

What Washington Doesn't Get about the One Belt One Road:

The Case of Southeast Asia

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Since President Xi Jinping announced the plan to connect China with countries across Eurasia with large infrastructure and other development plans, the “Silk Road Economic Belt” and “21st Century Maritime Silk Road” (also known as One Belt One Road) have reinvigorated the debate on China’s rise in Washington. Two types of discourse stand out. The first one is in line with the China threat theory, interpreting One Belt One Road as China’s most aggressive move yet as a revisionist power. According to this discourse, China aims to use the plan to enhance its influence on the South China Sea issue and rival the U.S.-led Trans-Pacific Partnership. The second discourse, on the other hand, resonates the China collapse theory, calling One Belt One Road unrealistic, over-ambitious, and doomed to failure. The paper responds to the two claims by examining China’s economic diplomacy in Southeast Asia over the past decade and how it has evolved under Xi Jinping’s term. The paper makes two arguments. First, One Belt One Road is not controlled by a monolithic Chinese state and its implementation reflects China’s domestic politics more than the Chinese leaders’ grand strategy and vision for their country. Second, in spite of the challenges it faces, One Belt One Road is making inroads in Southeast Asia as most countries in the region are pragmatic and use the plan in their own terms to complement their own economic development. Nonetheless, it remains unclear in the short to medium term whether the project helps China over the South China Sea disputes.

Key words: Chinese outbound investment, One Belt One Road, Southeast Asia, ASEAN

During his trips to Kazakhstan and Indonesia in 2013, President Xi Jinping announced his ambitious plans to build trade routes through land and sea into Eurasia in what he called the “Silk Road Economic Belt and 21st Century Maritime Silk Road,” otherwise known as “One Belt One Road (OBOR).” It has been nearly four years since President Xi’s announcement and OBOR has evolved from a broad idea to a grand plan filled with specific projects that connect China and other countries along the routes. Many of the projects, particularly the big ones, have far reaching strategic implications. Unsurprisingly, OBOR has prompted much discussion on Beijing’s goals in Washington, which in many ways resembles the old debate on China’s rise.

Two types of discourse stand out in the OBOR debate. The first is in line with the China threat theory. Since OBOR was initiated amid growing tensions between China, Vietnam, and the Philippines over territorial disputes in the South China Sea and after the United States launched its rebalancing to Asia strategy, many have interpreted OBOR as China’s most aggressive move yet as a revisionist power. At a recent testimony before the Senate Armed Services Committee, Carnegie Endowment for International Peace’s senior fellow Ashley Tellis called the scale of OBOR ‘mind boggling’ and warned U.S. officials to take more seriously strategic challenges OBOR posed. Likewise, in 2016, Matthew Goodman, senior advisor for Asian economics at the Center for Strategic and International Studies (CSIS), suggested to the U.S.-China Economic and Security Review Commission that OBOR is to exclude the United States and restore China’s regional leadership. He urged lawmakers to pass the Trans-Pacific Partnership, which eventually fell through. The National Bureau of Asian Research’s Senior Fellow for Political and Security Affairs Nadège Rolland, after a thorough reading of Chinese intellectuals’ writings, recently concluded in the *Washington Quarterly* that OBOR is of the utmost importance for China to “coordinate and give direction to an extensive array of national resources in pursuit of an overarching political objective.”¹

In fact, Rolland’s essay challenges the other argument about OBOR that has been commonly heard within American foreign policy circle since OBOR’s inception. At various levels, it shares many similarities with the China collapse theory. “It’s like a Christmas tree,” says Scott Kennedy, Deputy Director of the Freeman Chair in China Studies and Director of the Project on Chinese Business and Political Economy at CSIS. “You can hang a lot of policy goals on it, but no one has done a proper economic analysis. The government money they are putting in is not enough; they hope to bring in private capital, but would private capital want to invest? Will it make money?”² In a similar vein, Joshua Eisenman, Assistant Professor of Public Affairs at the University of Texas at Austin and a senior fellow at the American Foreign Policy Council in

¹ Nadège Rolland, “China’s “Belt and Road Initiative”: Underwhelming or Game-Changer?” *The Washington Quarterly* 40(1): p. 136.

