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The China – Indochina Peninsula Economic Corridor

A Brief Introduction to the Belt and Road Initiative

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40 minutes

Class IV: The China – Indochina Peninsula Economic Corridor

Summary

This course gives a glimpse on the relation between the People's Republic of China and the South East Asian regions. The case studies are focusing on Cambodia and Vietnam.

Topics of the class include:

- A General Overview of South East Asia
- Brief history and current situation of Cambodia
- Detailed description of Vietnam's stance regarding the BRI

A General Overview

The **China-Indochina Peninsula Economic Corridor** has two starting points. The East Line starts with Nanning, Guangxi Province, while the Western Line starts with Kunming, Yunnan Province. The economic corridor finishes at Singapore. Between the starting point and the ending point it **passes through the Indochina Peninsula, covering the six countries - all ASEAN members -, namely Vietnam, Laos, Cambodia, Thailand, Malaysia and Singapore.** On the one hand, it is an important basis for China and these ASEAN countries to further expand and enhance cooperation, and on the other hand, it is an important passage to connect the Southern Chinese cities via land routes and the Maritime Silkroad through the South East Asian countries. **Since this region connects to the most important transit areas of the Maritime Silkroad (the South China Sea and the Strait of Malacca) we can safely say that the region is of high strategic importance.**

One of the Corridor's most important plane is the Lancang-Mekong International Waterway that is based around the trans-boundary river of the Lancang-Mekong which runs through six countries. For this reason, **agreements on water distribution is crucial by the affected parties, since countries on the upper flow of the river can seriously affect southern countries** simply by using more water, and during times of drought countries located at the downstream part of the river can be severely damaged. Furthermore, building dams could lead to heated confrontations. So, **consensus on water usage is a number one priority**, that is why the Lancang-Mekong Cooperation has been launched in 2016 and the Water Resources Cooperation Center in Beijing was established in 2017. We also have to mention that the Lancang-Mekong river manages a substantial amount of cross-border traffic, including the transportation of oil and natural gas.

As with the case of other economic corridors, the **China-Indochina Peninsula Economic Corridor is also a multifaceted project, involving questions of trade, finance, energy, infrastructure and the transportation** of goods. As we have mentioned before, one of the BRI's core aim is to ensure unimpeded trade between the affected countries. In the case of the six aforementioned states, this has basically already been fulfilled because of the **China – ASEAN countries Free Trade Agreement (FTA).** So, **a strong foundation is already present the partners just need to build on that.** Compared to other Economic Corridors in this case economic integration could be achieved easier and with it constant and sustainable economic growth can be reached by all parties.

Industrial cooperation is a key area of the China-Indochina Peninsula Economic Corridor with the planned industrial parks and special (often cross-border) economic zones. To support the planned facilities, obviously infrastructural development is important. **With the adequate infrastructure and the building of industrial facilities it is estimated that the ASEAN countries located on the peninsula will have a GDP increase between 30 to 40 percent by the year 2030.** That increase in GDP growth would be incredibly high, only time will tell how it turns out.

For infrastructural development the best examples are the China–Thailand Railway, the China–Laos Railway, the Malaysia–Singapore High Speed Rail and the Southern Malaysia Railway (the construction is underway since 2017). These are built as standard-gauge high-speed railways, which when done could drastically decrease transportation times in the Indochina Peninsula.

In the case of industrial facilities we must mention the China–Malaysia “Two Countries, Twin Park” (Qinzhou Industrial Park and Guandan Industrial Park), the Thailand–China Rayong Industrial Park, the Cambodia Sihanoukville Special Economic Zone and the Vietnam Longjiang Industrial Park. For the special cross-border economic cooperation zones good examples are the China–Vietnam Cross-border Economic Cooperation Zone, the China–Thailand (Chongzuo) Industrial Park and the China–Laos Mohan–Boten Cross-border Economic Cooperation Zone.

In the field of trade and investment, based on the China-ASEAN FTAs, Beijing and the six mentioned countries have accelerated the process of trade liberalization. That means that they reduced the cost of trade and investment (lowering or foregoing taxes altogether), and they also enhanced connectivity between China and the Indochina Peninsula countries. The trade volume between China and the Indochina Peninsula countries has increased from around 30 billion USD (2001) to 370 billion USD (2017). That amount is about 9.2 percent of China’s total foreign trade with an average annual growth of 16.9 percent.

