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# Regional Integration through Transport Infrastructure Connectivity: China's Reach in Asia

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# The Politics of Inter-nodal and Cross-border Connectivity in Asia in the 2000s

- Infrastructure projects in economic diplomacy
    - Previously the realm of Japanese soft-power and led by regional and international organizations
    - A confluence of the commercial interests of Chinese firms and the mercantilist objectives of Beijing
  - From highways to railways and ports
    - Investment cycle
    - Private investment inadequate
    - Direct access to resource extraction
    - Military mobilization
  - Interstate competition and domestic mobilization against Chinese infrastructure projects
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# Situating Southeast Asia in the Broader Strategic Context

- The Central Asia-South-Asia-Middle East pathways:
  - Resource extraction and geopolitics
  - Iran, Pakistan, Afghanistan
- The Southeast Asian market:
  - Production network for export manufacturing
  - Trade in agriculture produce
  - Chinese petty capitalist diaspora
- Considering China's energy security and comparative political advantages, Central Asia and South Asia are likely to supersede Southeast Asia in strategic importance for Beijing
- Need empirical studies to examine the precise nature of regional prioritization in Beijing

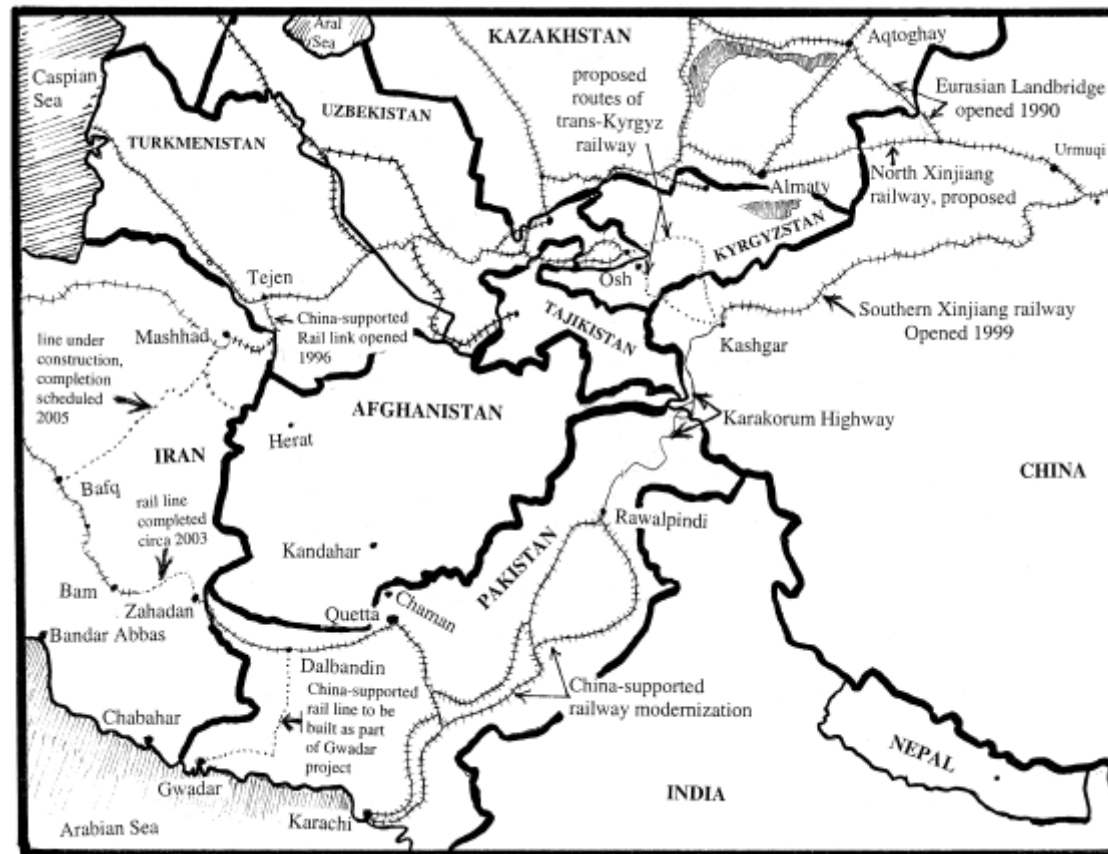
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# Key Transport Routes, Westward