² Charles Clover and Lucy Hornby, “China’s Great Game: Road to a New Empire,” *Financial Times*, October 12, 2015. <https://www.ft.com/content/6e098274-587a-11e5-a28b-50226830d644>

Washington said OBOR only “looks good on paper but is in reality a costly mess” because many plans are unrealistic and over-ambitious.³

In response to Rolland’s question on whether OBOR is a game changer or underwhelming, I will examine China’s economic diplomacy in Southeast Asia and how it has evolved under Xi Jinping’s presidency. There are two ways to understand OBOR and its strategic implications: the first is to look at China itself, without taking it as a unitary actor, the other is to look at OBOR vis-à-vis Southeast Asia. The analysis below shows that reality is far more complex than either side had previously claimed.

The Myth of the Chinese State and its ‘Going Global’ Campaign (OBOR’s Precursor)

Those who claimed OBOR’s strategic importance based their assumption on a strong Chinese state with the capacity to implement it. OBOR is not the first time China’s leaders tried to extend their command economy abroad. In fact, OBOR is an extension of China’s decade-long ‘Going Global’ campaign, which aimed to promote China’s national champions, resource security, as well as diplomatic and strategic interests abroad. But a close look at the ‘Going Global’ campaign suggested that even though China’s leaders had set these goals, they never had full control over how the campaign was implemented. ‘Going Global’ is not controlled by a monolithic Chinese state. Rather, it is controlled by a host of government agencies known for regulatory capture, a common problem in transitional economies. This problem is particularly obvious with powerful state-owned enterprises (SOEs). In the late 1990s and early 2000s, the privatization and consolidation movement closed down millions of small to medium-sized SOEs and turned the remaining ones into large industrial groups. SOEs have dominated China’s ‘pillar’ industries, such as natural resource extracting, infrastructure, telecommunication networks, and heavy industries. They are powerful not only because of their sheer size but also because in the eyes of many central and regional Chinese officials, these large-scale SOEs maintain employment, provide social safety nets, and retain internal political stability. This mindset allows the too-big-to-fail rule to these SOEs, which often operate at a loss with the support of government subsidies.⁴ Most importantly, many senior SOE managers have rankings equivalent to that of vice-ministers in the Chinese bureaucracy and, in many cases, play the roles of both regulators and regulatees.⁵ From oil and gas and power supply to telecommunication and railway, China’s SOEs have a record of bypassing government policies

³ Joshua Eisenman and Devin, T. Stewart, “China’s New Silk Road Is Getting Muddy,” *Foreign Policy* January 9, 2017. <https://www.clementscenter.org/press/news/item/1073-eisenman-fp>

⁴ Robert Cull and Lixin Colin Xu, “Who Gets the Credit? The Behavior of Bureaucrats and State Banks in Allocating Credit to Chinese State-Owned Enterprises,” *Journal of Economic Development* 71:2 (August 2003), pp. 553-59; The United States Trade Representative, *2008 Report to Congress on China’s WTO Compliance* (December 2008), p.5-6, 41-43.

⁵ The most recent and prominent example is Jiang Jiemin, who was the formal chairman of the China National Petroleum Corporation before becoming the director of SASAC.

and rules to pursue their own interests and often times it means irrational expansion.⁶ Therefore, the principal-agent problem and the examples of moral hazards are abound.⁷

The 'Going Global' campaign suffers from, if not deteriorates from, regulatory capture by those 'pillar' SOEs, who are also the workhorse and main beneficiary of China's foreign aid and outbound investment plans. From soft loans and tax breaks to market permits and exchange rates, the Chinese government constructs the enormous incentive structure as 'carrots' to ensure these firms follow government commands. However, the campaign is not equipped with an effective system to regulate and monitor participatory firms and their compliance of domestic and overseas rules. China has yet to establish basic laws on outbound investment and foreign contracting works. The existing rules on taxation, auditing, and risk management have gaping holes and fail to prescribe clear implementing guidelines for relevant ministries. Likewise, regulations and laws on outbound investors' and contractors' responsibilities on labor, environmental, and social issues are, while on the rise, underspecified and lack enforcement power. The environmental safeguard requirement in the Export Import Bank of China's (Exim China) loan procedures is a typical example, where the levels of enforcement vary widely among loan-receiving firms.⁸ What makes it worse is China's decentralized and transitional bureaucratic structure. Law implementation is regularly ignored when going through a host of agencies, from industry-specific to firm ownership-specific, and from central to provincial.⁹ To illustrate the challenge, in a coordination group meeting led by China's Ministry of Commerce (MOFCOM), 33 departments reportedly attended.¹⁰ China's government and bureaucratic structure not only provides SOEs endless loopholes but also opportunities to find creative and legal ways to advance their overseas business ventures.

