹ <https://www.weforum.org/agenda/2014/05/world-most-important-trade-route/>

resources meant it could "power aluminum smelters with cheap but clean electricity", while North Sulawesi was experiencing a tourism boom with 180,000 Chinese tourists visiting the region last year, up from just 12,000 in 2013. About 2.1 million mainland Chinese went to Indonesia last year, making it the second-largest source of tourists."²⁰²

Thomas Lembong's comments portray a deep-rooted belief within Jokowi's Administration that China's 21st Century Maritime Silk Road (MSR) was symbiotic with Jokowi's Global Maritime Fulcrum and Regional Comprehensive Economic Corridors. That geo-economic inertia followed the signing of a comprehensive strategic partnership between Indonesia and China in 2015, at the outset of Jokowi's first term, shortly after President Xi Jinping unveiled the complementary MSR vision to the signature 21st Century (overland) Silk Road Economic Belt.

Coincident to Jokowi's attendance at the first Belt Road Forum (BRF) in Beijing in 2017, Chinese State Councilor, Yang Jeichi, met with Indonesia's Coordinating Minister for Maritime Affairs Luhut Pandjaitan on the sidelines to discuss BRI integration. He commented, "the Belt and Road Initiative proposed by Chinese President Xi Jinping and the Global Maritime Axis Vision put forward by Indonesian President Joko Widodo match closely, adding the integration of the two will help push forward bilateral ties."²⁰³ Pandjaitan affirmed Indonesia's intent to further coordinate its development programs in order to enhance collaboration with China.

²⁰² Lee, L. (2019, Apr 29). Indonesia Sees Billions from Belt and Road: Speaking on the Sidelines of Last Week's Forum, the Country's Investment Minister Says He Finds Beijing's Openness to Feedback 'Highly Encouraging'. South China Morning Post

²⁰³ China to Align the Belt & Road Initiative with Indonesia's Development Plan. (2017, May 14). Shanghai Daily

Beyond public assurances, Indonesia has pragmatically and prudently approached BRI from the outset. Despite its strategic location, economic prowess, and mineral resources, Indonesia has executed comparative due diligence on BRI investments largely due to observing the early challenges with Sri Lanka's Hambantota Port and with Pakistan's China-Pakistan Economic Corridor (CPEC) commitments. In 2018 as Indonesia commenced negotiations with China on potential projects, they guardedly approached the negotiations; capitalizing on expedient financial forays of other nations. "We are fully aware that we must not let this cooperation end badly, other countries have been forced to pay back loans and some have let go of their assets. We don't want that. I understand we're not as quick as other countries to tap the fund because the fund owner will think longer on our offers"²⁰⁴ according to Ridwan Djamaluddin, the Deputy for Infrastructure at Indonesia's Coordinating Ministry for Maritime Affairs. But another factor at hand is the historical mistrust resident within Indonesia ruling circles over China's role in the ill-fated and aborted coup of 1965 that was spearheaded by Indonesia's Communist Party, the PKI. Normalization of relations and accompanying trade between the two countries has proceeded at a glacial pace - from severing diplomatic relations from 1967 onward "following a pogrom of ethnic-Chinese residents in Indonesia and a months-long barrage of mutual recriminations occasioned by an abortive coup attempt in Jakarta on 30 September 1965. Since that time, allegations of China's involvement in this coup - although the particulars are still unexplained - have been a matter of official policy of the Indonesian government."²⁰⁵ While political undercurrents of distrust and historical

²⁰⁴ Indonesia Woos Chinese Investors with Belt and Road Projects Worth Up to \$82 billion, Strait Times, December 5, 2018.

²⁰⁵ van der Kroef, J.,M. (1989). Hesitant "Normalization": Indonesia's Slow Boat to China. Asian Affairs, an American Review, 16(1), 24.

subversion within Indonesian affairs plays a part, they are not isolated to China alone. To Indonesia, modern China presents itself as a lineage to former Western and Russian efforts to spread both ideology, trade, and military alliances in the region. While Indonesia has long held superpowers at arm's length, China can be viewed as supplanting Russia and to some extent the U.S., as the regional superpower of interest. To that end, Indonesia's slow embrace to China's BRI is in context with "the idea that ASEAN - and especially Indonesia as ASEAN's largest state - needs to develop a new system of strategic balance in which all the superpowers play some role and, indeed, in which they can and should be played off each other by ASEAN diplomacy if necessary."²⁰⁶

Apprehension, due diligence and deliberate communications by Indonesia with China are complemented by the fact that Indonesia has, by design, stipulated that government-to-government loans would not be conferred for BRI projects within Indonesia. Instead, all BRI projects would be financed as business-to-business (B2B) investments. Prior to the second Belt and Road Forum in Beijing on April 25, 2019, Indonesia's foreign ministry spokesman, Arrmanatha Nazir, stated that Vice President Jusuf Kalla would affirm that for Indonesia, "From the beginning, Indonesia has stressed that BRI projects have to be private sector-driven, a business-to-business cooperation... so it's profit-oriented. If it won't be profitable, it should not proceed. If there is any debt, it is a debt to the private sector."²⁰⁷ The optics of this position was made clear at the first Belt Road Forum in 2017 when, in the presence of President Jokowi, "cooperation on (the) facility of Jakarta-

²⁰⁶ van der Kroef, J.,M. (1989). Hesitant "Normalization": Indonesia's Slow Boat to China. *Asian Affairs*, an American Review, 16(1), 42.

²⁰⁷ Indonesia Wants BRI Projects to Be in Line with National Development Plan, No Government Debt, April 24, 2019.

Bandung speed railway project was signed by Chief Executive of PT KCIC Hanggoro and Chief Executive China National Development Bank Hu Huaibang with (a) cooperation commitment of US\$4.498 billion.”²⁰⁸ The month prior to the Forum, Indonesia proposed 28 projects worth US\$91.1 billion as potential investments subject to feasibility studies under BRI. In addition, Indonesia Investment Coordinating Board (BKPM) chairman, Thomas "Tom" Lembon, stressed that before business could conclude deals with Chinese firms, four government conditions would have to be met - and agreed to. Indonesia “will not accept any second-class technology that will have a negative impact on the environment...will maximize the use of local labor in the projects...will required Chinese investors to transfer their knowledge of the technologies to their local partners through training programs...and the projects must create added value for the Indonesian upstream and downstream industries to reduce the country's dependence on extractive industries such as mining, as well as benefit the country's economy in the long term.”²⁰⁹



Figure (51) - Jakarta-Bandung Railway Project²¹⁰

²⁰⁸ Indonesia, China Ink Three Pacts Under Belt, Road Initiative. (2017, May 15). BBC Monitoring Asia Pacific

²⁰⁹ Indonesia to propose projects worth US\$91 billion for China's Belt and Road, Jakarta Post, March 20, 2019.

²¹⁰ Fitch Connect - Asia High-Speed Rail: Country Highlights, 25 July 2019 www.fitchconnect.com

While Indonesia does not refer to the Jakarta-Bandung Railway project officially as a BRI project, China certainly does. Of the approximately US\$14.5B²¹¹ of projects financed by two China's policy banks, the China Development Bank (CDB) and the Export-Import Bank (CHEXIM), US\$4.5-\$5.5 billion was attributed to the Jakarta-Bandung Railway project.²¹² The US\$14.5B figure does not account for state-owned commercial banks or services exports who fund and supply equipment funded to those overseas projects. Therefore, the policy banks are principally the lead lender to secure an investment foothold in overseas investment projects such as BRI, with participation from China's state-owned commercial banks as an enabler for, in many cases, state-owned enterprises as lead development agents for China's project activities in execution.

Inaugurated in January 2016, the Jakarta-Bandung Railway was envisioned as the keystone to President Jokowi's ambitious development plan; spurring economic activity along its 142km route following anticipated completion in 2019. The project was immediately beset by bureaucratic challenges with transport ministry permits, land acquisition and expropriation, and environmental challenges. These encumbrances were symbolic of the chasm between central government ambition and provincial, local government equities. "But China and Indonesia still rushed to inaugurate the Jakarta-Bandung high-speed rail link before many of the technical studies and impact assessments had been carried out. This reflects the fact that Jokowi is keen to show his

²¹¹ American Enterprise Institute's China Global Investment Tracker holds this figure at US\$53B from 2050-2020. Distinction here is that China's Development Finance Institutions (DFIs), of which CDB and CHEXIM are a part, also include the Asia Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB)

²¹² Boston University Global Development Policy Center, China's Overseas Development Finance Database, <https://www.bu.edu/gdp/chinas-overseas-development-finance/>

flagship infrastructure buildout is gathering pace, while China wants to prove its "One Belt, One Road" trade development strategy is making progress."²¹³

From the outset, Indonesia's reticence to financing BRI projects as government-to-government tenders served as a point of leverage in project negotiations with China. In the end, a Chinese-led consortium undercut a Japanese development tender by removing the requirement for a sovereign guarantee from the Indonesian government; financing 75% of the ~\$5.5bn project cost via a low-interest loan (at a reported 2% interest rate) from China Development Bank to be repaid over a 40-year period. The consortium, named Kereta Cepat Indonesia China (KCIC) including China Railway Engineering Corporation (CREC - a China state-owned enterprise), PT Kereta Api (an Indonesia railway state-owned enterprise), and private construction firms Wijaya Karya, Perkebunan Nusantara VIII and Jasa Marga will contribute the remaining 25% via direct equity financing.

The Jakarta-Bandung Railway marked the first time China's Development Bank negated a sovereign guarantee on a large overseas development project (BRI project in China's view) of this magnitude - likely an indicator of the importance that China places on the project as a means to showcase its high speed rail (HSR) expertise to its near abroad (displacing Japan's historic technological edge and expertise with HSR) - and Indonesia as a centerpiece of its MSR vision. According to Rini Soemarno, Indonesia's Minister for State-owned Enterprises, "China wanted to deliberately show that its fast train was better

²¹³ FT, C. R. (2016). Indonesia's High-speed Rail Highlights Systemic Issues. FT.Com

than Japan...we asked for the lowest rate possible and they gave 2 percent.”²¹⁴ In addition, removing sovereign guarantees could be interpreted as a concession from China toward Indonesia’s economic importance to BRI as ASEAN’s largest economy. As such, the Indonesia government was absolved of short-term financing risk; transferring that risk to the China Development Bank and, by extension, to China sovereign debt ledger. The short-term financing risks were compounded by the attendant execution delays caused by Indonesian government bureaucracy. This would be a factor for the long haul with this and other OFDI and BRI projects across the country.

Financing the Jakarta-Bandung Railway project was a promising start to a vital economic lifeline within Java; bridging Indonesia’s third-most populous city to the capital and rural communities in between. Construction was another story. Launched in January 2016, the railway, as the signature BRI project in Indonesia, “was supposed to illustrate China’s expanding economic power and influence. But as of late February, local officials said only 10 percent of the work had been completed, making it impossible for operations to start next year as scheduled.”²¹⁵ Partly attributed to late China Development Bank disbursements to pay developers and the consortium, most of the delays hampering progress can be attributed to intransigent and cumbersome bureaucracy systemic to Indonesia since Indonesia’s decentralization in 1998. Hence, “paperwork and permit problems halted the project in its first several months, after which land acquisition proved to be a major headache. Only half of the total land needed has been secured. Rising land

²¹⁴Fanny Potkin, Tabita Diela, Fast track: Indonesia, Malaysia Rail Projects May Give China More Deals. (2019, Apr 23). Yerepouni Daily News

²¹⁵ Yamada, G. & Stefania Palma (2018). Is China’s Belt and Road Working? A Progress Report from Eight Countries. FT.Com.

prices during the delays is partially responsible for the project's growing price tag — from \$5.5bn when it was announced to \$6bn.”²¹⁶ Land appropriation in the time of Suharto's central grip on power is not the Indonesia of today. A decentralized bureaucracy combined with diversified power at the provincial levels has galvanized political opposition as well as environmental groups raising environmental concerns about the project.

Meiki W Paendon, the Executive Director of WALHI West Java, an environmental NGO based in Bandung, has raised that, “Indonesian law requires that an environmental impact assessment (EIA) for a project of this size to take 12 to 18 months. This EIA, however, was completed in a frightening seven days, critically neglecting key analysis about the project's likely impacts in terms of landslides, water catchment areas, and geologic faults. Neither did the project comply with legally required spatial layout plans; it wasn't even included in the country's National Railway Master Plan.”²¹⁷ This is alarming but it speaks of the complexity of domestic politics coupled with national ambition.²¹⁸

Delays to the Jakarta-Bandung Railway project are not in isolation within Indonesian development projects. They are endemic to local development projects and the intra-provincial power struggles that often pit local entities against the provincial leaders, the

²¹⁶Yamada, G. & Stefania Palma (2018). Is China's Belt and Road Working? A Progress Report from Eight Countries. FT.Com.

²¹⁷ <https://thediplomat.com/2020/12/the-jakarta-bandung-rail-project-5-years-on-and-still-going-nowhere/>

²¹⁸ Of note, the Study on the High Speed Railway Project (Jakarta-Bandung Section), Republic of Indonesia FINAL REPORT, November 2012 (prepared for Japan's Ministry of Economy, Trade, and Infrastructure (METI), concluded, “In the environmental and social consideration aspects, the government of Indonesia will be required to conduct the following matters for the project implementation: consensus building among stakeholders, implementation of Environmental Impact Assessment (AMDAL), preparation and approval of Land Acquisition and Resettlement Action Plan (LARAP), implementation of land acquisition and compensation, and establishment of monitoring structure during construction and operation.”

https://www.jetro.go.jp/jetro/activities/contribution/oda/model_study/infra_system/pdf/h23_result03_en.pdf
. Japan allocated nearly two years for this within the initial feasibility study for the project.

central government, and foreign investors. Largely, this is a byproduct of three legal frameworks enacted after Indonesia's decentralization following the New Order Period (1967-1998). One, the Decentralization Law No.22/1999, stipulating that local governments have sector capacity in health, education, environment, public works, communication, transport, agriculture, trade, industry, capital investments, land, cooperatives, manpower, and infrastructure, services.²¹⁹ Provincial governments were chartered to coordinate across local governments where local government initiatives impacted others. Two, Government Regulation No.25/2000, "linked to the Decentralization Law (No.22/1999), defined the division of authority of the central and local governments such that district and municipal governments were given the authority to plan and construct a railway network in a single district or city while provincial governments were allowed to plan and construct railway networks connecting districts and cities within a single province."²²⁰ Three, the new Railway Law (No. 27/2007) also "outlined and defined the three permits required for railway infrastructure: a business license (*izin usaha*), a construction permit, (*izin pembangunan*), and an operations permit (*izin operasi*). The central government has the authority to issue business licenses, while provincial governments have the authority to issue construction and operations permits for railway networks connecting districts and cities within a single province with approval from the central government. The district governments can also issue construction and

²¹⁹ World Bank, 2008, Spending for Development: Making the Most of Indonesia's New Opportunities. Washington, DC: World Bank.

²²⁰ Akiko, M. (2016). Political Dynamics of Foreign-invested Development Projects in Decentralized Indonesia: The Case of Coal Railway Projects in Kalimantan. *Southeast Asian Studies*, 5(3), 420.

operations permits with the recommendation of the provincial government and approval of the central government.”²²¹

Beyond the bureaucratic complexities instituted as a result of decentralization, Railway Law (Law No. 13/1992) authorized that only the state-owned-enterprise railway company, PT Kereta Api Indonesia (PT KAI), construct railroads within Indonesia. Railway Law No.23 in 2007 removed PT KAI’s monopoly on railway construction - opening the door to public-private-partnerships (PPP) between domestic and international participants in future railway projects. This was a crucial step in forging infrastructure joint ventures with domestic and international partners to realize Indonesia’s infrastructure requirements, in-step with economic revitalization.

Indonesia’s embrace of China’s BRI is dual-pronged - with political lines of effort geared toward Beijing, and financial lines connected to and through Hong Kong. Hong Kong, specifically its role as Asia’s financing hub, serves as the financial pathway between mainland China and its SOEs and policy banks, and ASEAN. In-stride with the first Belt Road Forum in Beijing in 2017, Hong Kong Special Administrative Region (SAR) Financial Secretary Paul Chan led the opening of the Hong Kong Economic & Trade Office in Jakarta. Beyond symbolic investment in the relationship and its importance, the office structurally connected Hong Kong’s investment and financial expertise streams to Jakarta. Beyond economic consular sections within local embassies, the office was a first in providing an in-situ de-facto liaison office to facilitate BRI investment transactions from Beijing. Chan delivered a keynote speech at a Belt & Road Initiative seminar in

²²¹ Akiko, M. (2016). Political Dynamics of Foreign-invested Development Projects in Decentralized Indonesia: The Case of Coal Railway Projects in Kalimantan. *Southeast Asian Studies*, 5(3), 420.

Jakarta with local financial officials and business leaders, stating "Given its fast growing economy, its strategic location in Southeast Asia, as well as its vast human and natural resources, Indonesia is a key player in the Belt & Road Initiative. As Asia's international financial capital, Hong Kong has the experience, expertise (and) international connections to serve as the fundraising, financial management and professional services hub for Belt & Road projects." After the seminar he met Indonesia Investment Coordinating Board Chairman Thomas Trikasih Lembong and Bank Indonesia Deputy Governor Perry Warjiyo.²²²

Establishment of the Economic and Trade Office has been followed by additional ministerial level delegations such as the Secretary for Commerce & Economic Development Edward Yau, who visited Jakarta in 2017 to foster trade and investment ties between Hong Kong and Indonesia. Yau held that the relationship between Indonesia and Hong Kong was a function of Indonesia being a major market because of its population and its economic strength, the enabling of trade due to the FTA with ASEAN, and BRI as a connector. Yau affirmed at a press session in Jakarta after meeting with Jokowi and local leaders, "In the Belt & Road Initiative, there will be a lot of connectivity between governments. One of the areas which is being advocated under the Belt & Road Initiative is policy coordination. It requires government-to-government networking, and that's why it's important for the Hong Kong Government to reach out and to establish an even closer relationship with a partner like Indonesia."²²³

²²² FS opens HK office in Jakarta. (2017, Jul 27). Hong Kong Government News

²²³ HK Fosters Ties with Indonesia. (2018, Apr 26). M2 Presswire

Further he affirmed Hong Kong's important role in BRI, "As a highly open economy with extensive connections and international experience, we are the freest market in the world, allowing free flow of trade, capital, goods, talent and information whilst keeping close ties with our Motherland. Our strengths and unique position as the gateway connecting overseas businesses with their Mainland counterparts have made Hong Kong an indispensable player in the Belt & Road Initiative. Last December, we signed the Arrangement between the National Development & Reform Commission & the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong's Full Participation in and Contribution to the Belt & Road Initiative. This arrangement is most important as it allows Hong Kong to give full play to our unique advantages under "one country, two systems" to contribute to the nation on the one hand, whilst seizing those opportunities brought by the initiative to provide new impetus for our economic growth on the other.²²⁴ The take-away here is that coupled with Indonesian domestic politics and bureaucracy, China, in the investment sense, adds another layer of complexity by leveraging Hong Kong as a financing thruway to Indonesia (and other BRI countries). This contributes to the opacity of tracing investment dollars originating from the mainland to actual BRI projects. An exception being Indonesia's relationship with the Asian Infrastructure Investment Bank (AIIB). As a founding member of AIIB, Indonesia has institutionalized protocols to confer sovereign and non-sovereign debt financing from AIIB (both "stand-alone" and "co-financed" with other multilaterals such as the World Bank or Asia Development Bank (ADB)) for infrastructure, manufacturing, and capital investment capacity. As compared to China's policy bank financing of capital projects

²²⁴ HK Plays Key Belt-Road Role. (2018, Apr 26). M2 Presswire

such as the Jakarta-Bandung Railway and others, AIIB's investment risk in Indonesia is more limited.²²⁵

But investment opportunities abound as a result of President Jokowi's victory in the 2019 national elections. Jokowi has pledged to not only relocate Indonesia's capital city to East Kalimantan in Borneo, but to invigorate a second, comprehensive program of infrastructure projects, including new airports, seaports, road and rail links in the final five year medium-term program of its 2005-2025 development plan (RPJMN - Rencana Pembangunan Jangka Menengah Nasional).²²⁶ A majority of these projects have roots in the USD\$91B proposals unveiled at the Second Belt Road Forum (BRF) in Beijing in 2019.

