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# STRATEGIC PERSPECTIVES ON THE ONE BELT ONE ROAD AND THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

## Achievements, Challenges, Opportunities and Future Direction

by *Dr. Sok Siphana*

The 10 Southeast Asian countries are now integrated into an ASEAN Community with a combined population of approximately 625 million and a gross domestic product (GDP) of some USD 2.5 trillion. Its economy is growing at a health pace, foreign investment continues to flow in, and trade is on a steady rise. ASEAN is expected to enjoy a healthy growth rate of 5.3% this year.

From the extensive media coverage over the years through the issuance and adoption of numerous joint declarations, statements, and agreements, there is no doubt that ASEAN and China have demonstrated strong intent, coupled with concrete actions, to build and further reinforce their strategic partnership. Over the years, this strategic partnership has recorded numerous important achievements in all areas of cooperation.



### POLITICAL-SECURITY ARENA

In the political-security arena, both sides have undertaken close policy coordination on regional and international issues of common concern and in such regional and international forums as the ASEAN+3, EAS, ARF ADMM+, etc.

### ECONOMIC ARENA

In the economic arena, both sides have focused their energy on accelerating the economy, trade, investment cooperation, and connectivity. They have worked diligently in fully implementing their respective commitments under the ASEAN-China Free Trade Area (ACFTA) framework to achieve an impressive USD480 billion trade exchange with China being ASEAN's largest trading partner in addition to reaching USD127 billion in mutual investment all in the year 2014.

## "China and ASEAN are looking to achieve a two-way investment goal of USD150 billion by 2020."

China and ASEAN are looking to achieve a two-way investment goal of USD150 billion by 2020. Both sides are now working toward upgrading the ASEAN-China FTA in order to spur additional trade growth. They are intensifying the negotiation process of the Regional Comprehensive Economic Partnership (RCEP) in the hopes of concluding it this year, all the while working in parallel to complete the ASEAN-Hong Kong FTA.

ASEAN and China have encouraged greater participation of the private sector to increase business, tourism, and cultural exchanges. Concretely, the China-ASEAN Expo in Nanning, the China-South Asia Expo in Kunming, the ASEAN-China Centre in Beijing, the China-ASEAN Business Summits, the ASEAN Economic Ministers' Roadshow (just to name the main ones), have drawn great interest from both business communities to promote their products and to develop commercial partnerships. Taken as a whole, these regular activities play an important role in strengthening trade and investment ties by accelerating economic exchanges between ASEAN and China.

It is interesting to note that 2016 marks the 25th Anniversary of ASEAN-China Dialogue Relations. Both sides have coordinated their efforts to boost their economic, trade and investment cooperation as well as enhancing connectivity, particularly in infrastructure development and transport.

### SOCIO-CULTURAL ARENA

In the socio-cultural arena, ASEAN and China have promoted cooperation in social, cultural, education, tourism and people-to-people contacts, including exchanges between youth, academics, media organisations and non-governmental organisations, with the aim of enhancing mutual understanding and awareness among the peoples. Moreover, they have collaborated to coordinate their responses against global and regional challenges such as natural disaster management responses through the exchange of information, early warning, and experience sharing on disaster rescue and relief.

In sum, the ASEAN-China strategic partnership is most dynamic and comprehensive when it comes to the overall external relations of ASEAN with their development partners.

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### ONE BELT, ONE ROAD

All these recent economic achievements in Southeast Asian countries can be attributed, to some extent, by the bold and visionary "One Belt, One Road (OBOR)" initiative of His Excellency Xi Jinping. This initiative, which was introduced in late 2013, has the vision to create a vast network of highways, railways, air links and sea lanes to bring greater connectivity amongst a large number of countries, more trade exchanges, deeper financial integration, and stronger people-to-people relations.

There are a lot of commonalities between the OBOR and ASEAN. China's economic growth is gradually slowing as the structural transformation of its economy continues. The country is moving from an export-oriented growth toward a new economic model based on consumption and outward investment. Following the 2008 global financial crisis, the drivers of economic growth continued to shift from manufacturing to services on the supply side and from investment to consumption on the demand side.