For case studies we will be focusing on Cambodia because that country basically only has Chinese FDIs and Vietnam. The latter is especially interesting because of the South China Sea dispute.

Cambodia

If there is one country whose development and advancement is almost entirely dependent on foreign investment that is Cambodia. After the country gained its independence from France in 1953 foreign investment started to dwindle (and it was not high to begin with) and it took almost 40 years to restart. Among the investors China pumps the most money into Cambodia.

Although the country was officially declared neutral in 1958, military conflicts did not avoid it during the Cold War. In fact, it became an area, which was drastically affected by the superpowers’ proxy wars. Northern parts of Cambodia was used by Viet Minh (League for Independent Vietnam) troops to hide from South Vietnamese and US forces and some of the Viet Minh supply lines went through that region of the country. That led to the bombings of Cambodia by the US Air Force, which was condemned by the ruler Norodom Sihanouk, who even brought the issue in front of international media. However, he achieved no real results (except that by criticizing the US many from the ruling class gradually turned away from him).



1. Picture Map of Cambodia. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/CB-map.jpg>

When the civil war in Cambodia broke out in 1970 US bombings continued and republican forces fought with Viet Minh troops, and also with the forces of the Khmer Communist Party or the Communist Party of Kampuchea (CPK). Support of the Khmer Rouge grew rapidly as the continuous carpet bombings by the US Air Force directly increased the support of the CPK: peasants who previously did not sympathize with the Khmer Rouge poured under their banners. The CPK used the bombings for its propaganda and to justify their brutality. Although the US intervention saved the republican government from being overrun by communists at that time it basically disrupted the Cambodian society.

By 1973 Vietnamese support of the Khmer Rouge has waned. Although the PRC had a good relationship with Sihanouk there are numerous reports that state that after the Vietnamese withdrew their support the People's Republic of China gradually took over: it provided equipment, military advisors and intelligence. **In April 1975, all Americans and most of the Westerners has left the country, leaving it to the CPK to take over.** The terror of the reign of the Khmer Rouge left the country utterly devastated. **Although they have been forced from power in 1979 by the Vietnamese military on the account of the genocide (and many other war crimes) they have committed, the Khmer Rouge retreated to the jungles of Cambodia and started a guerilla war which lasted until the**

end of the 1990's (they have even retained their seat in the UN until 1993!). The result of the civil war and the rule of the Khmer Rouge: a devastated country with practically no industry, roughly 25 percent of total population dead (either executed on the "Killing Fields" or worked to death or simply died from diseases or starvation), virtually no intellectual left in the country and a horrendous amount of land mines everywhere.

Most of the population of Cambodia lives on agriculture (rice being the most important product, and certain fruits) and tourism (which is basically non-existent anymore thanks to the COVID-19). So, as mentioned before **Cambodia definitely needs all the help and investment it can get**, it does not have the luxury to be picky. It is true, there are countries other than the People's Republic of China who are investing in Cambodia (including Japan, South Korea and Vietnam, the Netherlands and the US) but **Chinese investments are almost the sum of all other investments combined.**

That also means that it is crucial for Cambodia to be as close and as friendly towards China as possible. This can be considered a reason why Cambodia is 100 percent supporting China in its domestic and foreign policy. In July 2016, when the South China Sea Arbitration was announced, which Beijing did not accept. **Phnom Penh supported the People's Republic of China's stance in the dispute**, opposing the other ASEAN members. The interesting thing about this is that Cambodia has nothing to do with the South China Sea dispute as it is "on the other side" of the Indochina Peninsula, yet the moment the decision was made by the tribunal regarding the issue, Cambodian Prime Minister Hun Sen immediately affirmed his support of China (and his standpoint was the same way before the announcement of the BRI). **Additionally Hun Sen firmly agrees with the "One China" policy of the PRC** and also believes that the question of Tibet and Xinjiang are Beijing's internal affairs - many have criticized Cambodia's political stance, and some even pointed out that maybe it should not be an ASEAN member.