Jokowi's economic development agenda, set for US\$412 billion for his next term, is hailed as one of the largest development programs in Southeast Asia. But how will it be funded? Will the government accept a sovereign risk burden and seek foreign direct investment to fund its treasury or the nation's SOEs - and add to it nearly 38.5% of GDP gross debt and - USD28.05B current account balance?²²⁷ It appears so based on proposed development projects totaling nearly USD\$91B. According to Indonesia's Planning Ministry, the country intends that, "up to 65 per cent will be funded by government or state-owned enterprises (SOEs) with the rest going to the private sector."²²⁸

²²⁵ As of January 2021, AIIB investment in Indonesia is approximately USD\$2.1B for the period of 2016-present. <https://www.aiib.org/en/projects/list/index.html?status=Approved>

²²⁶ <https://www.worldbank.org/en/country/indonesia/overview>

²²⁷ A 14% increase in gross debt as a function of GDP in Jokowi's first term. <https://www.imf.org/en/Countries/IDN#countrydata>

²²⁸ Wahono, S. (2019, Jun 19). Indonesia Must Get Infrastructure Financing Model Right. The Business Times

Indonesia's historical experience with excess leverage is a cautionary tale - and should buffer developmental zeal and ambition. With nearly 87% gross debt to GDP at the height of the Asian Financial Crisis, Indonesia's distressed debt burden became the marquis for leverage overreach in Southeast Asia.

With one of the largest national infrastructure plans in Southeast Asia, much of the future developmental projects proposed at the second Belt Road Forum (BRF) rest on the successful outcome - and partnership - between Indonesia and China on the Jakarta-Bandung Railway Project. High political capital is on the line at the Presidential/Administration level, and the provincial and local governmental levels due to potential economic impacts of the project. While from a systemic and structural sense the three levels of government have hindered attainment of execution milestones due to political bureaucracy, land appropriation, and permits, they all have a vested interest in its successful completion. Domestically, it serves as a symbol of the efficacy of public-private-partnerships - in leveraging national SOEs and private industry to achieve creation of vital infrastructure to speed communications and buttress economic (and inclusive) development between the major cities of Jakarta and Bandung. Internationally, it achieves the "win - win" that President Xi espoused for both China and recipient countries who undertake BRI projects. The attenuating effects of the same is, from an Indonesian perspective, to garner bilateral confidence in BRI infrastructure project development, leading to further Chinese FDI under the aegis of BRI.

With an expanded coalition government comprised of powerful allies with regional equities in Jokowi's second term, coupled with hallmark initiatives such as the Global Maritime Fulcrum and Indo-Pacific concept, the Jokowi Administration's legacy is

integrally linked to successful execution of its infrastructure development agenda - and by extension, to China.

Malaysia

Whereas Indonesia's experience with BRI is one of symmetry with domestic development agendas, burnishing and broadening political power, and bolstering Indonesia within domestically and internationally-construed regional constructs, Malaysia is an enigma.

On the surface, Malaysia's experience with BRI parallel's Indonesia in that an ambitious development and political agenda magnetized negotiations between Malaysia's PM Najib and China's leadership to embrace the BRI. Malaysia's 11th Malaysia Plan 2016-2020, introduced by PM Najib in May 2015, is a national development plan built by the nation's Economic Planning Unit (EPU). With Six Strategic Thrusts - Inclusivity, Wellbeing of the *Rakyat (Malaysian citizen)*; Human Capital; Green Growth; Infrastructure; and Innovation and Productivity, PM Najib formally initiated a program to introduce high speed rail (HSR) and develop infrastructure in the eastern economic corridor.²²⁹

The economic drivers behind the introduction of the HSR were to increase speed of transport between the wealthy areas of western Malaysia with industrial and port areas in the eastern corridor. The political dividends of bridging east and west by HSR were substantial. At the national level, a generational undertaking would cement PM Najib's legacy, assure coalition support by national elites and oligarchs who would benefit business-wise from upstream participation, leverage Malaysia State-owned Enterprises,

²²⁹ 11th Malaysia Plan 2016-2020. PM Najib does not mention specifically the ECRL (project details released in 2016). https://www.pmo.gov.my/dokumenattached/speech/files/RMK11_Speech.pdf

and reap local government and private sector support through the participation of downstream participation.

In this case, PM Najib’s HSR initiative materialized into Malaysia’s hallmark project under BRI. While Malaysia tendered nearly USD\$34B to rail, pipeline and other infrastructure deals with China in 2016 under the umbrella of BRI, the centerpiece project is the East Coast Rail Link (ECRL).



Figure (52) - East Coast Rail Link (ECRL) Project Overview²³⁰

Malaysia’s Agency for Land Public Transport released a Request for Information (RFI) in 2016 seeking feedback on potential business, technical models, and procurement strategy for an envisaged East Coast Rail Link (ECRL). The ECRL was conceived as a

²³⁰ Fitch Connect - East Coast Rail Link (ECRL) Project - Quick View: Malaysia, China Both Winners With East Coast Rail Link Back On Track, 15 April 2019, www.fitchconnect.com. Of note, the dotted corridor is the original 648km of track from the USD \$16B agreement with China. Due to renegotiated terms in 2019, the track length was de-scoped. As of late 2020, the Malaysian government has entered into negotiations to return to the original route with the expectation of no increases in budget (USD\$10.7B)

means to link vital ports, airports, and logistics hubs on the eastern region of peninsular Malaysia to the country's capital of Kuala Lumpur and Port Klang on the Malacca Strait. Effectively, this would spur economies through Transit Oriented Development (TOD) by providing high speed rail (HSR) connectivity through the East Coast Economic Region (ECER), an area measuring more than 66,000 square kilometers or 51% of the total area of Peninsular Malaysia with a total population of 4.43 million (2014).²³¹ In addition, the ECRL HSR, by increasing logistics and ridership throughput over mainland routes, would minimize reliance on sea transport around the peninsula and through the congested Strait of Malacca. In Malaysia in particular, "rail carries only about five percent of total freight tonnage according to the Asia Development Bank."²³² While reaping logistics efficiencies, the ECRL would mitigate potential national security issues associated with a blockage or blockade of the Strait of Malacca due to terrorist activity or major conflict in the region.²³³

The ECRL is seen as the keystone to connecting key industrial and economic centers, including Kuala Lumpur within the ECER. Complemented by existing road transport infrastructure and ports, the ECRL is envisaged to provide inclusive economic growth benefits to the region as a whole and specifically along its transport corridors.²³⁴

²³¹ <https://www.apad.gov.my/en/land-public-transport/rail/east-coast-rail-line-ecrl-project>

²³² Aritua, Bernard. 2019. *The Rail Freight Challenge for Emerging Economies: How to Regain Modal Share*. International Development in Focus. Washington, DC: World Bank

²³³ Consistent with reporting on China's geopolitical aims associated with BRI, some reporting on the ECRL claims that the ECRL would provide China a means to bypass the "Malacca Dilemma" - a blockade of this vital SLOC would sever economic trade and resources from seaborne trade with the Indian Ocean, Middle East, Africa, and Europe (offset by the BRI Silk Road (overland) initiative).

²³⁴ Lall, S. V., and M. Lebrand. 2019. "Who Wins, Who Loses? Understanding the Spatially Differentiated Effects of Belt and Road Initiative." Policy Research Working Paper WPS 8806, World Bank, Washington, DC. and World Bank, 2019. *Belt and Road Economics: Opportunities and Risks of Transport Corridors*. Washington, DC using largely data sets from South and Central Asia conclude that BRI infrastructure investments positively affect economic development along the corridor in real terms - GDP/capita, poverty rate, labor rate, trade time, and attractiveness for foreign FDI.

An agreement on the procurement, construction, and financing of the ECRL was concluded at the first Belt Road Forum (BRF) in 2016 during PM Najib's visit to Beijing. The contract was awarded to the China Communication Construction Company (CCCC)²³⁵ with 85% financing through Export-Import Bank of China at a reported 3.25% interest rate. The remaining 15% was financed through Islamic bonds from Malaysia investment banks.²³⁶ The agreement included a provision for 30% upstream and downstream participation by Malaysian SOEs and private sector firms. Unlike Indonesia, Malaysia accepted a sovereign guarantee on the CHEXIM loans - a de facto Government-to-Government (G2G) financing arrangement. This has been a point of contention politically in Malaysia with parties opposed to the United Malay National Organization (UMNO), the party of former Prime Minister Najib, and the most powerful political party in Malaysia since its independence from Britain.

Symmetric with other ruling parties in Southeast Asia, Malaysia adheres to the quasi-democratic/authoritarian model, an outcrop of historical legacy, accrued power, and centralization of control due to alliances with economic elites, oligarchs, and manipulation of state owned enterprises. Since its independence from Britain in 1957, Malaysian politics have been spearheaded by UNMO. While economic progress has been made, real democratization remains in question.

²³⁵ Per World Bank Press Release <https://www.worldbank.org/en/news/press-release/2011/07/29/world-bank-applies-2009-debarment-to-china-communications-construction-company-limited-for-fraud-in-philippines-roads-project>, CCCC was formally debarred from bidding on World Bank projects from July 2011 to January 2017 due to "fraudulent practices" associated with the Philippines National Roads Improvement and Management Project.

²³⁶ Teoh, S. (2017). East Coast Rail Link: Malaysia Touts Rail Trade Route as Rival to Singapore. <https://www.sgsme.sg/news/east-coast-rail-link-malaysia-touts-rail-trade-route-rival-singapore>

Until the Najib Administration, FDI, specifically from China, had limited impact within Malaysia's economy. This was a factor of Malaysia's conservative monetary policy and a systemic limitation driven by political preference. Domestic SOEs and prominent, private firms driving lucrative business in the automotive, retail, and real estate have been Malaysia's "national champions."²³⁷ They are symptomatic of rent-seeking that permeates the fabric of intersection of Malaysian politics and business. "For all sides, political and business patronage involving the state has remained the primary means to consolidate and enhance business as well as political interests (Gomez and Jomo 1997). However, the nature of the clientelism involved is symbiotic or reciprocal, with both businesses and the state elite (powerful politicians and bureaucrats) serving as patrons as well as clients to the other, depending on the matter concerned."²³⁸ It is this patronage, clientelism, and rent-seeking DNA that has girded Malaysia's economic and political compass over the last six decades. It is also the modus operandi that highlighted the ECRL as a project of greater significance than economic development. The ECRL became the nexus of a complex scheme of graft, collusion with China, and financial malfeasance - at the international level.

²³⁷ A reference to China's SOEs, deemed "national champions" by the CCP, who receive subsidies and preferential lending agreements with state-controlled commercial banks,

²³⁸ Khan, M. H, & Jomo K. S, J. K. S. (2000). *Rents, Rent-seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press. p.296

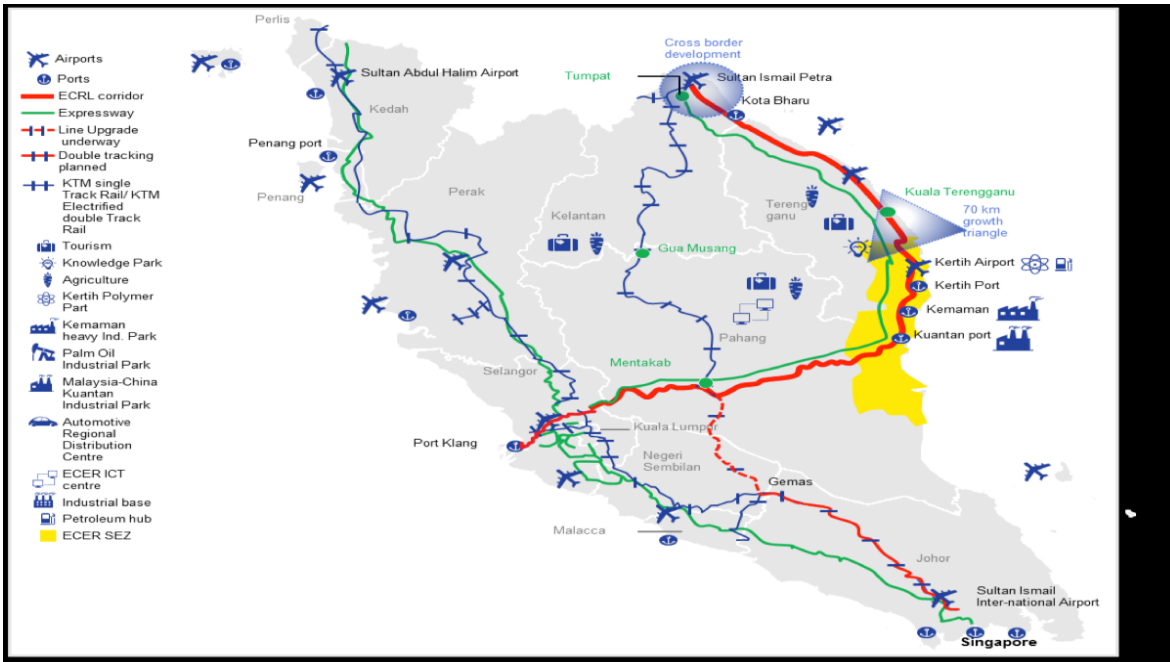


Figure (53) - East Coast Rail Link Complementary Logistics Corridors²³⁹

Accordingly, the heralded ECRL afforded an economic boon to Malaysian elites and a further concentration of power to the UMNO and PM Najib. “When Najib welcomed BRI, the flagship program was the East Coast Railway, which established a coalition between Chinese Communication Construction Corporation (CCCC) and Najib’s key political elites. Najib, UMNO, and the GLCs [SOEs] control over assets provided the political and technical clout to negotiate and implement the ECRL with CCCC without little domestic interference.”²⁴⁰

Coincidentally, as details of the project were unveiled amidst limited participation by Malaysian SOEs materialized, most notably by the National Rail Company, an

²³⁹ <https://www.apad.gov.my/en/land-public-transport/rail/east-coast-rail-line-ecrl-project>

²⁴⁰ Camba, A. (2020). *Derailing Development: China’s Railway Projects and Financing Coalitions in Indonesia, Malaysia, and the Philippines*. Boston: Global Development Policy Center. p.11

undercurrent of opposition materialized from UMNO's rival political faction, *Pangkalan Harapan* (PH). Adding to the morass is the fact that the rail link would not be owned by the National Rail Company but by a wholly-owned subsidiary of Malaysia's Ministry of Finance, the Malaysia Rail Link (MRL). This institutional anomaly would foreshadow an organizational arrangement that not only benefited economic development, inclusive growth, and political power but personal gain at the highest levels of the Malaysian government.

Effectively, PH served as the host state opposition²⁴¹ to the financing coalition of the Najib Administration and CHEXIM, the lender and prominent policy bank in China. PH called for national elections in 2018 over claims of sovereign subjugation to China due to the magnitude of financial risk (and Chinese leverage) associated with BRI development activities, and a growing groundswell of allegations against PM Najib and others in his Administration of graft and fiscal malfeasance.

Uncovered by investigative reporting by the Wall Street Journal, the Journal exposed a complex vote-buying scheme by PM Najib who was simultaneously the head of the board for Malaysia's 1Malaysia Development Bhd (1MDB), a sovereign wealth fund for economic development, and head of Malaysia's Ministry of Finance. PM Najib, facilitated through his roles and attendant means, allocated millions of dollars from 1MDB to

²⁴¹ Consistent with a developmental framework posited by Alvin Camba of Johns Hopkins, Camba argues that the success or rate of progress of a developmental initiative is a function of two centers of gravity - a financing coalition of the host state government and the financier (local or international) and a host state opposition that must compromise or be subsumed into alignment with the financing coalition; essentially a key variable that must be addressed by the financing coalition in order to achieve progression with key developmental projects. See Camba, A. (2020). *Derailing development: China's railway projects and financing coalitions in Indonesia, Malaysia, and the Philippines*. Boston: Global Development Policy Center.

patronage arrangements that benefitted economic and business elites, and influential opposition populations alike.

“The prime minister, who is chairman of 1MDB's board of advisers, promised repeatedly that the fund would boost Malaysia's economy by attracting foreign capital. It rolled up more than \$11 billion in debt without luring major investments.”²⁴² Several hundred million were funneled to projects and areas to buttress UMNO's election chances. Other funds appear to have flowed into PM Najib's personal accounts (reported to be approximately USD\$700M) and UMNO politicians via a roundabout flow through 1MDB shadow companies. In addition, UMNO appears to have given preferential contracts to Malay companies with a track record of political donations.

Short on foreign capital investment, the fund continued to borrow. Goldman Sachs Group spearheaded a \$6.5 billion bond in 2012 and 2013. Some of the bond was appropriated to power plants and real estate development. Most of the rest was used to fund campaigns for the 2013 elections. “After the victory, 1MDB had only about \$20 million in cash compared with liabilities of over \$10 billion, board minutes show.”²⁴³

Illiquid and riven with debt, the 1MDB needed a bail-out. Enter China. The Wall Street Journal further reported that senior Chinese leaders offered a delegation of senior Malaysian officials visiting Beijing in 2016 to help bail out the 1MDB fund. “In return, Malaysia offered lucrative stakes in railway and pipeline projects for China's One Belt,

²⁴² Wright, T., & Hope, B. (2015, Dec 29). The Money Network of Malaysian Politics --- Prime Minister Tapped Wealth Fund to Ease Ruling-party's Victory. Wall Street Journal

²⁴³ Wright, T., & Hope, B. (2015, Dec 29). The Money Network of Malaysian Politics --- Prime Minister Tapped Wealth Fund to Ease Ruling-party's Victory. Wall Street Journal

One Road program of building infrastructure abroad. Within months, Mr. Najib--who has denied any wrongdoing in the 1MDB matter--signed \$34 billion of rail, pipeline and other deals with Chinese state companies, to be funded by Chinese banks and built by Chinese workers."²⁴⁴ Committing to these deals at the first Belt Road Forum in Beijing in 2017, Malaysia became BRI's second largest recipient of funding after Pakistan.