On the ASEAN side, the vision for the ASEAN Economic Community (AEC), when it was adopted at the 13th ASEAN Summit in 2007 in Singapore, was set in the backdrop of a dynamic yet threatening global economic landscape. Across select ASEAN economies there were only a few production networks in key industries, like electronics, automobile, and textiles. The fear of China becoming the «factory of Asia» with its accession into the World Trade Organization (WTO) in 2001 accentuated the situation. For the five Mekong countries (Cambodia, Laos, Myanmar, Thailand, and Vietnam), they have achieved rapid growth and are in the process of accelerating their industrialisation and urbanisation, deepening industrial restructuring, and enhancing infrastructure connectivity. All however, face challenges in infrastructure construction, industrial structure upgrading, sustainable economies, and social development.

China has placed great emphasis on neighbourhood diplomacy, and has extended their investments and official development assistance (ODA) to support development projects in ASEAN countries. From this perspective, the convergence of interests between ASEAN and China is very clear.

### VISION

In terms of vision, there are strong similarities between OBOR and ASEAN. OBOR aims at promoting the connectivity within the Asian continent and with Europe, enhancing friendship and coordinating the development strategies and policies of countries along the Belt and Road. More specifically, it seeks to promote investment, create opportunities and jobs, and strengthen cultural exchanges and mutual learning between different civilisations. OBOR's cooperation priorities encompass: policy coordination, connectivity, unimpeded trade, financial cooperation, and people-to-people exchanges.

Similarly for ASEAN, the Nay Pyi Taw Declaration on ASEAN Community's Post-2015 Vision, which was adopted by ASEAN leaders at the 25th ASEAN Summit in November 2014, endorsed the deepening of ASEAN integration, promotion of sustained and equitable economic growth, and promotion of ASEAN as a rules-based community. The ASEAN Masterplan on Connectivity (MPAC), hailed as an ambitious undertaking in linking the mainland and maritime Southeast Asia, envisages transport connectivity as a way to bring ASEAN member states closer to one another, facilitating better access for trade, investment, tourism, and people-to-people exchanges.

Both MPAC and OBOR call for a system of roads and railways to link contiguous Southeast Asian countries with one another. For instance, the convergence of the 7,000 km-Singapore-Kunming Rail Link (SKRL) with ASEAN's railway connectivity plans is starting to take shape with a recent deal between Thailand and China to construct the Thai section of the route. On the maritime side, there is reference to a system of ports for RoRo (roll-on roll-off) vessels and short sea shipping to link insular Southeast Asian countries with one another as well as with mainland Southeast Asia.

## INFRASTRUCTURE INVESTMENTS

OBOR would complement nicely MPAC, in terms of providing them with various sources of financing. Throughout the years, many formulas were proposed to attract investment such as the Public Private Partnership (PPP) as an emerging mode for attracting private sector investment in public infrastructure projects. Still, several years after the implementation of MPAC, very few potential investors have taken up projects identified by the masterplan.

In this context, the 100 billion-dollar Asian Infrastructure Investment Bank (AIIB), which has started operation this year, will surely respond to the needs and expectations for the joint development of China and ASEAN. Given Asia's vast infrastructure funding needs, the role of the OBOR together with their financing arm, the AIIB and the 40 billion-dollar Silk Road Fund (SRF), as well as Chinese ODA, will be crucial in providing additional resources for infrastructure investments.

Another dynamic element in the symbiotic relations between OBOR and ASEAN is the role of their private sector. In recent years, we have witnessed an impressive contribution of Chinese companies in investments in ASEAN's infrastructure sector, such as port terminals in Singapore and Malaysia, hydro-power and power plants in Cambodia, and high-speed rail in Laos, to name just a few.

## SCALE AND SCOPE

Another unique characteristic of OBOR is its scale and scope which can be custom-made to a specific region and nation. Take the case of the Mekong-Lancang Cooperation Framework, recently launched in March 2016 in Sanya, Hainan Island, which was targeted at the five Mekong countries of ASEAN. This mechanism will no doubt contribute to further stimulate deeper cooperation in many fields of development between the Mekong countries and China. Moreover, the mechanism will promote the production capacity cooperation to improve the industrial development ability of all five countries by making full use of their resource advantage, manufacturing capacity, and market size.