Buying Friendship While Promoting Chinese Businesses? Assessing China's Economic Diplomacy in Southeast Asia

The first question that pops to mind when considering China's regulatory weakness is 'does it hinder Beijing's ability to fulfill its 'Going Global' campaign? Or put differently, how compatible are the interests of the Chinese state and business actors in the campaign? China's experience in Southeast Asia suggests that its economic diplomacy has been wrought with problems caused by its SOEs. In the early 2000s, China launched a new 'Good Neighbor' strategy that aimed to woo Southeast Asia with economic engagement while at the same time promoting the

⁶ Margaret Pearson, "The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State," *World Politics* 57 (2005), p. 296–322; Chih-Shian Liou, "Rent-seeking at Home, Capturing Market Share Abroad: The Domestic Determinants of the Transnationalization of China State Construction Engineering Corporation," *Journal of World Development* 54, 2014, p. 220–31; Chung-min Tsai, "Regulating China's Power Sector: Creating an Independent Regulator without Autonomy," *The China Quarterly* 218, 2014, p. 452-73.

⁷ *Ibid.*

⁸ Christelle Maurin, Pichamon Yeophantong, "Going Global Responsibly? China's Strategies Towards 'Sustainable' Overseas Investments." *Pacific Affairs* 86 (2013), p.281-303.

⁹ For more details, see Chung-min Tsai, "Regulating China's Power Sector: Creating an Independent Regulator without Autonomy," *The China Quarterly* 218, 2014, p. 452-73.

¹⁰ Naohiro Kitano, "China's Foreign Aid at a Transitional Stage." *Asian Economy Policy Review* 9 (2014), p. 306.

country's energy security and developing Chinese provinces bordering the region. Since then, China's state-backed capital—in the form of both foreign aid and investment—to Southeast Asia has soared and, in particular, dominated the CLMV countries (Cambodia, Laos, Myanmar/Burma, and Vietnam). Chinese capital has improved these countries' infrastructures and to various degrees pumped up their economies. Nonetheless, Chinese capital has concentrated in projects that have high social and environmental impacts, which in turn often strain China's relations with the host communities. Although as a part of China's charm offensive, the SOEs implementing these projects have often acted like bad business owners, if not colonizers, rather than diplomats in the eye of those small countries that have a long and complex history with China.

As SOEs' senior managers strive to reach their 'Going Global' quota to enhance their political careers, they also fiercely compete with each other for overseas business expansion opportunities. To win a contract, some SOEs kickbacks or low-priced bids, which means they have to lower their profit margins by bringing in cheap Chinese labor or compromising on environmental and social protections. For example, Chinese dam-builders built the Kamchay Dam in Cambodia after other countries' aid agencies backed out of the projects over social and environmental concerns. As expected, the project had a severe and negative impact on local residents by dislocating them and depriving their livelihood. On paper, many large Chinese SOEs have installed social and environmental safeguards in their corporate practice guidelines. However, implementation is often constrained by their approach to outbound investment. One reason that Chinese SOEs prefer to invest in the Mekong region is that CLMV countries are primarily under the authoritarian rule, which, in their experience in China, is essential in facilitating project development and serves as a safety net protecting them from opposition. The downside to this is that these CLMV governments are also in charge of enforcing safeguards that, due to the weak rule of law, they do not have a good record of doing. For example, studies found that the Cambodian government kept the compensation fund for the Kamchay Dam until the affected residents protested.¹¹ The same happened to the Chinese-invested China-Burma Oil and Gas Pipeline project.¹²

Nonetheless, authoritarian rule in CLMV countries can no longer guarantee protection for Chinese SOEs as their business operations and negative impacts on the local communities grow. Burma is the most salient example where China's economic diplomacy turned sour and its 'Good Neighbor' strategy backfired. Following sanctions by Western countries on Burma in the 1990s, Chinese investors became critical for the ruling junta government to keep its economy from collapsing. Yet, as investments boomed, local Burmese saw Chinese SOEs as cronies who

¹¹ Giuseppina Siciliano, Frauke Urban, May Tan-Mullins, Lonn Pichdara, and Sour Kim, "The Political Ecology of Chinese Large Dams in Cambodia: Implications, Challenges and Lessons Learnt from the Kamchay Dam." *Water* 2016(September).