Upon PM Najib's defeat in the 2018 elections, a police raid of the former PM's office uncovered significant minutes of Chinese-Malaysian meetings; exposed detailed proposals by Malaysian officials for Chinese state companies to build two large projects with funding from Chinese banks. One, the \$16 billion East Coast Rail Link, would be a railway across Malaysia connecting two ports. The other, the \$2.5 billion Trans Sabah Gas Pipeline, would be built partly on Malaysia's portion of the island of Borneo. The projects would provide "above market profitability" to the Chinese state companies, the documents say. The rail link should have cost only \$7.25 billion to build, according to an earlier estimate by a Malaysian consultancy."²⁴⁵ There was also discussion of allowing PLA(N) ships access to two Malaysian ports - at the request of the Chinese.

The unexpected victory by PH and former PM Mahathir led to a cessation of the ECRL projects until the deals overseen by PM Najib were examined and evaluated. Mahathir concluded that, "We are renegotiating the terms...the terms are very damaging to our

²⁴⁴ Wright, T., & Hope, B. (2019, Jan 07). WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals; The Secret Discussions Show How China Uses Its Political and Financial Clout to Bolster Its Position Overseas. Wall Street Journal (Online)

²⁴⁵ Wright, T., & Hope, B. (2019, Jan 07). WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals; The Secret Discussions Show How China Uses Its Political and Financial Clout to Bolster Its Position Overseas. Wall Street Journal (Online)

economy and [Najib] knew very well that the ECRL, for example, is not something we could afford."²⁴⁶

Ultimately, balancing economic opportunities of the ECRL against long-term turbulence in relations with China and (unintended) FDI opportunity costs should Malaysia be seen as a foreign investment risk, Mahathir renegotiated the ECRL with China; realizing a nearly one-third cut in price and an increase of Malaysian SOE and private-sector participation in upstream and downstream construction activities. To the earlier point about host state opposition, Mahathir personified “elite circulation” in the development process, whereby prior negotiations executed by prior actors lost their agency or rent-seeking dividends. In the wake of the electoral loss and subsequent arrest of former PM Najib, this was a win for Malaysia and Mahathir - and a setback for China and BRI due to precedent.

Philippines

China’s FDI in the Philippines has been and continues to be underwhelming compared to other major ASEAN states.²⁴⁷ It is symptomatic of a complicated relationship that pits Philippine presidential postures towards China at the national level against the equities of the complex domestic, political landscape that is Philippine politics at the domestic level. This delicate balancing act, while not unique to the Philippines, is magnified due to the prominent influence of oligarchic and elite families in guiding Philippine society and

²⁴⁶ Bevins, V. (2018). New Malaysian Government Steps Back from Spending, Chinese Projects. Washington: Washington Post.

²⁴⁷ <https://data.aseanstats.org/indicator/FDI.AMS.TOT.INF>. Philippines has outpaced Brunei, Laos, Myanmar, and Cambodia historically.

the economy. The adage that, “all politics is local”²⁴⁸ is an understatement in the Philippine case - and could be extended to, “all politics is family.”

Accordingly, a familiar pattern arises with respect to China’s FDI foothold in the Philippines - overpromise-and-under-deliver. In China’s defense, history proves that it is not the availability of FDI and China’s zeal to invest in the Philippines. It is the propensity of Philippine domestic politics to inject bureaucracy, oligarchic influence, and local elite competition into developmental decision making. Viewed across successive presidential administrations, that body politic has stunted developmental initiatives and, in some cases, led to their cancellation. The theory goes that “growth occurs only if effective dominant elites want it...It occurs if local leaders or national leaders, whichever are stronger, see its short-term concomitants (jobs for clients, tax revenues, or the recruitment of new kinds of elite members) as increasing their own power. Otherwise, they prevent it.”²⁴⁹

From China’s Reform and Opening in 1978 and its accompanying “Going Out” strategy, China’s FDI in the Philippines is unremarkable. A combination of China’s own economic development, export-oriented economic model, and formal ascendance into the World Trade Organization in 2001 accompanied Gloria Macapagal-Arroyo’s administration (2001-2010) policy of appeasement toward China. Setting aside her country’s territorial claims in the South China Sea that manifested after the forced withdrawal of U.S. military

²⁴⁸ A statement largely attributed to Tip O’Neill, the former U.S. Speaker of the House of Representatives. O’Neill, Tip and Hymel, Gary. *All Politics Is Local, and Other Rules of the Game*. New York: Times Books, 1994.

²⁴⁹ Manacsa, R. C., & Tan, A. C. (2012). "Strong /republic" Sidetracked: Oligarchic Dynamics, Democratization, and Economic Development in the Philippines. *Korea Observer*, 43(1), p. 67.

forces stationed in the Luzon, Arroyo embraced an accommodationist policy toward China. Aiming to strengthen bilateral ties with a growing regional economic power, her administration captured China FDI assurances in a series of major, economic development projects. After ten years, at the conclusion of her term, nine of the ten original projects had been canceled due to inter-elite and oligarchic obstruction.²⁵⁰ Benigno Aquino's (2010-2016) administration adopted a more cautious approach to China's FDI due to the South China Sea imbroglio, thinking that economic engagement would temper sovereign disputes. Aquino sought and concluded more than US\$13 billion FDI in 2011.²⁵¹ That number in execution, as was the case with Arroyo, would be significantly decremented by both geopolitics and domestic politics. China's growing presence and assertiveness in the South China Sea culminated in below-level-of-armed-conflict and maritime law enforcement activity - commonly referred to as "grey zone"²⁵² activity or "lawfare."²⁵³ Pressuring the Philippines to succumb to overwhelming People's Liberation Army - Navy (PLAN) forces in company with pseudo-blockades comprising

²⁵⁰ Camba, Alvin, Why Did Chinese Investment in the Philippines Stagnate? 12 December 2017, <https://www.eastasiaforum.org/2017/12/12/why-did-chinese-investment-in-the-philippines-stagnate/>

²⁵¹ Tiglao, Rigoberto D., Duterte's \$1-B Chinese Investments Three Times Aquino's \$300M, The Manila Times, July 6, 2018 <https://www.manilatimes.net/2018/07/06/opinion/columnists/topanalysis/dutertes-1-b-chinese-investments-three-times-aquinos-300m/416568/>

²⁵² Grey Zone is a term of military operational art and in execution, military doctrine, signifying asymmetric operations and activities between nations that fall below conventions and trip-wires recognized by international customary law. An excellent overview of Grey Zone activities particular to China can be found in a report by Rand: Morris, Lyle J., Michael J. Mazarr, Jeffrey W. Hornung, Stephanie Pezard, Anika Binnendijk, and Marta Kepe, Gaining Competitive Advantage in the Gray Zone: Response Options for Coercive Aggression Below the Threshold of Major War. Santa Monica, CA: RAND Corporation, 2019. https://www.rand.org/pubs/research_reports/RR2942.html.

²⁵³ Lawfare can be generally accepted as "(1) the actor uses law to create the same or similar effects as those traditionally sought from conventional kinetic military actions – including impacting the key armed forces decision-making and capabilities of the target; and (2) one of the actor's motivations is to weaken or destroy an adversary against which the Lawfare is being deployed. O. Kittrie, Lawfare: Law as a Weapon of War (2015), p. 8.

China Coast Guard and orchestrated “maritime militia”²⁵⁴ at Second Thomas Shoal and Scarborough Reef, Aquino adopted a confrontational approach to China’s sovereign and military overmatch strategy. This led to the cancellation of the majority of China’s FDI initiatives in the Philippines.²⁵⁵

Enter Rodrigo Duterte. Most international, foreign policy scholars would have predicted that Duterte would continue Aquino’s nationalistic policy on preserving the Philippines’ sovereign claims to disputed islands, reefs, and atolls in the “West Philippine Sea.”²⁵⁶ Instead, in 2016, the newly elected Duterte opted not to leverage The Hague’s International Criminal Court (ICC) finding that China’s historical nine-dash line claims²⁵⁷ were without legal basis. With BRI developing momentum in the region and with ASEAN, Duterte opted for a conciliatory approach to China that appeased tensions over SCS disputes, under the belief that increased economic integration and access to China’s investment dollars would mollify state-to-state relations. Running for President on the need for “real change”, Duterte’s “economic policy stresses the neo-liberal agenda of macroeconomic stability, social restraint, market-oriented reforms, easing restriction on foreign investments, and most importantly, infrastructure development to promote agricultural productivity and industrialization.”²⁵⁸ To some, Duterte engaged in an equi-balancing strategy between the great powers of China and the US - akin to Arroyo’s

²⁵⁴ Maritime militia refers to the orchestrated movements, command and control, and integration of non-combatant forces such as fishing fleets into operational schemes and activities supporting China’s Maritime Law Enforcement (MLE) or conventional military forces.

²⁵⁵ China FDI over Aquino’s term - \$712M

²⁵⁶ West Philippine Sea refers to the preferred notation for the South China Sea by the Philippines.

²⁵⁷ Permanent Court of Arbitration. 2016. The South China Sea Arbitration (the Republic of the Philippines versus the People’s Republic of China). The Hague: The Permanent Court of Arbitration, July 12

²⁵⁸ Renato Cruz de Castro (2017): The Duterte Administration’s Appeasement Policy on China and the Crisis in the Philippine–US Alliance, *Philippine Political Science Journal*, p. 5

strategy of balancing China's economic rise and the long term security alliance with the U.S. His diplomacy speaks otherwise.

Duterte's timid response to SCS claimancy issues is emblematic of a binary approach to foreign relations with China, with the SCS being the sacrificial anode to economic incentives. Duterte has publicly claimed that, "there was little the Philippines could do to stop Chinese construction"²⁵⁹ in disputed claims within the SCS and "that China now is the power (in East Asia), and they (the Chinese) have military superiority in the region."²⁶⁰

Duterte's state visit to China in 2016, shortly after becoming President, provided headway to his economic program. In March of 2017, the Duterte administration and China signed a six year Development Program for Economic and Trade Cooperation, agreeing to a USD\$3.4Bn infrastructure development package that included roughly USD\$2.9Bn²⁶¹ for the South Line of the North-South Railway. The six year development program aimed to promote and enhance bilateral economic cooperation and realize inclusive economic development for both countries. The Development Program was followed by a 10-year Infrastructure Cooperation Plan (ICP) signed with China during President Xi's state visit to the Philippines in November 2018. The ICP "aims to strengthen the link between China's Belt and Road initiative and the Philippines' long-term vision."²⁶² That vision could be construed as a fusion of the AmBisyon Natin 2040 that seeks to reduce poverty by prioritizing housing, manufacturing, connectivity, education, tourism, agriculture, health

²⁵⁹ Sutter, R., & Huang, C. (2017). China Consolidates Control and Advances Influence. *Comparative Connections*, 19(1), 51-57, 133-135.

²⁶⁰ Renato Cruz de Castro (2017): The Duterte Administration's Appeasement Policy on China and the Crisis in the Philippine-US Alliance, *Philippine Political Science Journal*, p. 12

²⁶¹ This number would increase to ~USD\$3.3Bn after feasibility studies were conducted and final project costs were determined.

²⁶² Philippines, China Agree on 10-year Infrastructure Plan. (2018, Nov 28). BBC Monitoring Asia Pacific

and financial services, and nested policies of Duterte's signature "Build, Build, Build" program and the Philippine Development Plan (PDP) 2017-2022.²⁶³ Considered by Duterte as the "Golden Age of Infrastructure", the Build Build Build Program is "the Duterte administration's development and economic growth strategy of massive spending by allocating \$170 billion or 7.4% of GDP for infrastructure construction and modernization by 2022."²⁶⁴ In aggregate, Philippines' vision provided seed corn for an estimated 5,682%²⁶⁵ increase in loans and grants from 2016-2017.

Following a commitment to attend the first Belt and Road Forum (BRF) in Beijing in May of 2017, the Duterte Administration concluded a reported USD\$24Bn investment package with China - \$15 billion in economic development projects with China's SOEs and USD\$9 billion in loans. While this made in-roads politically with China, it galvanized internal domestic opposition to orchestrate feasibility study delays, joint-venture disputes, land appropriation impediments, and environmental challenges for a majority of the projects. With the official government position that, "connectivity projects should complement and support Philippine development priorities, the Philippine Development Plan, the President's 10-point socioeconomic agenda, and the ASEAN Master Plan on Connectivity,"²⁶⁶ the Bicol South Rail Project (BSRP) became an economic and political imperative.

²⁶³ <http://pdp.neda.gov.ph>

²⁶⁴ Rabena, A. J. (2018). The Complex Interdependence of China's Belt and Road Initiative in the Philippines. *Asia & the Pacific Policy Studies*, 5(3), p. 689.

²⁶⁵ 'I Need China': Duterte's Pivot to Beijing Shows Signs of Payoff
<https://www.bloomberg.com/news/articles/2018-04-11/duterte-s-pivot-to-china-shows-some-signs-of-economic-payoff>

²⁶⁶ Belt & Road Initiative to Make PHL Economic Growth More Inclusive. (2017, May 14). The Philippines News Agency (PNA)

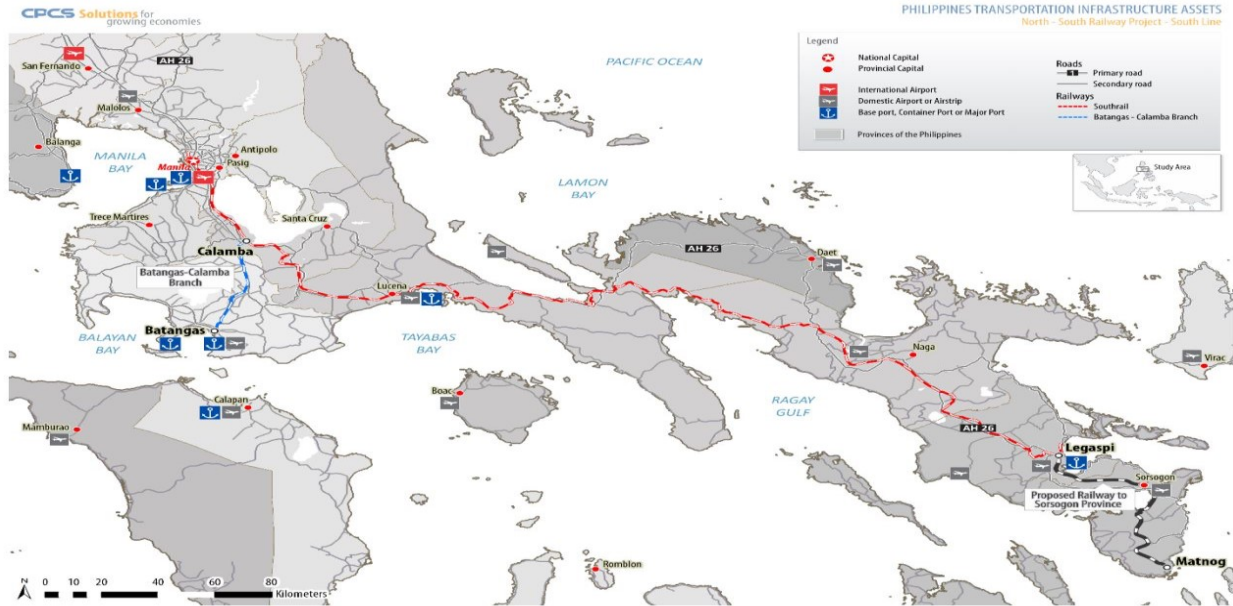


Figure (54) - North-South Railway Project Line - South Line²⁶⁷

The BSRP is a 639km, USD\$3.3Bn, medium speed railway project funded by China's CHEXIM policy bank. It is orchestrated by the Philippines Department of Transportation in conjunction with a consortium of SOEs, China Railway Design Corp (CRDC) and Guangzhou Wanan Construction Supervision Co (WACC). By design, it is to speed and bridge communication and economic development along the impoverished corridors of the Bicol region south of Manila to the capital. It is also referred to domestically as the Philippine National Railways South Long-Haul Project or North-South Railway Project Line - South Line.

While project financing and execution are associated with Duterte, the project design originated during the Ramos Administration (1992-1998). Ramos' attempted partnership with the World Bank on Philippine development projects was beset by oligarch and elite

²⁶⁷ https://ppp.gov.ph/wp-content/uploads/2015/08/NSRP_PIM_FINAL.pdf

opposition who sought rent-seeking benefits from transit-oriented development (TOD) spillovers in geographical regions of influence and interest. Arroyo, in her opening to China after becoming President, sought Chinese funding for the BSRP. Like Ramos, domestic opposition from the oligarch and elite-tier of society seeking rents from any development project scuttled development of the BSRP and its benefits to the welfare of constituents. As late as 2015, the Aquino Administration partnered with the Asian Development Bank (ADB) to develop a project and financing proposal; calling the project the “the largest PPP (public-private-partnership) project ever tendered by the GoP (Government of Philippines).”²⁶⁸

Owing to the political dividends inherent with economic development projects and the attendant prospects for job creation, the BSRP offered Duterte a legacy infrastructure project that would, in the long term, cement his impact on the economic viability of the Philippines. In the short and medium term, the BSRP project would shore up a vital voting bloc to the south of Manila that did not support Duterte’s candidacy for President.

The political backdrop provides additional context to Duterte’s economic embrace of China’s capital and securing China’s FDI for the project at the outset of his tenure. While the political impediments endemic to previous administrations seeking to realize the inclusive economic benefits of the BSRP persist, Duterte has astutely navigated an entrenched and rent-seeking political system to gain headway with the project.²⁶⁹

²⁶⁸ <https://www.adb.org/sites/default/files/page/82619/nsrp-teaser.pdf>. Additional information on the Project may be found on websites of the DOTC (www.dotc.gov.ph) and the PPP Center (www.ppp.gov.ph)

²⁶⁹ President Aquino signed the Philippine Competition Act (Republic Act 10667) in 2015. The Act aims to promote free and fair competition in trade, industry, and all commercial economic activities. It was introduced to address the oligopoly where seven economic oligarchs limited competition from Micro,

It should be noted that the Philippine Department of Transportation (DOTr) awarded a Japanese consortium, Oriental Consultant Global, to consult on the initial phases of the project. According to Fitch Solutions, the expectation within DOTr was that Japanese Official Development Assistance (ODA) from the Japan International Cooperation Agency (JICA) would part fund the project.²⁷⁰ This would be in keeping with Japan's leader status for Philippine ODA.

With agreement on developmental financing with CHEXIM following the six year development program with China in March 2017, the Philippine Department of Transportation began land reclamation and appropriation procedures and garnering oligarch and local elite consent for the project. For areas with existing operational or dormant Philippines National Railway (PNR) track and infrastructure, the core challenge for GoP was not right-of-way (ROW), but impinging upon the web of bus-based transportation systems that forged a monopoly on transportation within the southern Bicol region - a rent-rich economic windfall for oligarchs and local elites who forged a symbiotic union to connect buses to provincial malls.

Paralleling regional and provincial powers in the Indonesia Jakarta-Bandung case study, the Department of Transportation and the consortium of CRDC and WACC were required "to gain the approval of the regional-local elites since these local power holders have the juridical right to oversee right of way and land reclamation issues."²⁷¹ Of consequence,

Small, and Medium Enterprises (MSME). President Aquino signs the Philippine Competition Act, Cabotage Law amendments. (2015, Jul 21). The Philippines News Agency (PNA)

²⁷⁰ Philippines Infrastructure Report - Q2 2019. (2019). London: Fitch Solutions Group Limited. p. 14.