The Mekong-Lancang Cooperation Framework will inject additional opportunities for international production capacity cooperation as well as optimise regional productivity distribution, enhance the countries' standing in the global value chain and improve their ability for sustainable development. China and the five Mekong countries have agreed to prioritise major production capacity projects in the areas of coal, electric power, power grid, automobile, oil, petrochemical, metallurgy, building materials, light industry, textile, information, communications, rail transport, equipment manufacturing, renewable energy, and agriculture processing

## **"Concurrently with its economic rise, China's cooperation with Cambodia was elevated to the level of a Comprehensive Strategic Partnership Cooperation"**

### OBOR AND CAMBODIA

At the country specific level, China's growth and prosperity has also benefited Cambodia in many ways. Cambodia-China relations have flourished steadily year to year. Concurrently with its economic rise, China's cooperation with Cambodia was elevated to the level of a "Comprehensive Strategic Partnership Cooperation."

In terms of investment, China ranked first as a foreign investor for the last four years. Since 2011, China has invested more than USD4.3 billion in the area of agriculture, energy, industry, and tourism. In hydropower, China has invested more than USD2.3 billion to date.

Despite these investments, Cambodia is in need of major infrastructure projects to support the development of its industrial and productive capacity. The Royal Government has launched a new Industrial Development Policy last year and has designated the coastal province of Sihanoukville to be a region-wide special industrial zone by 2018. More than this, Sihanoukville has huge potential as a Chinese tourism destination, similar to Hainan Island. There is strong consideration to build a new airport in Sihanoukville and new deep seaports to connect Cambodia in the regional supply chain. These new infrastructure projects, while accommodating the million plus annual Chinese tourist arrivals, would significantly accelerate the development of the province. The prospects for financing would likely come from major Chinese commercial banks, along with the OBOR's financing mechanisms such as the Silk Road Fund and the AIIB.

### GEOGRAPHICAL PROXIMITY

If proximity matters, then one can appreciate the importance of ASEAN to China, and vice versa. Geographic proximity makes ASEAN, especially the continental Mekong states closest to China's borders, more demographically and politically linked to China. OBOR functioning as a multi-dimensional framework can further connect beyond the geographical element. OBOR will provide the necessary means to further support the economic transformation of its neighbouring Southeast Asian economies to achieve their ambitious development objectives.

### PEOPLE-TO-PEOPLE CONNECTIVITY

There is a common bond between OBOR and ASEAN: that is the people-to-people connectivity. As stronger economic and trade ties are developed between the people of China and ASEAN, closer people-to-people relations and cultural interactions will be forged to enhance mutual trust and long-term friendship which are beneficial for the overall regional peace and stability of the region.

### About the author



#### Dr. Sok Siphana

Dr. Sok is the Managing Partner at SokSiphana&associates (a member of ZICO Law), a law and consulting firm specialised in international trade and corporate law in Phnom Penh.

Dr. Sok has unique experiences and insights related to the development of the Cambodian legal system, the business environment and the intricacy of the commercial and investment law evolution in Cambodia. His vast hands on experiences as a former Commerce Secretary of State (Vice Minister) in the Cambodian Government, where he worked extensively on issues related to commercial and investment legal framework, trade promotion, trade policies, trade development, and economic integration, gives him a unique perspective on both the macro and micro needs of businesses and foreign investors alike. In the area of policy formulation and policy mainstreaming he was responsible for leading a large multidisciplinary inter-agency task force to prepare complex action plans (including the National Legislative and Regulatory Agenda) and to negotiate successfully Cambodia's accession to the WTO. He was also instrumental in initiating the development of the first ever trade Sector Wide Approach (SWAp) for Cambodia.

He was responsible not only for the preparation of the various commercial laws currently in force in Cambodia, but also for their defence in front of the Council of Ministers, the National Assembly and the Senate.

### Contact us

#### Chew Seng Kok

Chairman

seng.kok.chew@zicoholdings.com

t. +603 2087 9606

#### Wong Ai Kim

Director

ai.kim.wong@zicoholdings.com

t. +603 2087 9608

ASEAN INSIDERS, by origin and passion

[www.zicoholdings.com](http://www.zicoholdings.com)

ASEAN Advisory Pte Ltd - Consulting arm of ZICO Group | 8 Robinson Road | #03-00, ASO Building | Singapore 048544 | t. +65 6438 7929 | f. +65 6438 7926