¹² Earth Right International. The Burma-China Pipelines, Situation Briefing No.1, March 2011. <https://www.earthrights.org/sites/default/files/documents/the-burma-china-pipelines.pdf>

had uncomfortably close relationships with the ruling elites. Their investments eventually provoked an anti-Chinese movement so widely that not only undercut the junta's authority but sent a chill through its relations with China. While social and environmental misconduct by Chinese SOEs was a factor, the tens of thousands of Chinese laborers and economic migrants they brought deepened frictions with local residents and fueled the anti-Chinese movement. The influx of Chinese migrants from its bordering Yunnan and Guangxi provinces to Laos and Vietnam also created similar problems wherein Chinese investors were seen as taking jobs away from local residents. The Chinese central government has not had a good solution to this problem.

Many saw Cambodia as a successful example of China's economic statecraft through its 'Good Neighbor' and 'Going Global' campaigns. Cambodia's Prime Minister Hun Sen effectively prevented the Association of Southeast Asian Nations (ASEAN) leaders from issuing the joint declaration at its 2012 summit when he defended China's position in handling the South China Sea issue. For his part, Hun Sen faced many challenges at home in recent years. Land grabbing collaboration between the ruling elites and Chinese investors often became headlines.¹³ The opposition increasingly criticized him and his party for making the country overly dependent on China and for Chinese capital deepening corruption and social injustice problems in Cambodia. In 2015, Hun Sen backed off on his endorsement of China and suspended a Sinohydro-invested hydro dam project amid public outcry over its environmental and social costs.¹⁴ So far, China's economic engagements with its small neighboring countries in Southeast Asia have increased social tensions within those countries and have at times backfired in Beijing's warming relations with those countries.

Finally, how much did the 'Good Neighbor' strategy achieve for China's energy security? The China-Burma Oil and Gas Pipeline, the flagship project created for this goal, suggests not much. China's leaders hoped the project would solve the 'Malacca Dilemma' by creating an alternative transshipping route for its oil imports from the Middle East. It has been four years since the pipelines became operational and they have done little in achieving that goal. Rather, it looks more like the Chinese oil giant, China National Petroleum Corporation (CNPC), colluded with Chinese provincial governments of Yunnan and Chongqing to use the 'Malacca Dilemma' as a way to obtain support from the central government to advance their business and economic plans. Scandals involved with former CNPC executive Jiang Jiemin, also a key advocate for the pipeline project, gives a glimpse to the regulatory capture surrounding this so-called strategically important project.

Is OBOR A Different Animal?

¹³ Andrew Higgins, "Land Disputes in Cambodia Focus Ire on Chinese Investors." September 22, 2015. Washington Post. https://www.washingtonpost.com/world/asia_pacific/land-disputes-in-cambodia-focus-ire-on-chinese-investors/2015/09/24/1e64dce6-fd9c-11e1-98c6-ec0a0a93f8eb_story.html?utm_term=.47c0e0868189

¹⁴ Daniel Pye, "Mixed Signals on Areng Dam," March 9, 2015, The Phnom Penh Post. <http://www.phnompenhpost.com/mixed-signals-areng-dam>

Putting aside the debate about OBOR at the beginning of the paper, one thing that we all agree on is that President Xi Jinping has been China's strongest leader in decades. But how has Xi's political power transferred into the ability to steer OBOR? To answer this question, one must understand China's overcapacity problem. For many Chinese, OBOR is more about solving this problem than serving the country's international aspirations. Prior to the 2008 financial crisis, weak demands had already been looming in China, most notably in the steelmaking and coal mining sectors. Chinese leaders then pumped four trillion yuan (half a trillion dollars) into the public infrastructure and construction sectors in hopes of preventing the financial crisis from reaching its doorstep. This infusion of capital not only failed to boost domestic demands but also worsened the overcapacity problem. Local governments and SOEs amassed mountains of debts they could not pay off, leading China into the worst recession it has seen since Deng Xiaoping's economic reform.

The economy was Xi Jinping's number one priority when he came into power. He restricted credits, curbed shadow banking and over borrowing, and cut down state-owned sectors' production levels. However, for the fear of unemployment and social unrest and the belief in command economy, an overhaul of state-owned sectors did not occur and SOEs in many 'pillar' industries continued to operate at loss. It was in this context that MOFCOM proposed OBOR to President Xi. The idea was to move the stimulus package abroad, expanding trade finance and lending to foreign countries to buy surplus Chinese products. But Xi Jinping believed this overseas stimulus package could do more than that. Like those who saw OBOR as China's great game, Xi wanted to continue the momentum of a rising China after the 2008 financial crisis and use OBOR to spearhead the country into becoming a real global leader. The plan was to help China exercise liberal economic leadership while strengthening the country's hard power.