²⁷¹ Camba, A. (2020). Derailing Development: China's Railway Projects and Financing Coalitions in Indonesia, Malaysia, and the Philippines. Boston: Global Development Policy Center. p.13

these regional and local elites had an economic stake in the in-situ transportation systems which were at odds with the BSRP initiative. The former PPP plan by the Aquino Administration offered oligarchs and local elites the opportunity to profit from participating in the BSRP plan as they had de facto local monopolies on key infrastructure projects within their geographical domain. Whereas Duterte's plan centered on China-based funding and construction sector SOEs to shoulder development. Hence, Duterte relied upon TOD as the key incentive for moving the BSRP forward with oligarchs and local economic elites.

Heralding the tax and employment benefits that the rail systems would provide to the region, many oligarchs and the local elites pushed for train stops that could economically benefit them and their constituents. At the regional level, TOD alone was viewed as insufficient to garner local, political (elite) support for Duterte's BSRP plan. This set off a campaign between the Bicol and Quezon elites to lobby the Duterte Administration for a dominant share of the envisaged nine stops.

Bicol, the region farthest from Manila along the BSRP line beset by access and economic communication challenges due to dormant National Rail Line (NRL) tracks across its region, politicked for "five train stops out of nine because Bicol had lower GDP per capita, higher levels of inequality, and was struggling to obtain FDI."²⁷² On the other hand, Quezon, a region south of metro Manila along the BSRP augured for brokering an even

²⁷²Camba, A. (2020). *Derailing Development: China's Railway Projects and Financing Coalitions in Indonesia, Malaysia, and the Philippines*. Boston: Global Development Policy Center. p. 14

distribution of train stops between the two regions in order to satiate local elite economic concerns.

The Bicol-Quezon political challenges mirror the formation of political opposition at the provincial/regional, and local level witnessed in Indonesia and Malaysia. In the Philippine case, Duterte was confronted with building economic capacity through developmental projects at the national level, while placating provincial, regional, and local political factions that were instrumental in developmental outcomes - and his political balance of power. Pronounced in the Philippine case, oligarchs and local elites were key, enduring figures in what amounts to as a political power-sharing agreement for mutual benefit.

To move the BSRP forward, Duterte maneuvered politically to bolster Bicol Congressional representation in the lower house - a nod to the Congressional-caucus led by the regional elite Salcedo family. This extra seat in the lower house garnered local political dividends to the Salcedo-elite, and provided a counterweight to opposition Vice President Robredo, a Bicol native. Further, Duterte prioritized development and congressional support for the Quezon-Bicol expressway to increase bilateral economic and political dividends. In addition, the Bicol province received 21% of the Department of Social Welfare and Development's budget for Luzon in 2018 - an extraordinary share based on population.

Near the metro Manila terminus of the project, Duterte's embrace of relaxing domestic gambling (foreign) laws and embracing Chinese online gambling²⁷³ led to economic spillover within Metro Manila real estate - a boon to local oligarchs with real estate equities

²⁷³ Camba, A. (2018). 'The Winners and Losers in Duterte's China Play.' South China Morning Post, September 30. <https://www.scmp.com/weekasia/economics/article/2166070/winners-and-losers-dutertes-china-play>

in the capital. But oligarchic influence was not isolated to the metro region. The remaining political obstacle to BSRP support centers on land appropriation in the Laguna and Batangas regions, areas beyond Manila en route Quezon, where oligarchs and regional/local elites possess expansive real estate investment interests either individually or collectively.²⁷⁴

As in the case with Indonesia and Malaysia, land appropriation in Laguna and Batangas has stalled progress of the BSRP both in terms of local support and in execution - to the sum of nearly two years.

Vietnam

Whereas Indonesia, Malaysia, and the Philippines earnestly embraced BRI in support of national development plans, political capital, and inclusive growth opportunities, Vietnam poses an outlier case. Peculiarly, the only communist country amongst the cases, Vietnam has been reticent to capitalize on the economic benefits and connected infrastructure espoused by China's 21st Century Silk Road initiative.

Long the benefactor of a complex and complicated relationship with China along China's journey from Soviet understudy to mixed-market communism, Vietnam has viewed BRI with the same level of skepticism, concern, and sovereign implications as it has throughout its history. Specific to BRI, the state of acrimonious relations over SCS disputes balanced against a robust trade relationship further complicates Vietnam's calculus on embracing BRI. At the forefront, Vietnam, like most Southeast Asia nations,

²⁷⁴ Orquiza, T. (2019). P777-B Rail Project Backed. Daily Tribune. August, 14

has prioritized infrastructure investments to increase inclusive economic benefits and facilitate GDP growth. However, apart from diplomatic veneers and accords on organizing principles for project development, Vietnam's "reactions to the Initiative remain largely ambivalent because of the complex political, economic and strategic relationship between the two countries."²⁷⁵

This comes at odds with a decreased inflow of ODA since 2009 as the country attained middle-income country status. Unlike the investment climate in the Philippines, Malaysia, and Indonesia, Vietnam's inhospitable financial and legal regulatory system has stifled Public Private Partnership projects from establishing a foothold. Further complicating the investment landscape are budgetary shortfalls that have limited state funding in recent years. This challenges Vietnam's ability to reconcile infrastructure investment requirements to the sum of ~US\$605Bn between now and 2040.

China is the "elephant in the room" within Vietnam's balancing of infrastructure development needs, investment capital, historical suspicion of foreign influence, and national security implications. Decision space surrounding the North-South Expressway, a key infrastructure project to alleviate transport bottlenecks nearly the length of the country, symbolizes Vietnam's consternation with embracing China's capital and know-how. In 2019, the Vietnamese government decided to stop foreign investors from funding its North-South Expressway. Vietnam's Ministry of Transport cancelled international tenders for eight sections of the North-South Expressway project after nearly half of the investors were Chinese firms. This ignited fresh concerns in government and public

²⁷⁵ Le Hong Leip, "The Belt and Road Initiative in Vietnam: Challenges and Prospects", ISEAS Perspective, Singapore 2018. p. 2

spheres over China's performance track record with previous infrastructure projects (such as the Cat Linh-Ha Dong Metro Line), China's affinity to employ the Build-Operate-Transfer (BOT) model of development, and China's investment in projects with national security implications.

The challenge for Vietnam is how to spur economic growth through infrastructure development while avoiding entangling critical national security interests and positions in the process. With China's increasing incursions into Vietnam's Economic Exclusion Zone (EEZ) for oil exploration and naval maneuvers, Vietnam, like other ASEAN nations with sovereign interests in the South China Sea, navigates a political and economic balance beam. Weighing in the balance is scale. While three of the 11 sections of the US\$4.2Bn expressway are publicly funded, the remaining eight will rely on private capital and construction capability to undertake a country-wide project.

The North-South Expressway project "exemplifies how developing countries have to balance development needs with security concerns, especially when considering Chinese loans and investments. While many countries have chosen development, Vietnam has prioritized security, as seen in the highway project as well as the roll-out of its 5G network, in which Hanoi has ruled out Huawei."²⁷⁶ Vietnam's deliberate approach is prudent as it balances the juxtaposed national equities at stake with embracing China's investment capital, know-how, scale of construction, and further economic integration.

²⁷⁶ Le, H. H. (2019). Vietnam's Dilemma with Chinese Infrastructure Investment: Should It Choose Growth or Security? South China Morning Post (Online), Hong Kong: South China Morning Post Publishers Limited. Oct 11, 2019.

Against that backdrop, Vietnam's most logical option is to seek foreign direct investment to finance infrastructure investment gaps required for further economic expansion. Vietnam's perception is that China's commercial lending rates and conditions are unfavorable compared to other options that it has employed in the past such as the World Bank, Asia Development Bank, US International Finance Corp (IFC), and JICA (Japan ODA). While Vietnam is a participating member of the Asian Infrastructure Investment Bank (AIIB), it has yet to confer any infrastructure or economic development loans from AIIB.²⁷⁷

In May 2017, Vietnam's President Tran Dai Quang attended the first Belt and Road Forum in Beijing. He welcomed the BRI's efforts to promote economic and regional connectivity but cautioned that the Initiative "must ensure sustainability, effectiveness and inclusiveness, and be based on the principles of consensus, equality, voluntariness, transparency, openness, mutual respect and benefits, and compliance with the UN Charter and international law".²⁷⁸ Squarely, this was strategic signaling that any economic development and FDI associated with BRI would be scrutinized for terms beneficial to Vietnam - and not just China. A Memorandum of Understanding (MOU) was signed during Xi Jinping's state visit to Vietnam months after the BRF in November 2017. It reaffirmed the viability of the "Two Corridors, One Belt" (TCOB) framework that was proffered by China in 2003 to promote bilateral economic cooperation. The TCOB established two "economic corridors" - the Kunming-Lao Cai-Ha Noi-Hai Phong-Quang

²⁷⁷ As of January 2021, the only AIIB loan to Vietnam is a non-sovereign USD\$100M co-share loan with IFC for COVID response. <https://www.aiib.org/en/projects/details/2020/approved/Vietnam-VP-Bank-COVID-19-Response-Facility.html>

²⁷⁸ Vietnam News. (2017). Tread Carefully on China's Belt and Road Initiative: Experts. <http://vietnamnews.vn/politics-laws/395203/tread-carefully-on-chinas-belt-and-road-initiative-experts.html>

Ninh corridor and the Nanning-Lang Son-Ha Noi-Hai Phong-Quang Ninh corridor. The overarching goal was to bridge cross-border economic activity between China's southern provinces of Yunnan and Guangxi with provinces in North Vietnam. The TCOB was never formally adopted by Vietnam but was revived upon the advent of BRI's 21st Century Silk Road initiative.

The signing of the MOU, while historic, symbolizes the contextual divide between Vietnam and China over BRI. To the Vietnamese, the MOU (Joint Implementation of the Belt Road Initiative and the Two Corridors, One Belt Agreement) does not guarantee full-fledged accommodation of BRI and accompanying project development within Vietnam. Neither does it tether TCOB activities distinctly to BRI. This foreshadows that Vietnam is holding BRI at arm's length while recognizing its tenets as being areas of mutual importance. Frankly, Vietnam is averse to being branded as a BRI advocate; with obvious domestic and international implications.

Such a reservation is understandable given the lingering distrust between the two countries and rising anti-China sentiments in Vietnam due to recent tensions over the South China Sea disputes. While expressing formal support for the BRI is a necessary diplomatic move for Vietnam given the BRI's status as President Xi Jinping's signature foreign policy initiative, implementation is another matter.

The internal debate in Vietnam resonates with key themes echoed in other Southeast Asia capitals. Would Vietnam's participation in the initiative lead to economic dependency; risking issues of sovereignty such as maritime claims in the South China Sea under dispute? What about participation from domestic labor (Vietnam SOEs and

the private sector), protection of labor rights, compliance with environmental regulations, and China's dispute settlement mechanisms? How do the commercial lending rates and conditions associated with Chinese loans compare with other options? In a recent example, the Thai government "dismissed the 2.5 per cent interest rate offered by China for its high-speed rail line connecting Bangkok and Nakhon Ratchasima as being too high, and decided not to seek loans from China."²⁷⁹ In addition, will China impose conditions on preferential loans, including the use of Chinese technologies, equipment and contractors - per standard practice? If so, Vietnam has a long track record with the poor record of Chinese contractors and technologies in various projects.

This leads to the viability of alternative financing and development paths. Financing and consultative support via ODA partners such as Japan and the US or multilaterals such as the World Bank or Asia Development Bank have upsides in terms of "soft loans" or concessional loans with advantageous interest rates, grace periods, or preferential terms stipulating conditional requirement to use specific contractors, equipment, or technology from a specified source. That aside, Japanese ODA and the performance of Japanese construction firms and technology, based on past projects in Vietnam, is attractive regardless of any conditionality applied to ODA.

Another alternative to BRI and development (non-concessional) loans from China's policy banks is to pursue Public-Private Partnership (PPP) options. While this has been pursued for two metro lines in the Hanoi metro system, it is not viable for the levels of infrastructure

²⁷⁹ Global Times. (2016, 25 April). Loan Rate for China-Thailand Rail Project Reflects Market Conditions. <http://www.globaltimes.cn/content/979886.shtml>

required in the next two decades. The “public” component of the PPP is of particular concern due to state funding levels. Encouraging domestic private investors to apply for BRI loans, especially from AIIB, to construct infrastructure projects under the BOT model may also reduce the political and strategic implications of BRI loans for Vietnam. What is clear is that Vietnam has a plethora of financing options to assuage its geo-strategic and political concern surrounding BRI.

To date, no new infrastructure project in Vietnam has been officially labelled as BRI-funded. An ongoing development project, the Cat Linh – Ha Dong Metro Line in Hanoi, under construction since October 2011, was classified under BRI by both sides in 2018 - on a technicality of sorts. Originally funded by CHEXIM for a loan of USD\$419 million, cost overruns and delays required an additional loan of USD\$250 million for the project. Under joint agreement, the increased debt burden, released in 2017, was considered by both sides as part of the BRI.



Figure (55) - Cat Linh - Ha Dong Metro Line Project²⁸⁰

²⁸⁰ <https://vietnammoi.vn/do-dang-giua-tau-cat-linh-ha-dong-va-nhon-ga-ha-noi-148036.htm>

At the behest of the Ministry of Transportation, China completed a feasibility study for construction of a 13km elevated metro line in Hanoi in 2004. Initial plans sought to commence work in 2005 with completion in 2008. Total cost of the project was established at US\$300M, with a Chinese construction consortium tender to fund up to 85% of the scheme through soft loans.²⁸¹

Coupled with reinstalling street trams previously in use up until the 1980s, Hanoi opted for an elevated line largely due to cost. Ho Chi Minh City chose to build an underground metro system to the sum of nearly US\$1Bn. The World Bank estimates that “one kilometer of an underground metro costs from \$60 to \$120 million, while one kilometer of elevated rail ranges from \$15 to \$20 million.”²⁸² After failure to agree on the earlier 2004 proposal, construction of Hanoi's first metro line was slated to begin in 2009 at the elevated price of US\$552M - via a US\$419M loan from China. Optimistically holding firm on completion in late 2013, land appropriation was a key factor to overcome. The Ministry of Transport expects the line to open by the end of 2013, “although this will depend on whether the demolition of around 400 buildings on the alignment can be completed on time.”²⁸³

The Ministry of Transport, Vietnam (MoT) is undertaking the construction of an elevated railway line between Cat Linh and Ha Dong in Vietnam to reduce traffic congestion and travel time within Hanoi. The project involves the construction of a 13km elevated railway

²⁸¹ Hanoi Metro Study: A Journal of Management, Engineering and Operation. (2004). Railway Gazette International, 160(12), 815.

²⁸² Hanoi On Track for Rail Line. (2005, Jan 10). Vietnam Investment Review

²⁸³ Hanoi Metro Construction to Start Soon. (2009). International Railway Journal, 49(2), 10.

line from Cat Linh to Ha Dong, 12 stations, bridges, flyovers and a nine-story operation building, a depot area, signaling systems, and the laying of rail tracks.

In May 2009, China Railway Group 6 Company was awarded a US\$350 million engineering, procurement, construction (EPC) contract. Beijing Subway Rolling Stock Equipment Co. Ltd has been appointed to supply 13 four-carriage trains. Of the original US\$552M, the Chinese Government provided US\$169 million of Official Development Assistance (ODA) and a concession loan of US\$250 million. The railway is expected to transport 23,200 passengers per line per hour with a maximum speed of 80km per hour.²⁸⁴

Work began in 2011 but challenges on both sides plagued completion. As in rail construction projects in Indonesia and the Philippines, final land appropriation and clearance experienced significant delays, and did not complete until 2014. In addition, loan disbursements from CHEXIM were delayed, stalling production until late 2017. Land appropriation and loan disbursement issues further escalated project costs to US \$771M.²⁸⁵

That figure burgeoned to nearly US\$868M in 2018, the byproduct of successive delays and postponements. The US\$419M initial preferential credit loans from China “had risen to some \$670 million last year - an addition of some \$250 million or a 160 per cent increase. The Vietnamese counterpart funds had also increased by \$64.5 million (from \$134 million to \$198 million). The additional loan worth \$250 million has not been

²⁸⁴ MoT - Cat Linh to Ha Dong Elevated Railway Line - Ha Noi - Project Profile. (2017). London: GlobalData plc.

²⁸⁵ Vietnam: Chinese Contractor Continues to Delay Hanoi Metro. (2019, Oct 01). Asia News Monitor

approved for disbursement by the Export-Import Bank of China (CHEXIM), which partly caused the financial shortage.²⁸⁶ The cost overruns, a hallmark public concern over China-funded and executed development projects, manifested in public scrutiny of the project and pressure on the government to hold China to task - and timelines.

Bowing to domestic political pressure, the Prime Minister and the Ministry of Foreign Affairs of Vietnam and the Chinese Embassy in Hanoi began defining concrete timelines for production completion. Thereafter, the Ministry of Transport worked with the Commercial Counsellor of the Chinese Embassy to hold meetings every two weeks to review the work's progress.²⁸⁷

Ultimately, the metro line began its testing phase in December 2020. The Ministry of Transportation goal of commencing operations in early February was missed due to final certification requirements. This required an independent assessment by the French consulting firm, Apave-Certifier-Tricc consortium, followed by a final verification and issue certification by the Vietnam Register Authority, ensuring the entire railway system was safe to operate in order to commence operations. It is anticipated that the railway will be officially transferred to the Ministry of Transportation and the Hanoi Metropolitan Railway Management Board in March 2021.²⁸⁸

The Cat Linh - Ha Dong Metro Line is a face saving measure for Vietnam and, in many ways, a litmus test on the relationship and any perceived benefits that could be derived

²⁸⁶ Vietnam: Urban Rail Faces Another Delay as Debt Grows. (2017, May 15). Asia News Monitor

²⁸⁷ Vietnam: Cat Linh-ha Dong Metro Line Contractor Asked to Commit to a Deadline. (2019, Sep 19). Asia News Monitor

²⁸⁸ Vietnam: Hanoi's first Metro Line to Conduct Test Run by End-2020. (2020, Nov 10). Asia News Monitor

from participating in BRI. The ongoing South China Sea disputes, the latest in a series with China over history, loom large in the backdrop of this singular BRI project, but remain in the forefront of Vietnam's calculus for further projects and connectedness with China - economically, logistically, and diplomatically.

Key Themes

The hallmark infrastructure projects in Indonesia, Malaysia, Philippines, and Vietnam illuminate the symbiotic relationship that BRI/OFDI and domestic development programs within Southeast Asia maintain. China, as the region's creditor and primary trading partner, ripe with excess industrial capacity post-GFC, opportunistically leveraged BRI/OFDI to satisfy the projected nearly USD\$1.7 Trillion annual infrastructure shortfall²⁸⁹ within ASEAN. It did so by appealing to Indonesia's Nawcita and Maritime Fulcrum plan, Malaysia's New Economic Model and 11th Malaysia Development Program, the Philippine's Build, Build, Build program, and Vietnam's Ninth (2011-2015) and Tenth Five-year Plan (2016-202) and cooperative "Two Corridors, One Belt" (TCOB) development strategy with China. It superimposed development know-how, mass industrial capacity, and exquisite debt solutions onto disparate political and leadership environs across the four case nations.