- Projects started in the 1990s have reached capacity and are being upgraded/expanded
  - China and Central Asia:
    - “New Eurasian Landbridge,” rail from Jiangsu to Rotterdam via Kazakhstan and Russia: Urumqi-Ala Pass–Aqtoghay
    - Kashgar to Kyrgyzstan, Uzbekistan, Turkmenistan
    - Central Asia Regional Economic Cooperation (CAREC) proposes three corridors including Bishkek-Tourgart-Kashi (“Silk Road”) linking Kyrgyzstan and China
    - Urumqi–Almaty–Bishkek–Tashkent highway
  - Central Asia to Iran and the Middle East:
    - The Mashhad–Tejen line, links to ports (e.g. Gwadar)
    - Iran-Pakistan rail links
  - Meeting up with European Union’s (EU) Transport Corridor Europe Caucasus Asia (TRACECA)
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# China-Central Asia-Middle East Corridors

Source: J. Garver *China Quarterly* (2006), p.4



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# Key Transport Routes, Southward

- Plans long in gestation, to support the development of landlocked border provinces
  - China and Southeast Asia:
    - Irrawaddy Corridor, e.g. Kunming-Mandalay, Bay of Bengal
    - Kunming-Bangkok
    - Singapore-Kunming Rail Link
    - Greater Mekong Subregion (esp. N-S Economic Corridor), routes from Yunnan and Guangxi provinces, e.g. Boten–Houayxay, Noi Bai-Lao Cai Highway
  - China and South Asia:
    - Tibet – Nepal, Bhutan, Bangladesh (PLA presence)
    - Packaged with an industrial zone, Sri Lanka, Pakistan
    - Trans-Asian Highway, Dali-Lashio-Mandalay
    - Karakorum highway
    - India's competitive reactions
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# GMS, NSEC and EWEC

Source: ADB (2010), p.20

Figure 1: Key North-South Economic Corridor Provinces/Areas and Growth and/or Border Nodes



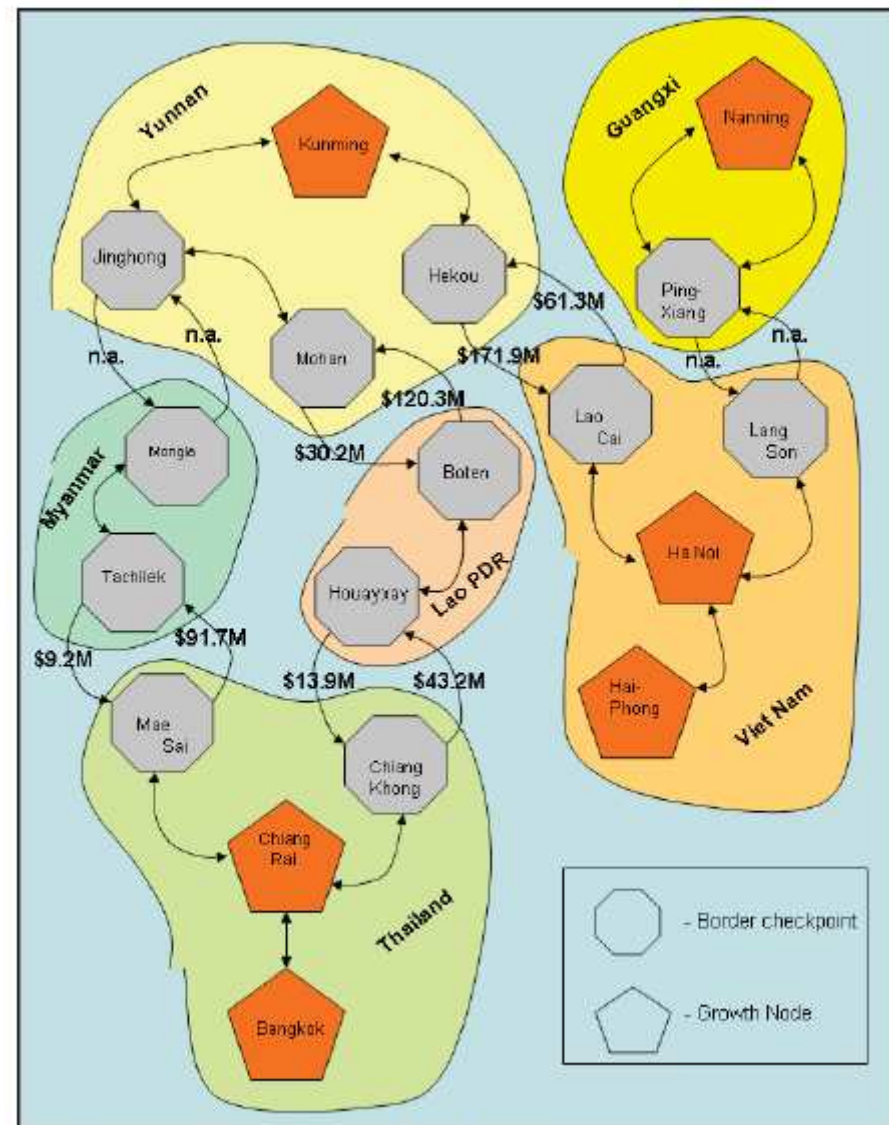
Source: ADB.