The outcome of OBOR was a lot like 'Going Global' on geopolitical steroids. On the one hand, it developed a web of trade routes between China and some 60 other countries and linked massive projects to the country's national and regional development plans. This included three routes through Southeast Asia. The 21st Century Maritime Silk Road Plan aimed at connecting the Chinese provinces of Fujian, Guangdong, and Guangxi with Vietnam, Indonesia, Malaysia, and Singapore. The Philippines was added after Rodrigo Duterte became president and showed interest in participating. The proposed projects in this plan ranged from transport infrastructure to industrial development. The China-Indochina Peninsula Economic Corridor aimed to be a modern commercial and transport network between China and Mainland Southeast Asia. It included the Pan Asia Rail Network, wherein all three rail lines totaling 15,000 kilometers would connect Kunming—the capital of China's Yunnan Province— with all countries in Mainland Southeast Asia. Finally, the Bangladesh-China-India-Myanmar Economic Corridor would be a comprehensive transport system, including rails, roads, and waterways linking Yunnan with participating countries. On the other hand, OBOR continued to emphasize development activities prioritized in the 'Going Global' campaign, such as power supply in Indonesia, Vietnam, Laos, the Philippines, and Burma; mining in Indonesia and the Philippines; manufacturing in Cambodia, Burma, and Malaysia; and telecommunication in Laos, Cambodia,

Thailand, and Burma.¹⁵ According to the 2015 policy paper issued by the National Development and Reform Commission (NDRC), these activities should enhance the economic intercourse between China and others and promote mutual prosperity.¹⁶ Nonetheless, although consisting of a mix of geopolitical and economic ideals, OBOR as a whole has a strong strategic undertaking, which is the potential to broaden China's maritime accessibility.

To tone down its geopolitical color and highlight its multilateral image, President Xi made an extraordinary move, creating the Asian Infrastructure Investment Bank (AIIB) and inviting both developing and developed nations to invest in countries in the OBOR maps. The open concept did not end here. Xi's China also set up the New Silk Road Fund to raise private capital for OBOR. Still, AIIB was also important to Xi for making China into a responsible great power, a goal of more than altruism. The suspension of the Myistone mega dam in Burma in 2011 sent shockwaves to China's central leadership. It also marked the first time that China's state-controlled media and government officials openly discussed Chinese SOEs' environmental and social misconduct overseas and their negative impact on the country's foreign relations. Xi Jinping recognized this problem and was willing to better China's reputation.

AIIB adopted the Asian Development Bank's (ADB) and World Bank's 'best practices' in its governance and lending operations, and formed partnerships with the two banks to lock in its commitment. In order to compete for AIIB projects, Chinese SOEs would have to comply with its social and environmental codes. Environmental protection and social responsibility were also recurring themes in the NDRC's 2015 policy paper on OBOR.¹⁷ These changes were not incidental; they reflect China's current policy emphasis on sustainable growth, as illustrated by China's new environmental protection laws, ratification of the Paris Agreement, and widespread clampdown on coal-fired power plants. Soft laws on environmental and social responsibility have grown in recent years. MOFCOM and the Ministry of Environmental Protection are also discussing draft laws on outbound investors' environmental codes of conduct. These have pushed China's SOEs towards the direction of reform. For example, the International River's 2015 study recognized Sinohydro's and Gezhouba's improvement in environmental protection and community relations and risk management.¹⁸ China Chamber of Commerce for Minerals, Metals and Chemicals Importers and Exporters recently issued the Guidelines for Social Responsibility Outbound Mining Investment and the draft Due Diligence Guidelines for Responsible Mineral Supply Chains.

¹⁵ Ministry of Commerce, The People's Republic of China. Foreign Investment Industrial Guidance Catalogue, Country Directory. Beijing: Ministry of Commerce, 2004, 2007, 2011.

¹⁶ The National Development and Reform Commission of People's Republic of China. Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. March 2015.

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

¹⁷ Ibid.