Jokowi in Indonesia lacked budgetary resources to fund large-scale development in line with the august connectivity plans promoted by Jokowi to integrate regions outside Java and Sumatra. After a period of robust GDP growth since the GFC, Indonesia also harbored concerns on growing sovereign debt levels by providing sovereign debt

²⁸⁹ Asia Development Bank. 2017. Meeting Asia's Infrastructure Needs. Manila. www.adb.org.

guarantees to China's BRI loans and OFDI investments. This was in addition to domestic political concerns that Jokowi was pro-China. Nevertheless, the fact that Indonesia re-competed the Jakarta-Bandung Rail Project and China ultimately succeeded in supplanting Japan in constructing the project is testament to China's ability to custom-fit development solutions to need - and with non-disclosure statements in hand regarding financing details.

This parallel's Malaysia's experience. With its first New Economic Model (NEM) and 11th Malaysia Development Plan, PM Najib was bent on developing Malaysia's infrastructure and connectivity corridors for inclusive growth (and political dividends) to inner, rural regions. The embrace of China's "Park-Port-City" development model²⁹⁰, epitomized by development in Shenzhen, China provided a blueprint for opportunity in Malaysia's east coast, Kuantan economic corridor. To realize significant economic development objectives in his first term, China's exportable BRI development capacity and ability to provide debt leverage to key projects such as the ECRL, Kuantan Port, and industrial parks along the eastern corridor that could connect with Kuala Lumpur and Singapore appealed politically, economically, and developmentally to PM Najib. It also appealed to his desire to raise international capital investment funding to spur private sector activity through joint ventures, and mergers and acquisitions orchestrated by the 1MDB sovereign development fund - a fund he constructed and personally profited from before his downfall from office. It should be noted here that former PM Najib funneled China-originated loans

²⁹⁰ Zhigao Liu, Seth Schindler, Weidong Liu, Demystifying Chinese Overseas Investment in Infrastructure: Port Development, the Belt and Road Initiative and Regional Development, *Journal of Transport Geography*, Volume 87, 2020,

to 1MDB to replenish the funds balance sheet with the appearance of a quid-pro-quo to provide strategic access and basing rights to the People's Liberation Army Navy (PLAN) at Port Klang on the Strait of Malacca and build the Forest City megacity for wealthy Chinese. BRI and OFDI from China and other international sources met, in this case, personal and political goals of former PM Najib.

The Bicol North-South Railway Project in the Philippines is demonstrative of the muscular leadership of President Duterte, the nexus of central government and provincial/local government political interests, and the oligarchic power that is endemic to Philippine economic and political affairs. Long dormant due to resource capacity, funding, and the power of the political center in Manila, the NSRP provided a marquis infrastructure project opportunity within Duterte's Build, Build, Build program. Domestically, invigorating the NSRP would realize inclusive economic growth goals espoused by Duterte upon attaining office. Second, it would shore up a political liability in the Bicol province. Third, it provided a pathway to rebalance his foreign policy away from the U.S. orbit toward a policy of appeasement with China. Like Indonesia and to a lesser extent Malaysia, land clearance and appropriation is behind schedule due to political and oligarch dynamics. The reported USD\$ 24 Billion dollar infrastructure pledge by China at the 2017 Belt Road Forum has yet to materialize in speed and scale due to internal Philippine political dynamics, external (and haphazard) engagements by Duterte with China over SCS issues, and incoherent and episodic embrace of U.S. security guarantees.

The Cat Linh - Ha Dong Metro Line in Vietnam highlights the reluctance but necessity of Vietnam to capitalize on China's industrial capacity while it has traditionally opted for Japanese OFDI and ODA for major infrastructure projects. Unknown, as in other BRI

cases, is the exact lending terms of the project that began in 2011 and has been rebranded by China under the aegis of BRI. As the project does have foreign policy and long term importance to China in terms of other rail and highway connectivity projects, the project is a pathway to nudging Japanese development aside over the long haul. Securing greater BRI/OFDI investments in Vietnam is a key stone to connecting the Indo-China land mass to China infrastructure-wise. While on the surface economically beneficial, it does raise security and energy resource concerns that have engendered political and popular opposition within Vietnam.

In sum, there is no pro-forma solution for how BRI/OFDI achieves bilateral accommodation but there are commonalities - a domestic development plan replete with infrastructure objectives, bilateral political and foreign policy alignment, non-disclosure of financing terms and conditions, insufficient budgetary, revenue, and capital accumulation for large scale infrastructure development within recipient nations, and a national/leadership predisposition to be on the spectrum between economic pragmatism and bandwagoning with China²⁹¹ - rather than politically or militarily hedging. Of the four cases, Vietnam elasticizes this spectrum to include hedging activities, demonstrative of the complicated, complex, and checkered historical relationship Vietnam has maintained with its land and sea neighbor, China.

The four cases expose the intransparency and inequitable distribution of benefits of BRI projects. In both the competitive, democratic political systems of Indonesia, Malaysia, and the Philippines, and the Communist system of Vietnam, leadership elites' election to

²⁹¹ Cheng-Chwee Kuik, "How Do Weaker States Hedge? Unpacking ASEAN States' Alignment Behavior Towards China," *Journal of Contemporary China*, 2016.

embrace BRI/OFDI from China on a debt level measured as a percentage of GDP has provided an opening for domestic, political opposition to attack political incumbents. These attacks commonly galvanize around intransparency in negotiated loan terms and debt leverage, export credits, sovereign collateral, accommodation to China's access to domestic markets as well as the use of Chinese labor. Often, this has led to calls that incumbent elites have "sold out to China " or annexed national sovereignty to China in exchange for investment capital and infrastructure know-how. Further, the political turbulence is magnified at the provincial and local level due to the lack of perceived economic benefits to downstream, private and public entities, systematically sidelined by central government negotiations and agreements with China. In the case of Indonesia and Malaysia, cultural concerns regarding ethnic-Chinese only further fueled opposition to pro-China central government initiatives.

Indonesia typifies the delicate balance required to maintain leadership legitimization in the face of domestic political headwinds that result when development initiatives are pitted against nationalism and Islamic mobilization. "While Jokowi's pursuit of infrastructure-led economic growth has pushed Indonesia toward engaging China, his simultaneous reliance on nationalist legitimation, however, makes fully embracing Beijing difficult, particularly given the rising maritime tensions with China. Moreover, anti-Jokowi elites, along with Islamist hardliners, have exploited China's increasing economic presence to depict Jokowi as an anti-Islamic, pro-Chinese leader."²⁹²

²⁹² Yeremia, A.E. (2021). Explaining Indonesia's Constrained Engagement with the Belt and Road Initiative: Balancing Developmentalism against Nationalism and Islamism. *Asian Perspective* 45(2), 325-347.

Chapter 6

Investments for Influence - Four Case Studies and Survey Results

Southeast Asia has been vital to China's development and ambitions historically. Conventional wisdom should follow, in China's eyes, that China's BRI and OFDI should positively influence recipient nations' perceptions of China if President Xi Jinping's "win-win" be realized. While there has been a bevy of academic literature on BRI and the geopolitics behind China's motivations for BRI/OFDI, less so has been prescribed to systematically determining whether the magnitude of BRI/OFDI apportioned to these recipient states (cases in this context) has positively influenced perceptions of China. Before examining the four representative cases of Indonesia, Malaysia, Philippines, and Vietnam, understanding the general determinants of recipient nations' response to China's BRI/OFDI is necessary. Three historical factors, in particular, have shaped Southeast Asian perceptions of China. The first factor was past Chinese assumption of suzerainty over Southeast Asia. The second factor pertains to the issue of the ethnic Chinese in Southeast Asia, which for Malaysia and Indonesia formed a prism through which China has been viewed. The third factor was Maoist China's support for revolutionary movements in Southeast Asia.

At the forefront of this work as it pertains to Southeast Asia is research by Shaofeng Chen of Peking University. In his, *Regional Response to China's Maritime Silk Road Initiative in Southeast Asia*,²⁹³ Chen aims to determine why SEA countries respond differently to

²⁹³ Chen, S. (2018), "Regional Responses to China's Maritime Silk Road Initiative in Southeast Asia", *Journal of Contemporary China*, Vol. 27, No. 111, pp. 344-361.

China's economic investments through BRI/OFDI, and what factors drive such outcomes.

Chen's hypotheses are:

Hypothesis 1: Countries enjoying trade surplus with China are more willing to embrace China's Maritime Silk Road Initiative (MSRI); conversely, countries having trade deficits are less willing..

Hypothesis 2: Countries having more FDI inflows from China are more supportive of the MSRI; conversely, countries having less are less supportive.

Hypothesis 3: Countries having no territorial disputes with China are more supportive of China's MSRI; conversely, countries having territorial disputes are less supportive.

Hypothesis 4: The US policy towards Southeast Asia is another variable that has a strong impact on SEA countries' responses. When Washington actively engages in Asia, SEA countries are in a better position in dealing with China; but when the US remains aloof from Asia, they may face more difficulties turning down Chinese offers.

Hypothesis 5: Changing domestic politics lead to changing a country's attitude towards the MSRI - examined through three domestic politics factors: regime type, elite legitimation and influence of public opinion.

Hypothesis 5a: More undemocratic countries tend to be more supportive than democratic ones.

Hypothesis 5b: Ruling elites in countries prioritizing wealth creation are more supportive relative to those in countries prioritizing security enhancement.

Hypothesis 5c: Countries with a higher degree of trust in China are more supportive of China’s MSRI; conversely, countries with a low degree of trust are more indifferent.

Chen coded values pertaining to BRI/OFDI support by empirically measuring participating states in Southeast Asia along two principal lines - on gesture and on action. Gesture pertains to how a state embraced BRI/OFDI overtures through overt, public recognition and endorsement by the top power-holder, by participation in Belt Road Forums, etc. The other, action, connotes the existence of binding commitments such as joint declarations, intergovernmental cooperation documents, memoranda of understanding, linkages of domestic development plans with China’s MSRI, and the number and magnitude of projects. These two lines of measurement attempted to determine the correlation of a state’s support to MSRI (BRI/OFDI) to particular factors (hypotheses) driving those responses. Chen’s findings point to the following tiers being applied to Southeast Asian States active within the MSRI framework:

Degree of support	Countries
Strongly support	Tier 1: Cambodia, Laos, Malaysia
Conditionally support with strong reservation	Tier 2: Brunei, Indonesia, Myanmar, Singapore, Thailand
Swing state	Tier 2: Conditionally support with strong reservation Tier 3: Least support Vietnam after the 12th Party Congress, the Philippines under Duterte Vietnam before the 12th Party Congress, the Philippines under Aquino III

Table (9) - Degree of Support for China’s MSRI²⁹⁴

²⁹⁴ Chen, S. (2018), “Regional Responses to China’s Maritime Silk Road Initiative in Southeast Asia”, *Journal of Contemporary China*, Vol. 27, No. 111, p.352.

Based on coding and scoring values across hypotheses, countries including Cambodia, Laos and Malaysia were assessed as being most supportive of China's MSRI (Tier 1) and Brunei, Indonesia, Myanmar, Singapore, and Thailand falling within Tier 2, "Conditionally Support with Strong Reservation" category. Perhaps most distinctive of the findings is those that pertain to the Philippines and Vietnam. Due to domestic leadership factors within both the Philippines and Vietnam, both countries (both cases within this thesis) toggle between Tier 2 and Tier 3, "Least Support". So why can the Philippines and Vietnam not be neatly binned and classified as either least supporting or conditionally supporting according to Chen's framework?

This thesis suggests that the answer lies within the context of time and leadership persona. In the Philippines, leadership perspectives on China under President Benigno Aquino were heavily influenced by China's unilateral, systematic, military take-over and subsequent reclamation efforts of reefs and features in the South China Sea. Under claimancy by the Philippines reefs such as Second Thomas Shoal and Scarborough Reefs became the focal point of China's efforts to claim "sovereign" territory, against the multilateral claims of other regional states such as the Philippines, Taiwan, Malaysia, and Vietnam. Ultimately, this led to the Philippines invoking the compulsory settlement of dispute clause under the Law of the Sea Convention, by submitting a case to the Permanent Court of Arbitration in The Hague.²⁹⁵ This followed escalating PLAN, China Maritime Law Enforcement (MLE), and "fishing fleet" activity throughout the South China Sea starting with activities by China's People's Liberation Army Navy (PLAN) to construct and resupply Mischief Reef in 1995, shortly after the forced withdrawal of U.S. forces from

²⁹⁵ <https://docs.pca-cpa.org/2016/07/PH-CN-20160712-Press-Release-No-11-English.pdf>

the Philippines in 1992. Hence, China's unveiling of BRI was met with a tepid response by the Philippines in line with President Aquino's anti-China inclination.

The tribunal of the Permanent Court of Arbitration rejected China's historical nine-dash line claims over the South China Sea in 2016, concluding it has no legal basis against competing Philippine claims. Within months of President Duterte assuming office, the International Criminal Court's (ICC) decision in the Philippines' favor would be used by Duterte to mollify bilateral differences over sovereign claims with China - rather than leverage the ruling to the Philippines' benefit. Duterte's appeasement of China and associated rhetoric against longstanding U.S. cooperation and alliance from the outset of his presidency marked a tectonic shift in Philippine bilateral relations toward the U.S. and China. The demarcation between the Aquino and Duterte eras is necessary in depicting the dichotomy of relations with China between the two periods.

Similarly, a line of demarcation existed prior to and post the 12th Party Congress and across political and geographic lines in Vietnam. Prime Minister Nguyen Tan Dung (NTD), a leading pro-American south-centric politician, led with an anti-China bent accrued across skirmishes with China over territorial claims in the South China Sea and China-contracted oil rig incursions within its EEZ. As a counterweight China, he advocated for greater political and business engagement with the U.S. While a boon for the U.S., domestically, NTD alienated his base internally due to power struggles and political overreach. This led to a vote of low confidence at the National Assembly and eventual resignation from office in 2016 after attempting to consolidate power by advocating for the position of General Secretary of the Politburo.

The ascension of Nguyen Phu Trong (NPT) to General Secretary at the 12th Party Congress in 2016 led to the adoption of a pro-China proclivity in Vietnam's foreign policy. While Vietnam and China have increased engagement and economic integration through NPT's pro-China north-centric politics, historical aversion to China's patriarchal position within the Communist bloc should not be underestimated. Like Indonesia, and Malaysia, Vietnam's, Two Corridors, One Economic Belt (TCOB) development program symbolizes the integration of Vietnam's development program with China's larger BRI - noting that the TCOB was proposed in 2004 and subsumed within BRI after the first Belt Road Forum in 2017. With improved state relations, China's growing assertiveness in the SCS specific to Vietnam's EEZ and sovereign claims has stalled large-scale progress on TCOB and BRI projects within the bilateral framework.

Through statistical analysis, Chen derived the broad contours of factors that drive positive responses to China's MSRI, the strongest of which is domestic politics. Factors such as trade imbalances, FDI inflows, and territorial claims, while strong bilateral issues of concern, were not shown to be directly correlated to embracing China's MSRI.²⁹⁶ An exogenous factor at play, in addition to Chen's focus on domestic imperatives, was America's presence and resolve in the region. Countries like Vietnam, Singapore, and the Philippines leverage U.S. security relationships while broadening economic integration with China. While a delicate balance, it has prevented each from fully bandwagoning or hedging toward one great power or the other. In the case of Vietnam and the Philippines

²⁹⁶ This is consistent with regression analysis conducted in Wang, X. (2020). *How the World Perceives and Reacts to China's Rise: A Multinational Study of Public Image and Opinion* (Order No. 28316591). The dissertation asserts that negative trade balances do influence perceptions of China but magnitude of FDI does not have a direct correlation.

(as “swing states”), this geostrategic and geo-economic pendulum has been largely driven by ruling, elite leadership preference which has vacillated over presidential administrations since the introduction of the BRI.

If domestic politics is the progenitor to a recipient states’ embrace of BRI, what key aspects pertain? Autocratic countries within ASEAN do not equally embrace BRI, nor do liberal, democratic countries. A major factor in whether countries embrace MSRI is whether they domestically prioritize economic interests such as development or wealth creation to raise the standard of living and lower the Gini coefficient or they favor security concerns. Countries with overarching development plans and objectives to raise GDP per capita often embrace MSRI as infrastructure is keen to enable inclusive economic growth (Indonesia and Malaysia). Whereas countries like the Philippines and Vietnam, during Aquino and NTD, have prioritized security concerns over economic integration with China, leading to an outlier position regionally with respect to MSRI.

While prioritizing a nation’s economic interests tends to galvanize support for MSRI and security interests tend to limit support for MSRI within ASEAN, it is important to point out that there is no one-size-fits-all determinant and often it is not an either-or. Take the case of Laos and Cambodia. Both have embraced China’s BRI as a means for both economic development, economic integration with China, and desire to align with China for security against historical enmity and influence from cross-border challenges from Thailand and Vietnam.

The four representative case studies of Indonesia, Malaysia, Philippines, and Vietnam explored here follow Chen's analytic framework for determining support or non/limited-support for MSRI.

Indonesia

Indonesia, isolationist by nature following the attempted coup d'etat in 1965 accompanied by a history of non-alignment, has embarked upon economic development as a marquis platform under President Jokowi (2014-). Jokowi's Nawacita²⁹⁷ development plan, Global Maritime Axis²⁹⁸ vision, and liberalized acceptance of greater foreign and multilateral capital, prioritizes development of Indonesia's periphery as a means to provide inclusive economic growth across the country - and not just to Java and Sumatra. This accompanied a doubling of infrastructure spending over Jokowi's predecessor, S.B. Yudhoyono, to 12-19 percent of GDP. In addition, with inefficient SOEs, Indonesia has turned to alternative capital funding to increase private sector participation as well as leveraging PPP protocols.

Notwithstanding, increasing PRC fishing and PLAN activity, often in unison, are a growing security concern for bilateral relations with China. On balance, Indonesia has embraced the economic benefits of BRI as evidenced by its being the largest recipient of BRI funding within ASEAN while actively managing maritime security challenges with China such as the Natuna Islands in parallel.

²⁹⁷<https://kominfo.go.id/index.php/content/detail/5629/NAWACITA%3A+9+Program+Perubahan+Untuk+Indonesia/0/infografis>

²⁹⁸<https://www.brookings.edu/articles/indonesia-as-a-maritime-power-jokowis-vision-strategies-and-obstacles-ahead/>

A recent survey of select Indonesian diplomats that included the top echelon of the foreign ministry and junior and mid-level diplomats responsible for Indonesia–China relations and China-related issues during the first presidential term of Joko Widodo (2014-2019). This group included diplomats within the Directorate General of Asia-Pacific and African Affairs, the Directorate for East Asian and Pacific Affairs, the Embassy of the Republic of Indonesia in Beijing, and the Consulates General of the Republic of Indonesia in Guangzhou and Shanghai. Sampling included broader participation from diplomats working under the Directorate of ASEAN Political and Security Cooperation, the Directorate of ASEAN External Cooperation, the Directorate of Asia-Pacific and Africa Intra and Inter-regional Cooperation, and the Directorate General of Legal Affairs and International Treaties. The last group was intended to glean broader, bilateral perspectives having participated in ASEAN and APEC forums.

As diplomats are the front-line enablers of foreign policy and its development, their perspective is indicative of a nation’s compass on bilateral affairs and activity. Table (10) summarizes the perceptions of a cross-section of prominent Indonesian diplomatic corps towards China’s BRI.