# GMS Cross-border Trade

Source: ADB (2010), p. 70

Figure A.1: NSEC Cross-Border Trade, 2005

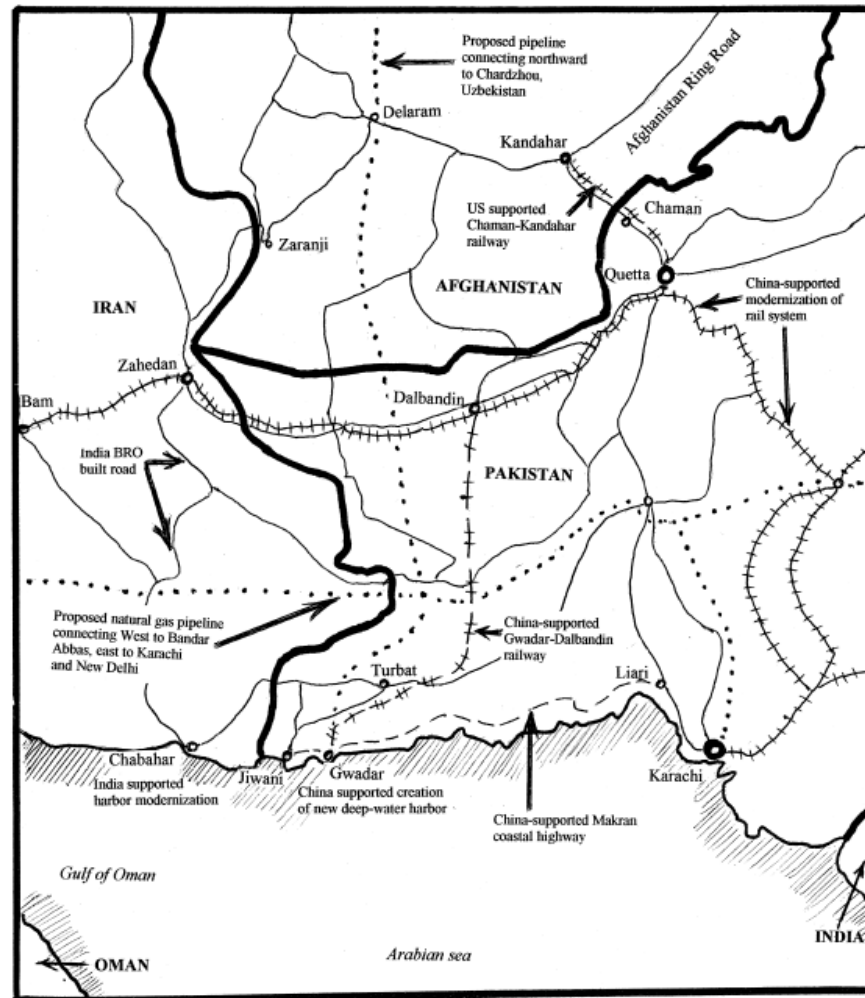


Note: Figure for Mohan-Boten is for Yunnan-Chiang Rai trade.



# China-Iran-Pakistan

Source: J. Garver China Quarterly (2006), p.8



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# Modes of Chinese Investment

- Government Aid/Concessionary Loans
- Commercial credit (e.g. supplier credits to Pakistan to buy Chinese trains)
- Policy support for ODI:
  - The “Going Out” policy
  - Beijing’s \$15 billion infrastructure loan program for ASEAN (Thailand proposed a road linking Danang and Moulmein, with further links to Myanmar ports and Singapore)
- Chinese construction companies expanding abroad:
  - Intense reform and competitive pressures at home
  - Fundraising from stock markets
  - Provincially-affiliated/sponsored construction firms, via local investment corporations
  - Hutchinson Port Holdings, Hopewell

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# Regional & Int'l Organizations