¹⁸ International Rivers, Benchmarking the Policies and Practices of International Hydropower Companies. June 22, 2015. <https://www.internationalrivers.org/benchmarking>

Even though OBOR was intended to transform China's geopolitical strength and make it a superpower, this belief should not be overplayed. OBOR is overly ambitious, as many have argued. But it is so because of China's domestic problems more than the initiative's global scale. In spite of Xi Jinping's dominant leadership, OBOR suffers from the same, if not more, problems inherent in the 'Going Global' campaign. First, the institutional changes stated above are far from being complete and OBOR for the most part continues to operate without a sound regulatory body. Formal laws on Chinese firms' environmental and social codes of conduct apply only at home and not abroad. Two major policy banks, Exim China and China Development Bank (CDB), have not yet adopted AIB-issued guidelines in their overseas lending practices and they have reportedly extended \$200 billion of lending to OBOR projects.¹⁹

Proper lending review has been difficult in the face of ballooning loan applications as well as lobbying from firms, ministries, and regional governments. This is only a part of the bigger, and fundamental, problem of regulatory capture in China's state-directed economy. From the local stimulus plan in 2008 to OBOR's inception in 2013, billions of dollars have been lent to firms, local governments, and foreign governments buying Chinese services. As China's central leadership expects them to follow the OBOR agenda, it also provide a roadmap for seeking and speculating rents. For example, Chinese power supply, mining, and construction industries have turned to Indonesia—arguably the most important partner country in OBOR's Southeast Asian map—to seek subsidized loans for their ventures.

Chinese provincial governments have sought to make their regional development plans a part of OBOR and gain the associated budgetary transfers. Yunnan province's inter-state transport system proposal as a result became the backbone of the Bangladesh-China-India-Myanmar Economic Corridor. Guangxi province's Beibu Bay development plan also became an essential part of the port collaboration project in the 21st Maritime Silk Road. Since regional governments and regional branches of Exim China have greater autonomy since OBOR in outbound investment approval and lending, they have more room to help their regional SOEs qualify for subsidized loans. Nevertheless, many of these firms continue to operate at thin margins and seek quick expansion while at the same time holding inconsistent standards in their operations because of the pressure of overproduction at home.²⁰

More importantly, as the heads of these SOEs and local governments prioritize political interests instead of economic interests, they have been more willing to take risks to further business and economic expansions to achieve their OBOR quota, even if it requires bribery. The

¹⁹ <http://www.caixinglobal.com/2017-05-12/101089361.html>

²⁰ For example, the Economist's 2014 China Going Global Investment Index found that less than ten percent of the surveyed firms have proper assessment in political risks. See The Economist Intelligence Unit, China Going Global Investment Index 2014. <http://going-global.economist.com/en/2014/11/07/%E4%B8%AD%E5%9B%BD%E6%B5%B7%E5%A4%96%E6%8A%95%E8%B5%84%E6%8C%87%E6%95%B0-%E7%BB%8F%E6%B5%8E%E5%AD%A6%E4%BA%BA%E6%99%BA%E5%BA%93%EF%BC%88the-eiu%EF%BC%89%E6%8A%A5%E5%91%8A/>

corruption investigation of a Former Exim Bank Branch President is just the tip of the iceberg of this type of misconduct.²¹ In fact, the misconduct associated with outbound-investment and trade finance is an area of focus in Xi Jinping's anti-corruption campaign. Yet, the campaign worked more like a band-aid on a wound that needs surgery. Significant capital flight in recent years has dampened the central government's ability and willingness to absorb the cost of rent seeking and regulatory capture. MOFCOM recently announced that it will increase its auditing of SOEs' overseas assets. The highly anticipated laws on outbound investment is due to be released by the end of this year.²² Yet, the challenges from China's powerful institutionally entrenched interests will continue to trouble how OBOR is implemented.