Images	Degree of Resemblance	Inferred Perceptions	%
Imperialist	Moderate	<i>Moderate threat</i>	76.0
Degenerate	Low	<i>Little opportunity through domination</i>	10.0
Enemy	High	<i>Major threat</i>	8.0
Ally	High	<i>Considerable opportunity to pursue mutual interests</i>	4.0
Complex/Non-stereotypical	High	<i>Neither threat nor opportunity</i>	56.0

Table (10) - Indonesian Diplomatic Perceptions of China’s BRI Promotion Goals²⁹⁹

²⁹⁹ Yeremia, A. E. (2020). Guarded Optimism, Caution and Sophistication: Indonesian Diplomats' Perceptions of the Belt and Road Initiative. *International Journal of China Studies*, 11(1), p. 36.

Of significance is that over 80% of Indonesia's diplomats who held a clear perception on China's BRI saw it as a vehicle of Imperialism; advancing China's interests in the form of an economic or security threat, while 14% see some degree of bilateral benefit. Another key insight is that 56% of diplomats surveyed artfully communicated a position that didn't qualify as neither a threat nor an opportunity - even under a position of anonymity. This raises the challenge of discerning official government positions and perceptions in a rigid manner. Often, it is in their best interest when faced with a balance of interests and opportunities to not communicate with precision. This "under balancing can be explained by Indonesia's strategic culture that puts emphasis on economic growth in order to maintain domestic political stability, and constrains successive Indonesian presidents from pursuing a more aggressive policy in dealing with the China threat in the South China Sea."³⁰⁰ BRI's complementary nature to President Jokowi's Global Maritime Axis (Fulcrum?) vision and Nawacita development plan set the conditions for a perpetuation of economic incentives to prevail over any security concerns with China's BRI.

Malaysia

Of the four representative cases and in a larger sense, amongst ASEAN, Malaysia has been the most vocal advocate and active state from the onset of BRI. This is consistent with Malaysia's leading role in Southeast Asia as the first country to formally recognize China after China became an official state in 1949. Like Indonesia, Malaysia's prioritization on domestic development and ascending the development ladder to raise its standard of living, led to the groundswell of support for China's promotion of infrastructure

³⁰⁰ Sulaiman, Y. (2019). What threat? Leadership, Strategic Culture, and Indonesian Foreign Policy in the South China Sea. *Asian Politics & Policy*, 11(4), 606-622.

development projects and associated financing. Malaysia's new Prime Minister Najib Tun Najib announced in 2009 the government's plan to cast aside Malaysia long-standing development plan, the New Economic Plan, and adopt a New Economic Model (NEM) to increase inclusive economic growth, reduce income inequality, and to transition Malaysia's to a high income country by 2020; doubling per capita annual income in Malaysia. NEM was accompanied by a complementary initiative, the 1 Malaysia Development Berhad (1MDB), a sovereign strategic development fund and public entity. 1MDB was developed to increase foreign investment partnerships and leverage foreign direct investment as Malaysia liberalized foreign investment and ownership in targeted sectors.

Leveraging an upgrade from a bilateral strategic cooperative relationship to a comprehensive strategic partnership, Malaysia and China signed the Five Year Program for Economic and Trade Cooperation 2013–2017. The strategic partnership and solidifying commitments for cross-sector cooperation at the onset of Najib's second term, the seed corn for full participation in BRI was established. China and China's SOEs had "more cooperation and partnerships with Malaysia within the framework of the BRI initiative which coincided well with the promotion of infrastructure development as envisaged in the Eleventh Malaysian Plan (2016–2020) released in 2015. The closer relations have helped China's SOEs to tap into the potential of surge in new infrastructure projects as strengthening infrastructure to support economic expansion is one of the six strategic thrusts in the five-year plan."³⁰¹

³⁰¹ Chin, K. F. (2021). Malaysia's Perception and Strategy Toward China's BRI Expansion: Continuity or Change? *Chinese Economy*, 54(1), 9–19. p. 11

This appealed to the Chinese diaspora in Malaysia, especially the ethno-Chinese business community who embraced BRIs foreign direct investment opportunities. While a long-standing issue of contention, BRI made in-roads in ameliorating historical tensions between ethno-Chinese and Malay communities as both sought lucrative business opportunities. A pro-development and pro-China business community were intrinsic in Malaysia's inclination that "the South China Sea contentions that arose in and around 2012 did not appear to dampen the consistent favorable public opinion toward China."³⁰²

President Najib's attendance at the first Belt Road Forum and vocal, public support both nationally and internationally has been without peer in ASEAN. This has manifested in projects with far reaching impact across Malaysia. The diversity of projects, especially the East Coast Rail Link (ECRL), holds promise for realizing increased inclusive economic growth along rural sectors as rail and port construction, industrial parks, and highways bridge communities to economic opportunities.³⁰³

Akin to Indonesia's experience, BRI/OFDI projects have met with internal opposition as well due to the scale of China's SOEs in production and labor. To local, regional politicians, Malaysia's SOEs and labor force were increasingly crowded out by the bilateral, contractual arrangements between the Najib Administration and China's central government, SOEs, and multinational corporations. But what separates Malaysia from others is the role of the leader, Najib, in this case. The embrace of BRI/OFDI, while

³⁰² Jinrui, X., & Primiano, C. (2020). China's Influence in Asia: How Do Individual Perceptions Matter? *East Asia : An International Quarterly*, 37(3), p.199

³⁰³ The World Bank Group has published a series of working papers on the impacts of infrastructure reducing spatial inequality and increasing trade inefficiencies. See, *The Belt and Road Initiative: Economic, Poverty and Environmental Impacts*, Policy Research Working Paper 8814, and *Who Wins, Who Loses? Understanding the Spatially Differentiated Effects of the Belt and Road Initiative*, Policy Research Working Paper 8806; www.worldbank.org

seemingly in consonance with Malaysia's historical, liberal economic and diplomatic approach toward China, had murkier attributes.

Ensclosed with alleged misappropriation of nearly USD\$4.5B of Malaysia's 1MDB Sovereign Development Fund which was co-orchestrated along familial lines within the Ministry of Finance and Malaysian venture capitalist community, PM Najib was voted out of power in 2018. This was less than two years after signing nearly USD\$33B of obligations with China on construction, agriculture, stock exchange, infrastructure, aviation and port cooperation investments. Uncovered by investigative reporting by the Wall Street Journal, "minutes purportedly of Chinese-Malaysian meetings further showed that although the projects' purposes were 'political in nature' - to settle 1MDB's debt - it was imperative the public viewed them as commercial pursuits. Documents reviewed by the Journal show Malaysian officials suggested that some of the infrastructure projects be financed at above-market values, generating excess cash for other needs."³⁰⁴ That need appeared to be helping pay off monies stolen by PM Najib and his lead Malaysian financier, Jho Low for personal and political activities. To date, Jho Low remains a fugitive from justice, allegedly living in China with the assistance of the Chinese government.³⁰⁵

The unveiling of PM Najib's ulterior motives and China's complicity in willingly inflating prices of BRI projects, most notably the ECRL, is indicative of the risks of the "debt-trap" and "sovereign risks" associated with the largess of BRI/OFDI. Equally, it calls into question the efficacy of China's Five Principles of Peaceful Coexistence, a foreign policy

³⁰⁴<https://www.wsj.com/articles/how-china-flexes-its-political-muscle-to-expand-power-overseas-11546890449>

³⁰⁵ <https://www.wsj.com/articles/malaysia-says-china-harbors-1mdb-fugitive-1534459559>

principle that includes “non-interference in each other's internal affairs.” The Najib case led to Najib’s successor and prior PM, PM Mahathir Mohamad to suspend all BRI/OFDI projects and re-cost projects in comparison to Malaysian estimates. That suspension included the controversial Melaka Gateway project that would have established a de-facto cooperative security location for the PLAN to access in their “string of pearls” across the Indian Ocean. This would have recanted the strategic balance in China’s favor as the neutrality of the Strait of Malacca would be in question. In addition, the ECRL was re-priced to USD\$ 11B, down from nearly USD\$ 16.6B.

In the aftermath of Najib’s indictment and imprisonment for his leadership of the scheme in 2020, both the international and domestic community questioned to what extent Malaysia's embrace of BRI was for personal or sovereign benefit. After concluding nearly USD\$ 33B of deals in 2016, many accused Najib of “selling off” Malaysia to China. After PM Mohamad assumed office, he cancelled the Melaka Gateway project and renegotiated others, siding with the popular sentiment that China’s investments in Malaysia were “too much, too fast, too soon”.³⁰⁶

Philippines

While Indonesia and Malaysia showcase an early embrace of BRI due to its complementary nature to domestic development agendas, the Philippines' acclimation toward BRI is less linear. Benigno Aquino’s Philippine Development Plan (PDP) (2011-2016) centered on providing inclusive economic growth both sectorally and geographically to increase poverty reduction and employment opportunities outside of

³⁰⁶ Cheng-Chwee, K. (2017, Nov 06). Will Malaysia Get Burned by the Belt and Road? The Nation

urban centers. This included targeted infrastructure projects to spur economic activity and increase connected infrastructure across the country. As previously noted, Aquino’s anti-China inclination due to SCS territorial disputes limited FDI from China during his presidential term from 2010-2016.

Aquino is juxtaposed by President Duterte’s “balanced” foreign policy approach that provided an opening for China on both the SCS and on BRI. Duterte’s “Build, Build, Build” Program in conjunction with his Philippine Development Plan (PDP) 2017-2022 has increased public infrastructure spending following his ascension to office (Figure (56)).

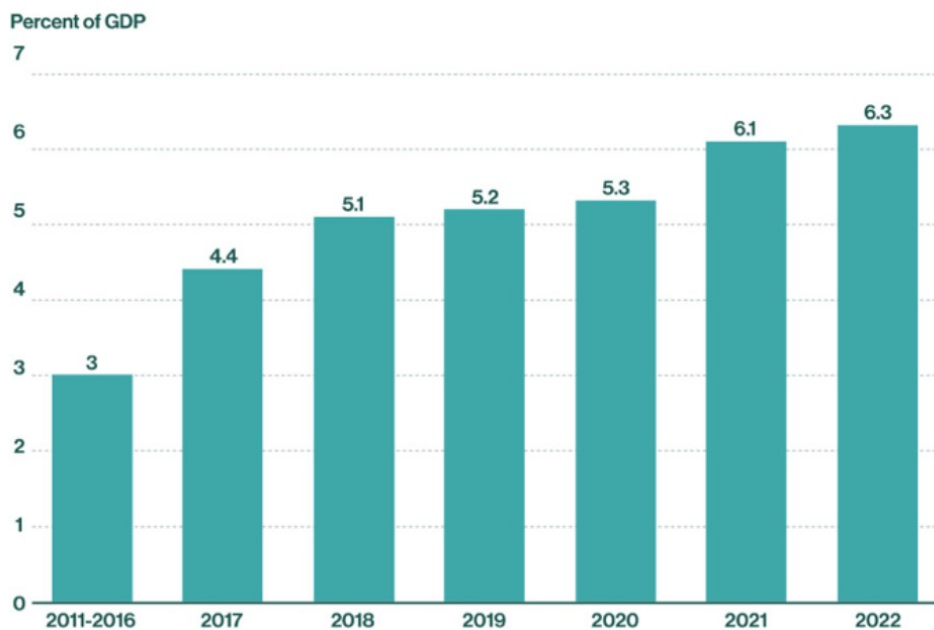


Figure (56) - Philippines Public Infrastructure Spending (2011-2022)³⁰⁷

The lack of a corresponding up-tick in China’s OFDI to the Philippines during this period is indicative of China’s slowing economy and the challenges of transitioning MOU

³⁰⁷ <https://theaseanpost.com/article/build-build-build-program-amid-pandemic>

commitments to project development. As with Indonesia, provincial and regional politics have hampered infrastructure project progress due to negotiations, legal frameworks, and private sector participation allowances with central government orchestration of projects outside the capital. This is in addition to the prominence of prominent, local oligarchs who wield power locally and at the national level.

The business-political dynamic exemplifies the disparate and often competing interests at play in the Philippines and their influence on foreign policy, trade, and domestic politics. “Diverging perceptions exist regarding the strengthening of Philippines’ cooperation with China through the BRI. In contrast to the government’s positive attitude toward China, political opposition, mass media, and local entrepreneurs hold less favorable views on Philippine–China relations, particularly regarding participation in the BRI. These negative views differ from that of the government’s concern about deteriorating labor standards, loss of political and economic decision-making power because of China’s increasing influence, harm to national sovereignty, and negative impact on the relationship with Washington.”³⁰⁸

However, the ethnic Chinese business community parallels observations from Malaysia. The ethnic Chinese community views BRI as an opportunity to increase access, trade, and market share within the Chinese market. While not generally highlighted in much of the literature on BRI, private sector interests view BRI through an opportunistic prism devoid of the strategic and political risks that may accompany BRI. Therefore, dissecting the Philippines position on accommodation with China is the most complex of the

³⁰⁸ Wen-Chih Chao. (2021). The Philippines’ Perception and Strategy for China’s Belt and Road Initiative Expansion: Hedging with Balancing. *The Chinese Economy*, 54(1), p.51.

representative cases. Ultimately, by authority of the position and the political leverage that accompanies the Philippine presidency, the president ultimately is the final determinant of the nation's approach to China. As depicted by polar approaches of the Aquino and Duterte administrations, geopolitics and domestic politics drive foreign policy toward China. "From the perspective of economic advancement, the Philippines is desirous of expanding its export market in China with the BRI and its support of free trade. For the Philippine government, joining the BRI means greater access to Chinese funding to facilitate domestic, industrial, and national development. Both China and the Philippines view infrastructure programs as conducive to cooperation and bilateral relations. The agenda of infrastructure development satisfies strategic goals and national interests of both sides through the BRI."³⁰⁹

But the political and business ecosystem below that veneer is what is the most interesting. Within the government Duterte, with an anti-U.S. bias, looked to BRI to rebalance economic and security interests from a predominant US-centric approach. Yet, Congress realizes what historical alignment with the U.S. has provided in terms of security, economy, and shared, democratic values (in addition to reverence to the U.S. for its role in liberating the Philippines in WWII). In large part, this parallels the sentiments of the general public. In addition, the private sector business perspective is not unanimous due to divergent interests at hand such as national, international, regional, and local business equities and accompanying politics. As such, it should be no surprise that a minority of

³⁰⁹ Wen-Chih Chao. (2021). The Philippines' Perception and Strategy for China's Belt and Road Initiative Expansion: Hedging with Balancing. *The Chinese Economy*, 54(1), p.53.

the USD\$ 24B secured by Duterte during the first Belt Road Forum in Beijing in 2017 has yet to come to fruition on a large scale.

Vietnam

Vietnam differs from the preceding cases in both its approach to China and to BRI. The transition from NTD to NPT signified a shift from an anti-China foreign policy to a more accommodationist approach. While that has benefited Vietnam from an economic standpoint, it raises the sensitivity across political factions on a China-dominated trading scheme, either through FTA or cross-border M&A activity. Vietnam's long history with China is imbued with vestiges of subordination within the Communist bloc and reliance on it to repel colonial powers and American influence during its civil war. The border war in 1979 "to teach Vietnam a lesson" accompanied by the imbroglio of Vietnam's increased bilateral engagement with the Soviets during the Cold War is an undercurrent in a long history of non-accommodation by Vietnam within Asia's Communist bloc.

Unlike the other representative cases, Vietnam has not wavered in its stance on sovereign territorial claims in the SCS - or on China's military and commercial incursions within its EEZ. Recent skirmishes attest to the virility of Vietnam's armed response and ability to use force to strategically communicate to China its intrepidity toward sovereign territory. While Vietnam has embraced BRI in a limited sense in both scale and FDI value, the security dimension has outweighed the economic attributes of BRI. This situated Vietnam as an outlier with respect to BRI. While Indonesia, Malaysia, and the Philippines have placed economic interests before sovereign security concerns, Vietnam harbors concerns about long-term economic and diplomatic entanglements with China as a result

of BRI - that cross-cut against their steadfast position on territorial integrity and sovereign claims in the SCS.

Vietnam's one-party state and its political and party elites ultimately guide Vietnam's foreign policy posture toward China. With Vietnam's economic performance over the past decade, capturing spillover effects from China onto its manufacturing and industrial base, market affinity for tapping into China's market cannot be discounted. However, populism and nationalism are a vivid thread in the fabric of Vietnam's diplomatic, economic, and security calculus toward China. "In the context of an asymmetrical relationship, Vietnam "has had a more acute sense of the risks. Therefore, balancing with China by reinforcing military power is essential. It should be stressed that the increase in military capacity is unlikely to change the status quo between the two countries. However, on the one hand, it is to ensure that Vietnam can withstand China's preemptive attack and, on the other hand, it aims at making China take into account the cost of war. It also creates the necessary weight to reduce political dependence on China in case China projects its strategic influence through the BRI."³¹⁰

Like other countries, Vietnam is not homogeneous in its perception of China across its government, society, and economy. It could be best put that Vietnam scales between bandwagoning, balancing, and hedging based on return on investment with engagement with China - but with a strong default to hedging. "This hedging strategy well expresses the Vietnamese's rational calculations of China and their country's comparative strength and position regionally and internationally. Say, small country desires to join the big game

³¹⁰ Van-Hoa, V., Soong, J., & Nguyen, K. (2021). Vietnam's Perceptions and Strategies Toward China's Belt and Road Initiative Expansion: Hedging with Resisting. *The Chinese Economy*, 54(1), p.60

set and ruled by the giant to extract comprehensive benefits and at the same time tries to protect its vulnerable position by carefully deliberated and well managed measures. On the other hand, this strategy shows clearly the Vietnamese’s perceptions and sentiments toward China and its hidden intentions. Say, a complicated mixture of fears, doubts, hostility and eagerness, desire, even admiration and jealousy.”³¹¹ Table (11) conveys the discontinuity between perceptions of China by sector. In Vietnam, nationalism and sovereignty are the non-negotiable triggers that move society toward hedging and away from economic opportunism.

	Balancing	Bandwagoning	Hedging
State	Mild	Mild	Strong
Society	Strong	Mild	Mild
Market	Weak	Strong	Strong

Table (11) - Vietnam Strategic Response Preference by Sector³¹²

In light of escalating tensions in the SCS, Vietnam has doubled its defense spending to approximately USD\$6 billion since 2010. In terms of Service prioritization, the Navy and the Air Force, for the first time, have eclipsed the Army within the defense budget.

On balance, the four representative cases depict that policy and perceptions are intertwined. China faces considerable headwinds in employing BRI/OFDI (and MSRI) as a means for economic statecraft and for manipulating the strategic balance in Southeast Asia. Responses to the SCS territorial disputes are a factor in bilateral relations, but they are managed in relation to the economic benefits of China’s economic and industrial

³¹¹ Van-Hoa, V., Soong, J., & Nguyen, K. (2021). Vietnam’s Perceptions and Strategies Toward China’s Belt and Road Initiative Expansion: Hedging with Resisting. *The Chinese Economy*, 54(1), p.66

³¹² Vu, V.-H., Soong, J.-J., & Nguyen, K.-N. (2021). Vietnam’s Perceptions and Strategies toward China’s Belt and Road Initiative Expansion: Hedging with Resisting. *The Chinese Economy*, 54(1), p.66.

contributions to each state's developmental objectives. Throughout, it appears China is underappreciating the connective tissue those disputes have with domestic politics, nationalism, populism, and deep-seated concerns over China's rise and regional hegemony.