The start of the **good relationship between the People's Republic of China and the current ruling regime of Cambodia can be dated back to the military conflict of 1997** between the royalist party FUNCINPEC and the Cambodian People's Party (CPP), led by Hun Sen. **After the beginning of the conflict, virtually all foreign aids and investments stopped** to try to contain the CPP. All countries have paused their investments except one, and that was China. **Based on their "five principles" (mutual respect of sovereignty and territorial integrity; nonaggression; noninterference in internal affairs; cooperation for mutual benefits; and peaceful coexistence) Beijing did not interfere with the domestic issues of Cambodia and did not stop the capital influx. As a response Hun Sen closed Taiwan's political representation in the country and began to officially support the "One China" policy.** That was the starting point of the "special relationship" between Cambodia and China. Ever since they gradually developed trust after two decades of tentative approach. They have found common interests on the questions of legitimacy, economic growth and development. They enjoy mutual trust and interdependence, and comprehensive cooperation. However, **we have**

to point out that ever since King Sihanouk announced the country's neutrality there has not been an official change in this stance (apart from the reign of the Khmer Rouge): Cambodia tries to maintain its neutrality, and also tries to remain non-aligned and reach stability and prosperity with keeping these qualities of the country. In spite of this, we must add, that Cambodia's economy is still small and its military weak, therefore it depends on the protection of other powers, which means it can never truly be neutral. Another important fact is that **Cambodia is corrupt, most of the investment money goes to the ruling elite**. Apart from this, international opinion on the current government of Cambodia is not good as Hun Sen is actively hampering the arrest of the remaining Khmer Rouge cadres who are accused of war crimes by the UN. China backs Hun Sen in this question – which correlates with its “five principles” but it does not cast a good light on Beijing.

Regarding the Belt and Road Initiative in Cambodia the major projects are in the field of transportation, infrastructure, energy sector (in the form of hydroelectric power plants and dams) and agriculture. These plans are in accordance with Cambodia's own Strategic Development Plan and National Industrial Development Policy. It is not a coincidence, since these plans are building on the early concepts of the BRI in relation to Cambodia.

These major plans include the **improvement and completion of a standardized national railway system** that would connect the four major cities and their surroundings, two metros/light rail systems, **the Sihanoukville Special Economic Zone, the Koh Kong Comprehensive Development Experimental Zone**, and the national power supply network.

As mentioned before, the plans regarding the Lancang-Mekong river is a key point for the BRI in the region, but it is still in the early development phase. Currently, the projects that have attracted the most attention are special economic zones in Sihanoukville Port and Koh Kong's Comprehensive Development Experimental Zone. There is another which has sparked a **lot of controversy**: a new railway and seaport planned by the Cambodia Iron and Steel Mining Industry Group (which is owned by Chinese) that would connect to a **newly built steel mill in Rovieng**. All of this for a supposedly large (mining experts did not have a clear consensus on the size) iron ore field in which iron ore contains at least 60 percent of iron, which is extremely high and for this is very valuable. The estimated cost for the seaport and the new 404 km long railway, with the steel mill and iron mine is around 10 billion USD. The reason for the controversy is that although it was announced before the BRI (in 2012) there have not been much done regarding the construction of the mentioned facilities. Furthermore, it is quite strange that the new railway will not be connected to any of the pre-existing transportation lines – the very same lines that are being reconstructed and improved upon with BRI money.

The problem with the new steelworks in Rovieng district is that nothing has happened since the acceptance of the plans, not a single brick was put down. **The concession was**

given to the Cambodia Iron and Steel Mining Industry Group (CISMIG) on the premise that the new facilities will give jobs to the local population to extract and process iron ore. Instead the CISMIG is allowing smaller companies to mine the ore and it does nothing.

There is no sign of port construction, either. Meanwhile, few official documents are public on the project, so there is no way to know how big a progress have been made regarding the deal, if any. **By the original plans, a 99-year lease would go to CISMIG,** which would use regional coal for a power plant and iron ore mined from the local roke to produce steel. With this, **millions of tons of iron were expected to come from the area annually, for more than five decades.**

Interestingly though no one knows what has been done regarding the project or whether it has been shut down or not. The fact that Cambodia is among the most corrupt states of South East-Asia (and actually number 1 in 2015) does not help transparency either.