It Is Not All Bad News: Southeast Asia's Utilitarian Take on OBOR

The territorial disputes in the South China Sea have often been cited as the main reason that OBOR is impossible in Southeast Asia.²³ Indeed, doubts abound in the region about China's motivations behind the 21st Century Maritime Silk Road, particularly at the time of China's increasing military activities and land reclamation in Paracel and Spratly Islands and strong rejection on an international tribunal's ruling against China's territorial claims. Pundits often portray this plan as the reinvention of the People's Liberation Army Navy's 'String of Pearls' plan to boost China's strategic clout and naval access.²⁴ The suspicion also reflects the power asymmetry between China and Southeast Asia and the latter's unease about the former's growing dominance.²⁵ As expected, the China-ASEAN Maritime Cooperation Fund has accomplished little and the proposal of linking ports and cities between China and Southeast Asia has not received much response.²⁶ On the other side of Southeast Asia, the western route of the Pan Asia Rail Network through Myanmar and the Bangladesh-China-India-Myanmar Economic Corridor also suffer from setbacks in the face of the Burmese's overwhelmingly negative perceptions on China.²⁷

²¹ Wu Hongyuran, Zhang Yuzhe and Wu Gang, "Former Export-Import Bank Branch President Under Investigation for Graft," Caixin News, April 10, 2017. <http://www.caixinglobal.com/2017-04-10/101076484.html>

²² Fran Wang, "China May Introduce First Rule on Overseas Investment by Year-End," CaiXin News, March 21, 2017. <http://www.caixinglobal.com/2017-03-21/101068473.html>

²³ Prashanth Parameswaran, "China's Plan For ASEAN-China Maritime Cooperation." The Diplomat. April 1, 2015. <http://thediplomat.com/2015/04/chinas-plan-for-asean-china-maritime-cooperation/>

²⁴ Shannon Tiezzi, "The Maritime Silk Road Vs. The String of Pearls," The Diplomat, February 13, 2014. <http://thediplomat.com/2014/02/the-maritime-silk-road-vs-the-string-of-pearls/> Brahma Chellaney, "China reinvents 'string of pearls' as Maritime Silk Road," Nikkei Asian Review, April 29, 2015. <http://asia.nikkei.com/Viewpoints-archive/Perspectives/China-reinvents-string-of-pearls-as-Maritime-Silk-Road>

²⁵ Brantly Womack, "China and Southeast Asia: Asymmetry, Leadership and Normalcy." Pacific Affairs 76, no.4 (2003/2004): p. 529-48.

²⁶ Proposed by the former Premier Wen Jia-Bao in 2011, the China-ASEAN Maritime Cooperation Fund was installed in 2013 when Premier Li Keqiang attended the 17th ASEAN-China Summit. Li proclaimed that the Fund was to promote joint collaboration between China and ASEAN on areas including the study of marine biology research, fish farming, port city networks, and the Code of Conduct on the South China Sea.

²⁷ According to Asia Barometer, Myanmar ranked the lowest among 13 Asian countries on holding positive view about the impact of China on own country. <http://www.asianbarometer.org/survey/key-findings>

Even though opting out the projects with strategic concerns, Southeast Asia does not reject the idea of OBOR. Many officials in Southeast Asia have expressed their interests and support of China's call for increasing multilateral initiatives in the region's infrastructure development.²⁸ Their position is best exemplified by ASEAN's unanimous support for China's AIIB proposal; ASEAN countries, including the Philippines, have become the Bank's founding members. They also welcome the Silk Road Fund and additional funding to the existing China-ASEAN Investment Cooperation Fund. This move is not a surprise as foreign policy in Southeast Asia has been small countries' survival game. Knowing China as the most influential country in the region, they have sought to be pragmatic and reap as much benefit as possible from stable bilateral ties with China. As Asian security specialist Denny Roy explained, Southeast Asia understands to avoid "[the] self-fulfilling prophecy of turning China into an enemy by treating it as an enemy."²⁹ This approach has been in use since the 'Good Neighbor.' From 2004 to 2014, approximately \$38.4 billion of FDI went from China to the region, with most of it going into the OBOR-prioritized power supply and mining industries. Outbound investment only represents a fraction of China's state-backed capital to the region, of which more and more is in the form of buyer's credits and loans to the governments in the region for their infrastructures. The ADB estimates ASEAN will need \$60 billion for infrastructure investment each year through 2020. In this sense, a part of OBOR simply follows the market force and the existing economic relations between China and Southeast Asia.

The timing also contributes to Southeast Asia's selective acceptance of OBOR. Since the 2008 financial crisis, many Southeast Asian countries have been in slow growth and politicians are seeking infrastructure investment to boost their economies. Fund raising has been difficult, particularly as western financial institutions and development banks have tightened their belts following the crisis while at the same time attaching additional environmental and social conditions to their loans. OBOR is an effective signal to leaders looking for funding. Indonesian President 'Jokowi' after assuming office had five meetings with President Xi; Malaysian Prime Minister Najib made a high-profile visit to Beijing, pledging to advance comprehensive cooperation with China; even Aung San Suu Kyi as the head of Burma's new civilian government visited Beijing hoping to advance Chinese investment in multiple economic plans. With his provocative claiming to break alliance with the United States for China, Philippine President Duterte also jumped on the bandwagon of visiting Beijing for money. President Xi, in response, showered them with billions of dollars of loan commitments, of which some were already delivered.