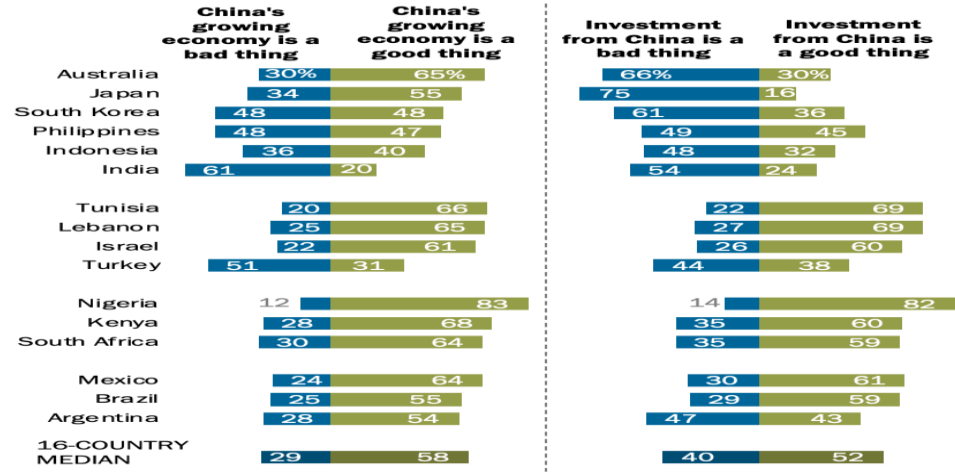
Perceptions of BRI are far from unanimous. With rising concerns over China building connected infrastructure and influence to cement a Sinocentric order within the region, Chinese investment continues to fund infrastructure across the region. Nonetheless, the sensitivity over the "China threat" in the region is omnipresent. China's assertiveness and revisionist claims in the South China Sea continue to underscore this narrative in regional capitals and in strategic decisions. What BRI/OFDI shows is that the two can be managed but they are not mutually exclusive.

The recent 2019 Global Attitudes Survey³¹³ by the Pew Research Center confirms these sentiments. Pew's most recent survey illuminates the Asia-Pacific's consternation with China's economic rise and corresponding investment clout that is reshaping the region.

³¹³<https://www.pewresearch.org/global/2019/12/05/chinas-economic-growth-mostly-welcomed-in-emerging-markets-but-neighbors-wary-of-its-influence/>

Many see China's growth, investment in positive terms, but Asia-Pacific publics are more wary

% who say ...



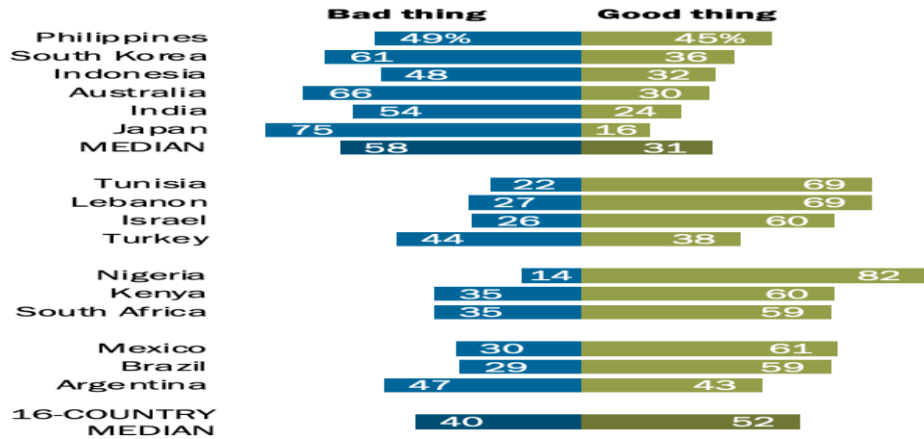
Note: Don't know responses not shown. Respondents were asked, "Overall, do you think that China's growing economy is a good thing or a bad thing for our country?" AND "Which of these statements comes closer to your view, even if neither is exactly right: Investment from China is a good thing because it creates jobs in (survey country), or investment from China is a bad thing because it gives China too much influence over domestic affairs in (survey country)?"
 Source: Spring 2019 Global Attitudes Survey. Q28 & Q41.

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Figure (57) - Attitudes Toward China's Growth and Investments in Asia-Pacific

Asia-Pacific nations view Chinese investment with suspicion

Investment from China is a good thing because it creates jobs in our country OR investment from China is a bad thing because it gives China too much influence



Note: Don't know responses not shown.
 Source: Spring 2019 Global Attitudes Survey. Q28.

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Figure (58) - View Chinese Investments with Suspicion

Even with positive sentiments towards its economic rise, China has had difficulty translating economic relationships into the “win-win” that President Xi Jinping envisioned. Hard power approaches both diplomatically and militarily have muted the anticipated soft power dividends of BRI/OFDI over time. As Figure X illustrates, the perception trend line for China in the region continues to decline - even after the bailouts from the Asian and global financial crises.

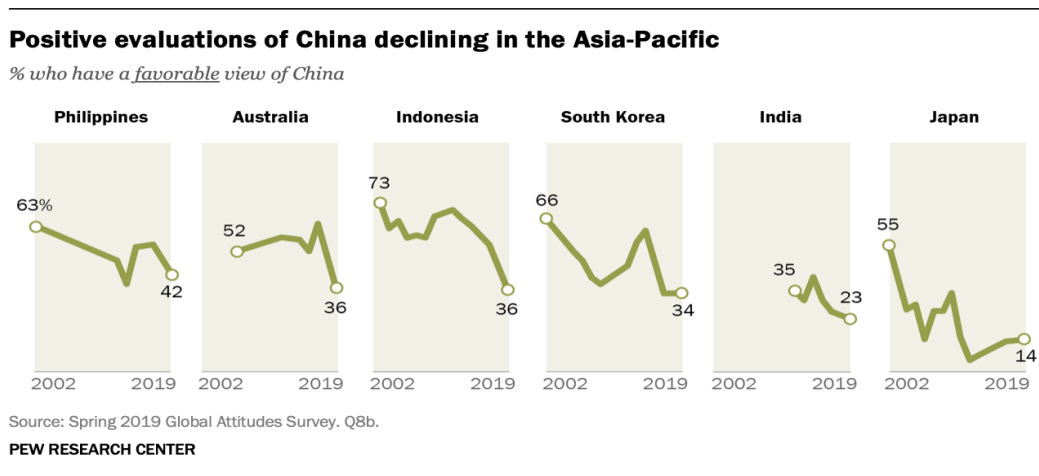
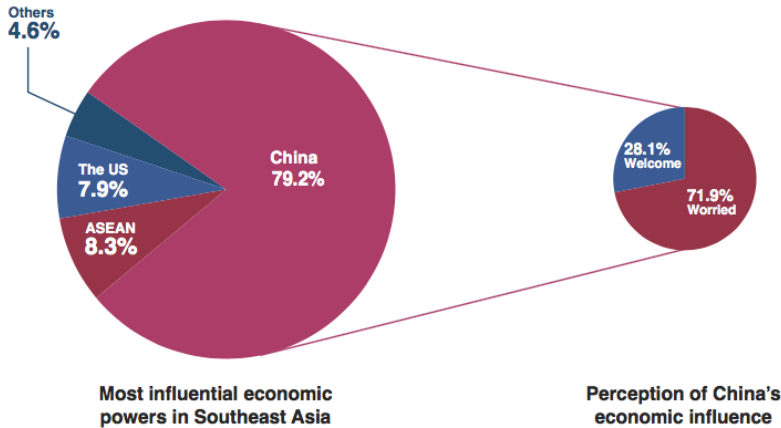


Figure (59) - Select China Perceptions 2002-2019

The Pew Research Center findings comport with recent ISEAS-Yusof Ishak findings on regional perceptions. For only the second time, ISEAS conducted the State of Southeast Asia 2020 Survey Report. The survey’s aim was to derive the perceptions of Southeast Asians on regional affairs and ASEAN’s engagements with partners and major powers. Centering on those in a position to inform or influence political and/or economic policy in ten ASEAN states, the desired end state was to understand the prevailing attitudes of the region on pertinent issues and powers that confront ASEAN.

Some key top-level insights were of interest; mirroring some general themes from the previous research in this paper:

- 1. Domestic political instability, economic downturns, and climate change are the top concerns of the ASEAN states.
- 2. Terrorism and regional flashpoints such as the South China Sea, Taiwan Strait, and the Korean Peninsula were the bottom two concerns of the region.
- 3. Nearly 80% of respondents believe that ASEAN should not “take sides” in the US-China rivalry while building ASEAN collective resilience.
- 4. Just over half of respondents would choose the U.S. over China but by nationality, seven of ten states would choose China.
- 5. Of respondents who see China as the most influential economic power in the region, ~72% share concerns over China's expanding influence.
- 6. Of the respondents who see China as the most influential political and strategic power in the region, ~85% share concerns over China's expanding influence.



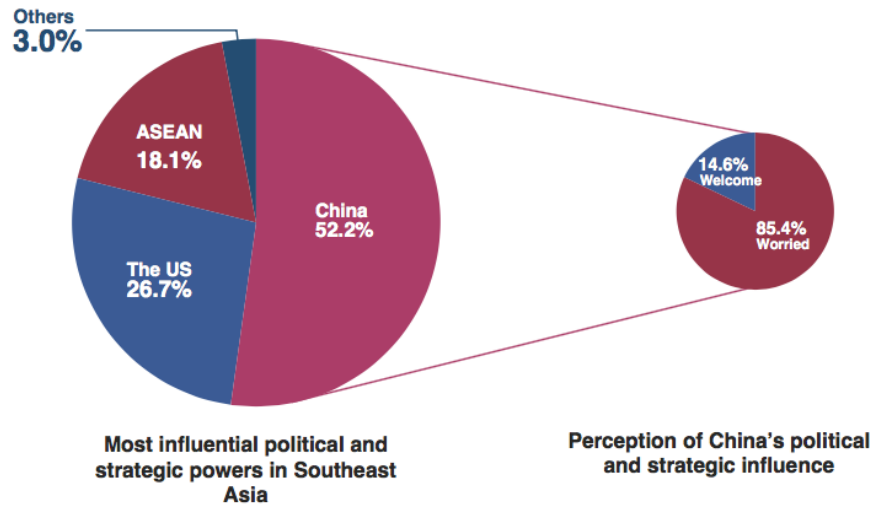


Figure (60) - Perceived Influence in Southeast Asia

- Japan is perceived as the region's most trusted partner (61%) followed by the EU (38%), US (30%), and China (16%).

In response to negative feedback and allegations of BRI's "debt-trap" diplomacy, China pledged at the Second Belt Road Forum to re-characterize BRI as more "open, green and clean".³¹⁴ "However, it appears that the region has not bought into the new pledges, and confidence in the BRI remains low. Most respondents (63.6%) have little or no confidence in the new BRI approach. With the exception of Brunei, the majority of respondents in all ASEAN member states are skeptical of the "new" BRI. The sense of distrust is most visible in Vietnam (86.8%), the Philippines (72.3%), and Indonesia (69.6%). It does not bode well that little or no confidence is registered even in BRI recipient countries such as Myanmar (61.9%), Thailand (60.5%), Cambodia (57.7%), Malaysia (57.1%), and Laos (52.2%)."³¹⁵

³¹⁴ https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658424.shtml

³¹⁵ Tang, S. M. et al., *The State of Southeast Asia: 2020* (Singapore: ISEAS-Yusof Ishak Institute, 2020), p.36



Figure (61) - ASEAN Confidence in BRI

The study illuminates some additional insights that expose the chasm between political leadership and political elite decisions on increasing engagement with China (including BRI) and popular constituency views. Of interest, the majority of respondents within ASEAN member states, except Brunei and Laos, are distrustful of China. The most pessimistic view about China is found in the Philippines (78.9%), Vietnam (77%), Indonesia (70.3%), Thailand (62.5%), and Singapore (59%).³¹⁶

When asked what concerns could worsen your positive impression of China, the respondents' top issues were China's strong arm tactics in the SCS and Mekong Delta (54%), and China's economic and political influence in my country (56%). Regarding what China could do to improve relations with your country, the top answer was to resolve all territorial and maritime border disputes with regional states peacefully and in accordance with international law (74%).³¹⁷

³¹⁶ Tang, S. M. et al., *The State of Southeast Asia: 2020* (Singapore: ISEAS-Yusof Ishak Institute, 2020). p.38

³¹⁷ Tang, S. M. et al., *The State of Southeast Asia: 2020* (Singapore: ISEAS-Yusof Ishak Institute, 2020). p.38

Quantitative Analysis

While current literature points to domestic politics and economic interests being the principal determinants of a recipient nation’s response to BRI, an anonymous survey was conducted of 150+ Southeast Asia and/or China subject matter experts. The objective was to understand regional perceptions toward BRI from an academic and think tank perspective and how the findings compare to established literature on the topic. The anonymous survey format was executed in lieu of in-person interviews which were not permissible due to the COVID pandemic. Attempts by the author to conduct virtual interviews in lieu of in-person interviews were infeasible due to prohibitive research protocols and bureaucratic approval requirements in some of the countries of interest. A survey response rate of 18% was received for this targeted, email-originated, non-incentivized survey. Survey responses were received from Indonesia, Malaysia, Philippines, and the U.S. The following is a breakdown of the 18% response rate by country - Indonesia (2%), Malaysia (3%), Philippines (3%), and U.S. (10%). There were no responses from Singaporean-based think tanks or academic institutions who were targeted to elicit a broader, regional perspective.

Country	Background
Indonesia	Academic
Malaysia	Academic
Philippines	Think Tank, Former Gov’t Official
Singapore	No response
U.S.	Academic, Think Tank, Business Executive, Military Officer

Table (12) - Survey Respondent Backgrounds

Survey participants (via anonymous link) were asked the following questions upon agreeing to participate in the survey:

China's Belt Road Initiative/Outward Foreign Direct Investment in Southeast Asia

Question: Have you formerly served in an official, governmental position in one of the recipient case nations?

Yes	11.76%
No	88.24%

Question: Are you currently employed in academia, a think-tank, or other?

Academia	35.29%
Think Tank	41.18%
Other (Please specify employment sector) (U.S. Government, Business Executive, Military Officer)	23.53%

Question: China's BRI/OFDI is predominantly orchestrated by the CCP and central government to achieve diplomatic gains and leverage.

Strongly agree	52.94%
Somewhat agree	29.41%
Neither agree nor disagree	11.76%
Somewhat disagree	0.00%
Strongly disagree	5.88%

Comment - Respondents from Malaysia either strongly disagreed or were neutral. Indonesia respondents were largely neutral. Majority of Philippine and U.S. respondents agreed or strongly agreed.

Question: China's BRI/OFDI is principally focused on China's State-owned Enterprises (SOEs) to achieve economic gains.

Strongly agree	29.41%
Somewhat agree	58.82%
Neither agree nor disagree	5.88%
Somewhat disagree	0.00%
Strongly disagree	5.88%

Comment - Majority of respondents from Philippines and Indonesia either strongly disagreed or were neutral with mixed Malaysian responses, and U.S. views landing between somewhat agree or strongly agree.

Question: The intention of China's BRI/OFDI is to grow China's influence in Southeast Asia at the expense of the US, Japan, Australia, and India.

Strongly agree	58.82%
Somewhat agree	11.76%
Neither agree nor disagree	11.76%
Somewhat disagree	11.76%
Strongly disagree	5.88%

Comment - Respondents from Malaysia either strongly disagreed, somewhat disagreed, or were neutral. Majority of respondents from the U.S. either strongly agreed or somewhat agreed. Indonesia and Philippine responses were mixed.

Question: China is willing to assume great levels of risk (debt leverage) for BRI/OFDI projects that uniquely promote China's engineering and technology standards over (current) western standards.

Strongly agree	41.18%
Somewhat agree	29.41%
Neither agree nor disagree	17.65%
Somewhat disagree	5.88%
Strongly disagree	5.88%

Comment - Views across respondents were mixed by country.

Question: BRI recipient nations are drawn to more favorable lending terms from China's policy banks over multilateral financing options such as the World Bank Group, Asia Development Bank, or AIIB.

Strongly agree	52.94%
Somewhat agree	23.53%
Neither agree nor disagree	17.65%
Somewhat disagree	5.88%
Strongly disagree	0.00%

Comment - Most respondents were either neutral or tended to agree, with Malaysia influencing responses not in agreement.

Question: In recipient nations, it is actually actors at the sub-national level (major industry, domestic political-elites, oligarchs) rather than at the national level that influence national attitudes toward China's BRI/OFDI.

Strongly agree	17.65%
Somewhat agree	35.29%
Neither agree nor disagree	29.41%
Somewhat disagree	17.65%
Strongly disagree	0.00%

Comment - There was no prevailing view across respondent countries.

Question: Recipient nations prioritize the net diplomatic benefits received from China's BRI/OFDI over the pros and cons of the economic benefits.

Strongly agree	0.00%
Somewhat agree	5.88%
Neither agree nor disagree	29.41%
Somewhat disagree	41.18%
Strongly disagree	23.53%

Comment - Philippine and Malaysian responses influence positive responses above neutral.

Question: Recipient nations prioritize the net economic benefits received from China's BRI/OFDI over the pros and cons of the diplomatic benefits.

Strongly agree	29.41%
Somewhat agree	41.18%
Neither agree nor disagree	17.65%
Somewhat disagree	11.76%
Strongly disagree	0.00%

Comment - There was no prevailing view across responding countries.

Question: China's BRI/OFDI is positively influencing recipient nations' perceptions of China and weakening sovereign challenges to territorial disputes in the South China Sea.

Strongly agree	41.18%
Somewhat agree	11.76%
Neither agree nor disagree	0.00%
Somewhat disagree	35.29%
Strongly disagree	11.76%

Comment - U.S respondents dominated agreement with the majority of regional responses disagreeing.

Question: Leaders in Indonesia, Malaysia, Philippines, and Vietnam are embracing China's BRI/OFDI due to the lack of a western alternative (US, Japan, Europe, collective) at scale.

Strongly agree	29.41%
Somewhat agree	23.53%
Neither agree nor disagree	29.41%
Somewhat disagree	11.76%
Strongly disagree	5.88%

Comment - Regional responses influenced disagreement with this statement with Indonesia and the Philippines leading a uniform response. U.S. responses largely agreed, with Malaysian views mixed.

Key Insights

The results derived from Southeast Asian and U.S.-based participants in the survey challenge traditional, western notions that China's robust employment of BRI/OFDI in the region is positively influencing perceptions of China - and potentially diminishing resolve toward bilateral, sovereignty issues with China in the SCS. But this is a small-n survey with limited responses - that should not be depended upon to derive sweeping conclusions on BRI and regional perceptions. That said, it is an indicator of the divisions between regional and U.S. perceptions. The thesis (and the survey) would benefit from a greater understanding of the domestic, economic, and international risk calculus employed by elites who subscribed to BRI. Equally, it would be instructive to understand the inter-governmental decision making between issues such as SCS territorial claims and embracing BRI from an economic development standpoint. Are those decisions structurally fractured and bifurcated or are the same elites and entities forced to make decisions both for and against China? Post-COVID, with the opportunity to expand the research portrayed here, there exists second and third order investigation opportunities through in-person, in-country research and interviews.