The Sihanoukville Special Economic Zone is a much more successful venture of the BRI: this port – the only deep-water port Cambodia has – attracted many investments over the years most of them to enhance transportation and container capacity and also to enhance tourism. **Phnom Penh wants to make Sihanoukville to be the second big tourist attraction of the country after Siem Reap with the Historical World Heritage Site Angkor Wat.**



2. Picture. The Angkor Wat, Historical World Heritage Site near Siem Reap. Photo was taken by the author of this paper.

The former is being done by expanding the piers and facilities and by attracting outside investors, mainly by granting tax-free periods of port-usage for foreign enterprises. **It is said the throughput of the Sihanoukville port could reach 700,000 containers in 2020 and 1 million in 2023.** The advancement of tourism is done by building **new resorts, creating beaches** and so on. However, gambling (mostly online) also started to flourish in the zone, bringing organized crime (predominantly Chinese) with it that has hurt the planned image of a “tourism paradise”. So, it did not take too long for the Cambodian government to initiate a crackdown on it. Since 2019, online gambling is banned in the country.

The **Koh Kong Comprehensive Development Experimental Zone is developed by a Chinese state-owned firm, Union Development Group, that has acquired a 99-year lease on a port in Koh Kong** which also includes 20 percent of Cambodia’s coastline. The problem with the development of this port and the surrounding area is that **it is reportedly causing environmental destruction and violation of human rights** (evicting people from areas that are important for the project). The aim of the project is to create another deep-water port for transportation. Transparency regarding this project as well is dubious.

As of right now Cambodia is too overdependent of China and its loans and project moneys, which in itself would not be problematic, but the issue is that most of the Cambodian population did not prosper from the BRI (whether because of the corruption of their government or because of the nature of the project is not really relevant).

Vietnam

The relationship between Vietnam and the People’s Republic of China can be called ambivalent. For hundreds of years people of Vietnam was fighting against Chinese occupation, starting from the end of the 1st Century up until the late 11th century, or against their invasion forces, basically up until the 19th century where as a consequence of the Sino-French War, **Vietnam became a colony of France. During the First Indochina War (against France) the Soviet Union supported the Viet Minh’s fight for independence, while the Kuomintang led Republic of China did not.**

After the Chinese Communist Party took over China, the People’s Liberation Army started supplying food and military equipment to the Viet Minh, and also military experts to train fighters. After the Geneva accords of 1954, (which basically cut Vietnam in half at the 17th parallel north and that specified that a unification election has to be held in 1956) Northern Vietnam and Southern Vietnam gradually turned against each other. With US support Southern Vietnam failed to organize the election and thus southern cells of Viet Minh was activated and started fighting with the Southern Government. **After the United States joined the war in 1964 to support the southern anti-communist government, the People’s Republic of China did the same.**



3. Picture Map of Vietnam. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/VM-map.jpg>

During 1964 to 1969, Communist China reportedly sent around 300,000 troops (with equipment) to help out the Northern Vietnamese communist forces. However, these forces were reluctant to accept the help as they felt it was to increase China's direct influence over Vietnam.

There is one thing during this era that still affects the relationship between China and Vietnam. **Ever since the formation of the People's Republic of China in 1949 there were some territorial disputes between them.** During the Vietnam War both parties agreed to not enforce these issues until Southern Vietnam is defeated. These problems included the question of sovereignty **over the Paracel and Spratly Islands** in the South China Sea. In the 1950s, roughly half of the Paracels were controlled by China while the remaining islands by South Vietnam. In 1958, North Vietnam accepted China's sole claim to the Paracels and gave up its own. In January 1974, with the Second Indochina War drawing to a close, the Southern Vietnamese navy tried to expel the Chinese forces from the Paracel Islands, however, they have lost the fight, which ended with China taking over the Paracels completely. After the unification of the North and the South in 1975, the new Vietnam took over the previously South Vietnamese-controlled portions of the Spratly Islands. Furthermore, the freshly unified

country canceled its earlier renunciation of its claim to the Paracels. Moreover, both China and Vietnam claim the Spratlys their area of interest and actually control some of the islands themselves. This is a very important fact, because it affects their relationship to this day.

We also have to point out that the previously mentioned **Vietnamese intervention in Cambodia raised tensions between the PRC and Vietnam**, as the former was a direct supporter of Pol Pot's party and regime. We also have to note that **Vietnam remained in good terms with the Soviet Union even after – and in spite of – Beijing's fallout with Moscow.** Meanwhile **Vietnam criticized China for the Mao-Nixon summit of 1972.** The relationship deteriorated so much that by 1978 China stopped all aid and supply to Vietnam (which as a retort signed a treaty of friendship with the Soviet Union). In 1979 February Chinese forces attacked Vietnam: although both parties suffered heavy losses

for the next month, the Chinese military was ousted from the northern parts of Vietnam. This conflict has set the stage for more than 10 years of fighting around the border.