²⁸ Jeremy Koh, "ASEAN Diplomats Welcome China's One Belt, One Road Initiative," Channel News Asia, November 16, 2015.

<http://www.channelnewsasia.com/news/asiapacific/asean-diplomats-welcome-china-s-one-belt-one-road-initiative-8230622>

²⁹ Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27, no. 2 (2005): p. 305–22.

This hype is not all good signs, however. As those countries have weak rule of laws, China's enthusiasm may attract cronies, either local officials or businessmen, who smell opportunities to profit from Chinese-invested projects. They may also lead Chinese firms or regional government officials who have state-backed cash but little foreign investment experience into problematic projects. Moreover, the leaders of these countries are 'democratic' and susceptible to the public opinion, of which anti-Chinese sentiment remains high. Indonesia is a good example. Upon President Xi's visit to Jakarta, the two countries inked the trade and investment agreement of a whopping value of \$28 billion, including the Jakarta-Bandung High Speed Rail plan. After rushing in the deal, China is currently mired in the red tapes and troubles of land acquisitions, making the estimated cost of \$5.1 billion rise to \$5.6 billion.³⁰ The project is also shadowed by a deeper challenge. Catalyzed by religious fundamentalist movement, Indonesia is seeing the rising anti-Chinese sentiment for blaming soaring Chinese investments bringing illegal labors and the associated misconducts to Indonesia.³¹ Under this changing political climate, the Rail's completion date has been delayed to 2020.

Policy Implications for Washington

A strong and centralized state has been a default thinking for many studying China's foreign policymaking in Washington. This is particularly so in light of Xi Jinping's rapid rise and power consolidation within the Chinese communist party. The proclamation of OBOR is the most high-profile and extravagant demonstration of his confidence and power to the world. This paper is to debunk the myth of a centralized Chinese state under Xi Jinping by illustrating the longstanding state capacity problem and its not-so-glamorous record of the 'Going Global' project since the early 2000s in Southeast Asia. It further examines how the 'Going Global' has unfolded since the OBOR campaign and concludes that its biggest challenge still lies within China. In spite of efforts centralizing many major economic decisions, China under Xi Jinping remains fragmented, lacking regulatory authority, and prone to captures by non-state actors and their bad business decisions that at times are made at the expense of national interests. Regardless, Southeast Asian leaders are receptive of the concept of OBOR as they view it as an instrument to further their own economic agenda. This tactics, as the paper shows, has been in practice long before the existence of OBOR. Over this time, most countries in the region have remained vigilant to China's increasingly aggressive stance on the South China Sea issue and have enhanced their military partnership with the United States. Their wariness of Chinese economic influence is also demonstrated by the resurgence of Japan's foreign aid and investment in the region in recent years. Thus, Washington should not view Southeast Asia's utilitarian take on OBOR as surrendering their long-term interests. Finally, it is true that OBOR is useful for Beijing to strike a quick deal and lubricate its tie with politicians in Southeast Asia.

³⁰ Nikkei Asian Review, "Indonesian high-speed rail project stalls, waiting on land," February 15, 2017.

<http://asia.nikkei.com/Politics-Economy/Policy-Politics/Indonesian-high-speed-rail-project-stalls-waiting-on-land>

³¹ The Jakarta Post, "Indonesian immigration office continues to hunt illegal foreign workers." January 9, 2017. <http://www.thejakartapost.com/news/2017/01/09/indonesian-immigration-office-continues-to-hunt-illegal-foreign-workers.html>

Whether these deals can transfer to China's leadership in the region depend on Beijing's ability to ensure high-quality project implementation, which is currently lacking. Regardless, China's warming relations with Indonesia, Malaysia, Thailand, and lately the Philippines in recent years should be a reminder to Washington that Southeast Asian countries do not commit themselves to a particular power in the region or beyond, particularly at the time when American politicians' sermons on the domestic politics in these countries put a strain on their bilateral relations. It is time for Washington to contemplate its Southeast Asia policy and ways to foster its relations with the region.