That said, there are salient take-aways from the survey responses in hand. There is consensus that, to recipient nations, the decision to embrace BRI/OFDI from China is principally about the economic benefits, not the diplomatic dividends as the predominant driver. Similarly, the perception is that BRI/OFDI is principally a mechanism of economic

influence by China with a strong emphasis on the accompanying geopolitical derivatives. This further cements China's position as not only the region's number one trading partner but also its number one creditor and provider of vital infrastructure.

The respondents submit that BRI/OFDI has gained traction with the region as no suitable infrastructure development alternative, to scale, exists from the West. This abuts the fact that Japan and the U.S. dedicate more OFDI to the region than China. Perceptions matter. Equally, while lacking transparency on loan conditions, recipient nations favor non-concessional loans from China over multilateral options from the World Bank, Asia Development Bank, and Asia Infrastructure Investment Bank - likely due to trade credits, commodity pay-back options, lengthy pay-back periods, and collateral alternatives.

What is clear is that subnational drivers, while prominent in the Philippines, are not the genesis to embracing BRI/OFDI. It is the national leadership who seek ready capital, developmental know-how at scale, political dividends, and inclusive economic benefits.

Of significance is the central issue of perception and SCS sovereignty gains by China. The mixed views point to the circumstantial nature of bilateral affairs, the magnitude and complexity of sovereignty disputes, and economic dependency on China. Another factor that may be influencing perceptions is the skepticism regarding China's intentions that proliferate press coverage of BRI such as "checkbook diplomacy", "debt trap diplomacy", etc. The lease of Hambantota Port in Sri Lanka is not a perception. It is reality and a data point that colors political and security discussions surrounding China's intent with BRI/OFDI in the region.

Pertaining to the survey results and participation, there is a predominance of U.S.-based responses to the survey. While that is the case, what is perhaps the most interesting are the key themes that the data exhibits. U.S. views on BRI are uniformly negative. Comparatively, regional respondents are generally more positive but not uniformly or strongly positive toward BRI. Maritime challenges between Indonesia and Malaysia, while not absent, have been less pronounced compared to the Philippines and Vietnam. The positive-to-neutral orientation of the respondents from both Indonesia and Malaysia contrast with those of the Philippines who has a pro-China administration yet a virulent history (and present) with China over SCS sovereignty claims. This variation in the data conveys that the views on BRI are influenced by the country's stance on sovereignty disputes with China. Instead of BRI helping soften a country's confrontation with China over SCS, the other way round is true: a country's sovereignty dispute with China shapes the country elite's view on BRI. While this research sought to examine whether BRI ameliorated SCS sovereignty disputes, the data suggests that the opposite is true - that the disputes themselves negatively affect the country elite's views toward BRI and further levels of economic integration.

In broader strategic terms, the data reflects a generally mixed but more positive view from Southeast Asia countries than the U.S. toward China's BRI. This should be a bellwether for the U.S. that greater diplomatic and economic effort must be leveraged within ASEAN to shape "hearts and minds" within the region to the Washington Consensus. This cannot be superficial. Lingering questions of U.S. resolve to the region can only be dispelled by significant, tangible investments that underpin strategic and diplomatic overtures. Strategy and diplomacy are only as good as their implementation.

Chapter 7

Conclusions and Policy Recommendations

This research aimed to understand whether a causal relationship exists between the magnitude of China's BRI and OFDI initiatives in Southeast Asia and positive changes in regional states' perceptions of China and positions on sovereignty disputes in the SCS. To understand China's expanding economic influence in the region through BRI and OFDI, an examination of available BRI and OFDI databases was conducted to determine OFDI (including BRI) flows, potential periods of interest, and observable changes post-GFC when BRI was established and China had developed its industrial and economic capacity on the global scale. Establishing the genesis of BRI/OFDI increases to Southeast Asia post-GFC was important in ascertaining both China's policy, economic, and diplomatic incentives to do so. The prominent theme of "exporting excess industrial capacity" was explored to showcase China's economic imperative to limit industrial sector drag upon the economy and to transition higher up the value chain as the post-GFC global economic recovery took shape. Equally, an understanding of historical context, bilateral trade, development agendas, domestic political dynamics, and BRI/OFDI projects themselves provided insight into recipient nations' receptivity and reaction to China's increased economic and diplomatic influence.

With a broad understanding of the bilateral economic, diplomatic, and policy influences surrounding increased BRI and OFDI initiatives to four recipient states who possess a territorial dispute with China in the SCS, on balance, does increased economic exposure

and integration with China alter perceptions of China and, by extension, the status quo on SCS disputes? The answer is not exclusively.

Exporting industrial overcapacity post-GFC served China's economic and diplomatic objectives within ASEAN - for energy resilience, economic integration, and strategic alignment. BRI provided an outlet for "national champion", strategic sector SOEs to remain viable; limiting the proliferation of non-performing SOEs affected by decreasing global demand for goods during the economic downturn. Averting non-performing (Zombie) status by exporting industrial know-how to ASEAN benefited the Party, the central government, and local governments seeking to maximize labor participation, tax revenues – and legitimacy. In addition, it furthered China's economic advantage by financing BRI/OFDI projects with long term debt vehicles that accompanied trade credits and commodity payback schemes. The masterstroke of BRI and increasing OFDI during a global economic downturn was emblematic of China as an industrial behemoth, a vast accumulator of foreign currency reserves due to a long history of trade surpluses, and a subsidized industrial and manufacturing sector that provides comparative advantage in the global marketplace.

Coupling that with a nearly USD\$2 Trillion per year infrastructure deficit in Southeast Asia, ASEAN was an attractive option for leveraging BRI and OFDI to achieve a "win-win" with recipients. Recipient nations found a creditor that could flexibly lend at scale, duration, and risk - with or without sovereign guarantees – and at non-disclosable terms in most cases. This underpinned robust, national development and infrastructure agendas, as well as domestic political promises to realize inclusive economic benefits to broader, underserved regions.

In terms of BRI/OFDI, the four cases display common, bilateral themes:

- a. BRI/OFDI principally realizes the economic “win-win” - with attendant diplomatic dividends, not vice versa.
- b. China’s policy banks are a preferred creditor over multilaterals due to flexibility in debt leverage, terms, duration, and disclosure.
- c. Embracing BRI/OFDI is a function of national leadership’s balancing of economic development agendas, domestic politics between national and provincial/local levels, and foreign policy. In all cases, the central determinant in embracing BRI/OFDI from the national level is the national leader himself and whether BRI/OFDI aids his domestic politico-economic agenda in terms of legitimacy.
- d. Pace of execution of BRI/OFDI projects is a function of early integration with provincial/local political leaders and rent seeking across the political spectrum. Land clearance, appropriation, domestic labor participations, and environmental pathways are key political tools to govern progress, timelines, and concessions.
- e. Domestic political aims to promote inclusive economic growth and increase the communication of goods, labor, and services magnetizes China’s SOE industrial capacity and capability - at an unparalleled scale compared to inter and intra-regional competitors.
- f. Domestic, sub-national, political skepticism toward China’s increasing debt leverage and politico-economic influence within recipient states mobilize opposition to political elites and centralized decision-making deemed “pro-China.”
- g. Lending terms are elusive. Many are subject to non-disclosure agreements while others have non-performance clauses that may demand immediate, in-full

payment should conditions warrant. The pass-through of investments via Singapore and Hong Kong can cloud the fidelity and specificity of official, mainland, outward foreign direct investment to particular projects. This is not the case with AIIB as a multilateral with international board members and key leadership representation within the firm. To wit, AIIB finances less than 1% of BRI/OFDI debt instruments.

To the question as to whether recipient states' response to China's increased economic initiatives is uniform, the answer is relatively clear - no. Their responses, like most foreign policy issues, are driven by domestic factors that include economics but are influenced by questions of political legitimacy, as well as environmental, labor, social, and religious challenges. Indonesia embraced BRI and welcomed increased OFDI under Jokowi because China could produce infrastructure at scale, at feasible cost (under-bidding Japan for the Jakarta-Bandung Railway), and without a sovereign guarantee. It also served political dividends with Jokowi and outlying regions who lacked sufficient infrastructure and management capacity to flourish like the population centers of Java and Sumatra. BRI operationalized Jokowi's Global Maritime Fulcrum initiative by improving vital seaports, airports, and railways. With a history of non-alignment with great powers, embracing BRI/OFDI offered little foreign policy risk and where it did, it continued to invite Japan, the U.S., and the E.U. to build projects and invest in Indonesia. BRI was not an either/or to Indonesia. It was moving a weight on a balance beam toward China because China had the capacity and capability to deliver and finance Indonesia's infrastructure agenda. That said, it also fueled national concerns on increased sovereign

debt levels, debt exposure to China, rumblings regarding the aftermath of Sri Lanka's Hambantota Port, and voices of the political opposition on Jokowi's clientelism with China.

Whereas Indonesia was centrally an economic impetus, Malaysia and the Philippines' embrace of BRI/OFDI should be characterized as a hybrid economic/diplomatic genesis. Top-down and leadership-driven, both Malaysia and the Philippines' development agendas were well served by BRI and China's capacity and capability to deliver infrastructure development. The euphoria at the national leadership level was not indicative of provincial and local sentiments. This is particularly evident in the Philippines due to the presence of oligarchs across the political and business spectrum and the populace who are largely pro-West and associate with the long-standing security guarantees and values of the Washington Consensus.

As is often the case with Philippine national leadership, the interests of oligarchs and elite families who have long dominated Filipino political power centers are not often consistent with national or constituent interests. BRI/OFDI provided an opportunity for Duterte to rebalance Philippine foreign policy away from long standing alignment with Washington and gravitate towards a balanced foreign policy footing with Beijing. BRI/OFDI tangibly demonstrates this shift as does Duterte's prominent attendance and publicity at Belt Road Forums. In the case of the Philippines, BRI/OFDI provides an instrument to personify diplomatic relations and common ground to ameliorate challenges with SCS sovereignty disputes, fishing rights, EEZ incursions, tariffs on agricultural products, etc. More so than any of the other recipient states examined, the diplomatic attributes of BRI are most prominent with the Philippines.

A close second to that is Malaysia - but for different reasons altogether. Under PM Najib, the effort to boost international investment was a developmental priority in his first Administration. BRI dovetailed with that objective - and the personal objectives of Najib's 1MDB investment fund to build his and his close associate's personal wealth. On the surface, engaging China for large-scale developmental and financial assistance was prudent as China had the means and Malaysia had the plan to boost infrastructure communication to raise the overall standard of living. Yet, another aspect of Malaysia's embrace of BRI/OFDI is the issue of Malaysia's prominent ethnic Chinese community. BRI/OFDI brought investment dollars to the Chinese business community; recognizing the importance of the community in Malaysian affairs. While not the central tenet, harmonizing societal fissures between the two ethnic groups is a positive attribute of Malaysia's overt embrace of BRI/OFDI initiatives. Due to the nature and magnitude of overtures to China that were to include privileged access to Malaysia's strategic ports on the Strait of Malacca by the PLA(N) and sale of Malaysia's power generation sector to China, UNMO's political opposition drummed up public discord on selling Malaysia's sovereignty to China. While the economic dividends of BRI/OFDI paralleled Malaysia's development agenda, like the Philippines, the diplomatic attributes were a significant catalyst for Najib to attend the Belt Road Forum and confer nearly USD \$100 Billion of project commitments. In addition to shoring up relations with Beijing, the East Coast Rail Link project centered on the majority of underserved ethnic Malays who dominate the ethnic composition of the East Coast corridor; playing to Najib's and UNMO's ethnic base. With inflated BRI project estimates and China's SOEs, for example, buying 100 percent of Malaysia's second largest power producer in order to replenish graft in the 1MDB fund,

BRI provided a “kleptocracy” from which Najib and his associates, as well as Beijing, profited handsomely.

While China is Vietnam’s number one trade partner, the embrace of BRI/OFDI fits under the aegis of “cooperate and struggle.” As opposed to Indonesia, Malaysia, and the Philippines, Vietnam’s “cooperation” does not translate to “compromise.” Vietnam’s acceptance of BRI is very limited and weighted to infrastructure projects that have limited peer capability. Japan has a firm grip on Official Development Assistance (ODA) and OFDI in Vietnam. Equally, it has a long history of building quality infrastructure projects in Vietnam. The Hanoi metro rail project pre-dates BRI. Because of delays, it neatly fits within Beijing’s BRI narrative. Vietnam does not share this same view. The project has raised domestic concerns regarding quality, delays, influence, and sovereign indebtedness to China. Intrinsic to Vietnam’s DNA is the omnipresent security concerns on cross-border security, Vietnam’s logistics infrastructure vis-a-vis China’s “Malacca Dilemma”, and the ever percolating South China Sea sovereignty disputes that challenge bilateral relations. In sum, Vietnam is the “accidental BRI-er.” BRI can provide vital infrastructure that Vietnam can increasingly afford due to steady GDP growth rates that include spillover manufacturing benefits from China. Like Indonesia and the Philippines in particular, Vietnam also spurs growing investment (and economic and diplomatic) integration with Japan, the U.S., the E.U., and India. Vietnam remains sanguine about BRI/OFDI’s dividends with China but historical security concerns will continue to position Vietnam as a cautious and less than zealous adherent.

The quantitative survey conducted in this research is consistent with empirical surveys on regional perceptions of BRI and China. Regional respondents are generally more

positive than U.S. views but not uniformly or strongly positive toward BRI. Respondents from Indonesia and Malaysia maintain more positive views on BRI than with those of the Philippines who have a more virulent history (and present) with China over SCS sovereignty claims. In line with normative survey data, the survey data within this body of research conveys that the views on BRI are influenced by the country's stance on sovereignty disputes with China. Often, in the case of the Philippines and Indonesia especially, positive or idealistic views of BRI by national leadership run counter to skepticism at the intelligentsia or public level whose realist and pragmatist views are influenced by China's well-publicized assertiveness within the SCS and the region. Instead of BRI helping soften a country's confrontation with China over SCS, the opposite is true: a country's sovereignty dispute with China shapes, and further mobilizes domestic political opposition and the polity's view on BRI; moderating and providing a check-and-balance to elite leadership's zeal for increased economic integration with China. While this research sought to examine whether BRI ameliorated SCS sovereignty disputes, the data suggests that the disputes themselves galvanized the spectrum of political opposition who do not see inclusive economic benefits for their constituents and share concerns over transparency, strategic risk toward BRI, further levels of economic integration, and an imbalanced "win-win" that favors China.

Respondents from the U.S. believe BRI to be dual serving - raising China's geopolitical standing through economic influence and statecraft. However, the region does not universally subscribe to this view. The non-uniform but more positive views from Southeast Asia countries toward China's BRI/OFDI are a matter of individual circumstance - and worthy of greater understanding and inquiry. The views signal that

greater diplomatic and economic effort must be expended by the Washington Consensus in ASEAN. While elite and intelligentsia perceptions are keen to the sovereign, economic and political ramifications of a greater embrace of China's BRI/OFDI, the perceived lack of a western alternative at scale, and credible questions of U.S. resolve to the region, are shaping disparate views between the region and the U.S.

So what strategic policy options and opportunities exist for the U.S. against this backdrop?

1. Recognize that BRI is not a panacea to Southeast Asia's infrastructure glut, but it is optically influencing questions of U.S. resolve and economic primacy on the ground and in national capitals.
2. Assume global leadership and coalition-building on calling for greater transparency of BRI financing, SOE subsidization, debt restructuring for economically overextended countries, and systemic corruption.
3. Push China to join the Paris Club and adopt global norms on lending and transparency.
4. Incentivize private sector capital infusion and U.S. construction, manufacturing, and industrial firms to participate in Build Act equity investments and project development. Rebuild American manufacturing and industrial might by leveraging that capability onshore - and offshore - with accompanying tax incentives.
5. Increase capital gains or tax penalties on U.S. investment firms who continue to invest high dollar, high net worth endowments, hedge fund, and retirement vehicles into China's strategic sectors (and SOEs) that run counter to U.S. interests.

6. Raise the specter of China's non-adherence to its Five Principles for Peaceful Coexistence and its "Five Nos" which affirm noninterference in the internal affairs of partner countries and no political attachments to assistance. Clearly, that is not the case with the level of graft, influence via Confucius Institutes, illegal immigration, untaxed remittances to China via shadow banks in Chinese diasporas, and the economic weight of diasporas in shaping domestic political narratives within ASEAN. While China prefers to handle disagreements bilaterally, economic and political coercion must become a multilateral issue.
7. Harness the labor, economic, and natural resources of Southeast Asia/ASEAN to diversify U.S. supply chains from a China-centric orientation. As China's BRI journey attests, inequitable local labor participation and isolating economic benefits to elites rather than a broad spectrum of the populace is counter to increasing the income level and quality of life of a region critical to Western Consensus objectives and U.S. national interests.

With China as the number one trading partner of ASEAN and ASEAN becoming China's number one trading partner in 2020 (supplanting the E.U.), addressing China's economic coercion in Southeast Asia is an uphill battle. It is, however, not a foregone conclusion as some within America's interagency believe. This is a calling for American leadership and the ability to galvanize democratic, liberal allies, partners, and others to curtail economic coercion that overextends sovereign debt positions, entrenches dependency on China, and imparts significant Chinese influence on the domestic affairs of recipient nations.

This research has offered some concrete recommendations for U.S. policy makers, requiring a “national response” to this issue of national interest. China’s growing economic clout, rapidly expanding military capability, demonstrated economic and military assertiveness in the Asia-Pacific region, and desire to reset international norms to suit their method of employ warrant a coherent, coordinated policy approach – with U.S. leadership at the forefront. The economic dividends of a low-valued Yuan, manufacturing below global market prices, subsidized SOEs that disadvantage international competition, constraining and regulating access and investments to China’s market (contrary to WTO protocols), and abundant trade surpluses have positioned China as the world’s leading creditor, foreign reserve holder, and manufacturer – to the detriment of manufacturing, industrial, and middle class sectors of the global and, in particular, the U.S. economy. To be clear, this isn’t a unitary issue to China. U.S. firms, industrial and trade policy, and politicians collectively elected to embrace globalization and off-shoring in pursuit of increased profitability, shareholder equity, and bilateral economic and foreign policy dividends with China, in this case, after it’s Reform and Opening. Those corporate, policy, and legislative decisions emboldened not only China’s rise, but its footing to contest the liberal order and norms from which it has long been the benefactor.

Unabated, the liberal order as we know it and the order that has brought global prosperity, inclusive economic benefits, and energy security, will be recast to an illiberal order with Chinese characteristics. This challenge is well above military solution sets and requires a holistic, unified approach that envelopes economic (public and private sector) and informational instruments of national power in line with the military and diplomatic footholds that have been established. U.S. companies must uphold the lessons of

COVID-19 that global supply chains that rely solely on China are a risk - and run counter to burnishing the U.S. economic model that provides economic benefit, resilience, and quality of life to its citizens - not solely to corporations and foreign interests. Washington needs to reverse the long standing trade deficit with Beijing of which it and U.S. corporations are complicit - by incentivizing corporations to invest in America, the American people, and to leverage America's know-how, technology, and partnerships to capitalize on the promise of, and opportunities within, ASEAN over offshore profits and further enabling China's Miracle.

Absent the same, U.S. global primacy as the beacon for rule of law, democratic values, and the vanguard of the liberal international order will remain in question – and will be subject to challenge.

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