Eventually the two countries' relationship has started to improve after the dissolution of the Soviet Union and the withdrawal of Vietnamese forces from Cambodia in 1990. By 1991 both China and Vietnam have made numerous efforts to try to normalize their relationship.

Throughout the 2000s relations with China has improved spectacularly: the border disputes were settled, the parties have delineated borders regarding the Tonkin Gulf and continually strengthened their economic ties. Although the South China Sea dispute remained a continuous issue, tension was not great. Not until the 2010s at least.

After 1991, bilateral trade started to increase rapidly, so much so that by 2004 China became the biggest trading partner for Vietnam, while Chinese investment money also increased gradually (from 37 million USD in 1991 to 93.7 billion USD in 2004). **In 2004 the "Two Corridors, One Belt" initiative was announced to connect the southern parts of China to northern Vietnam.** The two corridors are connecting Quang Ninh to Kunming and Nanning respectively, while the "belt" is the trade route going between the two sides of the Gulf of Tonkin. Although the two countries had made numerous plans regarding the advancement of infrastructure and transportation in the two corridors, so far only the Kunming -Quang Ninh route has seen major progress as the tension caused by the South China Sea dispute continuously stalled the completion of the projects.

The conflict around the Paracel and Spratly Islands is very serious: in 2014 the deployment of a new Chinese oil rig within Vietnam's exclusive economic zone almost ended in a direct military conflict., not to mention that it spurred anti-Chinese riots in Vietnam.

The BRI could be the most important funding source for Vietnam even if it is not necessarily preferred politically (or by the local population). The country's increasing need for investments especially in the field of infrastructure development and the energy sector is obvious. So, the government of Vietnam propagates the BRI and supported the AIIB, even participated on the first Belt and Road Forum in May 2017 in Beijing. After this, Xi Jinping visited Hanoi where the two countries agreed to integrate the "Two Corridors, One belt" in the official plans for the China-Indochina Economic Corridor in the Belt and Road Initiative (November 2017), but still considered to be a separate project. It is a step forward since it upgrades the bilateral agreement regarding the "Two Corridors, One belt" into the higher spheres of the Belt and Road Initiative and might actually help to implement the previously planned constructions, however, there are no guarantees.

First of all, although **Vietnam is** definitely in need of foreign investment and is generally welcome towards such endeavors, **in the case of Chinese money it is more than**

cautious. It does not want China to gain too much influence, hence **why they wanted the “Two Corridors” project to remain somewhat separated from the BRI**, even though it is integrated with its plans.

Secondly, **Vietnamese fear that if they are to become overly dependent on the BRI investment money that would erode their position in the South China Sea** and may force them to renounce their claims. Additionally, many in Hanoi fear that China’s rejection of internationally recognized dispute resolution could lead to a serious problem if there are any disputable elements regarding the BRI.

Thirdly, because of previous experiences and enmities **Vietnam is not keen to accept loans from China even if they are at relatively low interest rates**, and that it would mean they would be able to make the necessary infrastructural development, building of factories, steel mills and so on. The reason for this is Vietnam is not willing to accept China’s conditions on these loans (interest rates set aside): they want to avoid the usage of Chinese technologies, and the employment of Chinese workers. So, **Vietnam still prefers other investments from other countries even if it means that interest rates will be higher.**

Based on the above details, it is safe to say, that even though Vietnam is very much in need of infrastructural development and investment in general and although that it endorsed the BRI publicly it is in reality quite cautious of the Initiative and does not want the loans. **As a possible consequence realization of the projects that can be linked to the BRI (and even to the Two Corridors) will most likely be delayed** (and quite possibly delayed indefinitely). The **only real success of the BRI is the Hanoi Metro Line 2A** and that is only a part of the Initiative because both China and Vietnam consider it a part of it. The truth is, the construction of the line has begun before the announcement of the BRI and most money – although came from the China Eximbank – is not considered associated with the Initiative. Only the additional loan provided due to cost overrun was given after the announcement of the BRI, thus it is not really a “new project”, it is part of the Initiative only on paper.

Questions for Self-Checking:

Why do other ASEAN members contemplate(d) the thought of expelling Cambodia from their ranks?

What is the base of the „special relationship” between China and Cambodia?

Why is Vietnam so cautious about the Chinese investments and loans?

Why can the BRI not be considered successful in Vietnam?