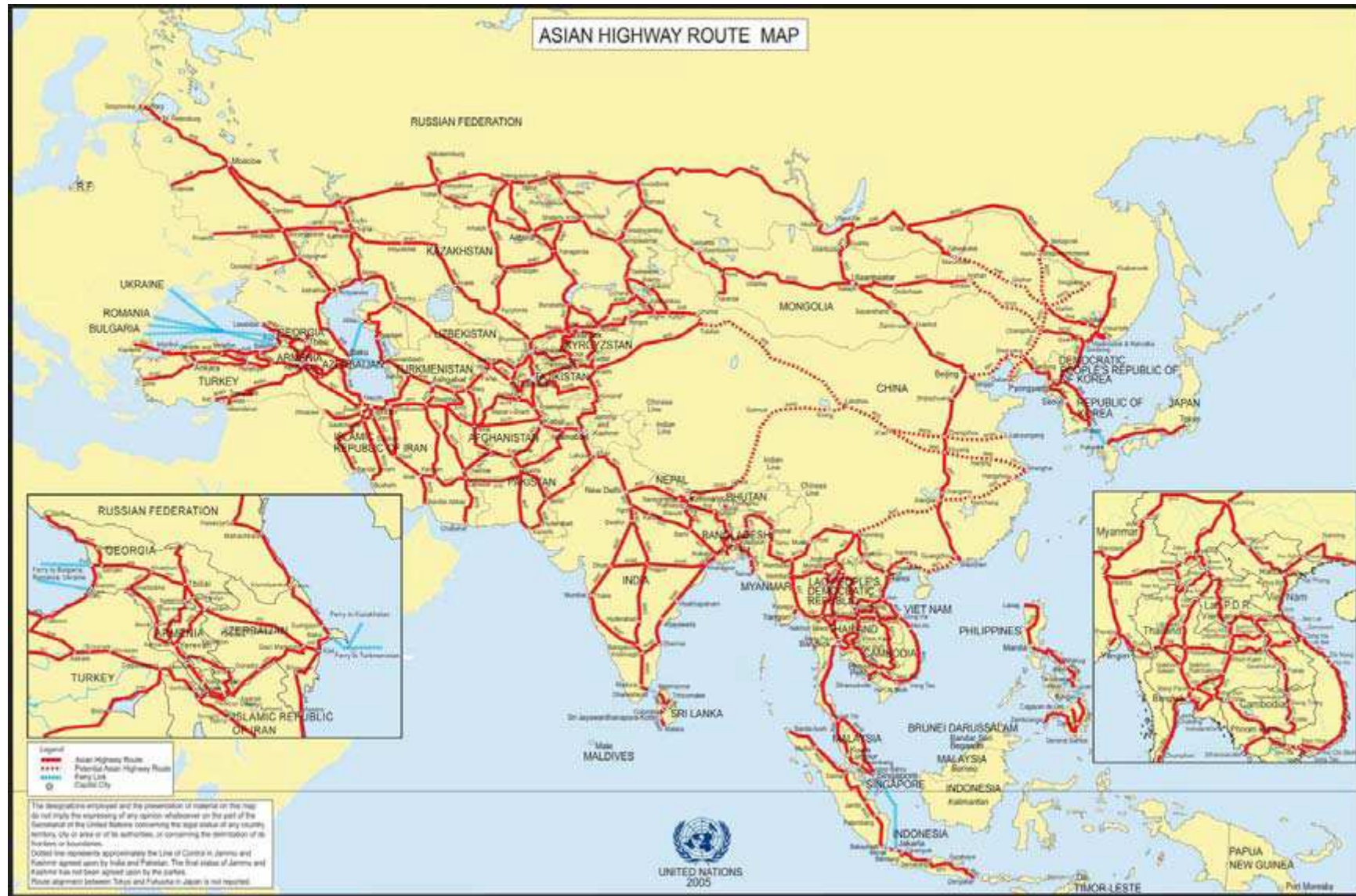
- ADB/UNESCAP objectives/role:
    - Heavy involvement in infrastructure projects in Central Asia, Southeast Asia
    - Regional inequality – different starting points in the level of infrastructure development could distort the socio-economic effects of connectivity (Bhattacharyay 2009)
    - Three-pronged strategy of energy, transport, and communication infrastructure development
    - Regional integration, sustainability, private participation
  - How would shifting Chinese geopolitical and commercial priorities toward regions affect the IOs long-term planning and coordination?
  - Would Chinese involvement lead to the neglect of market access and poverty alleviation, and project management and assessment standards?
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# Regional Cooperative Agreements

- Cross-Border Transport Agreement (CBTA) for GMS
- MRC for Mekong (includes the PRC)
- Action Plans 2008-2012, ECF & Governors' Forum, GMS Ministerial Conference
- BIMP-EAGA for ASEAN
- ALTID 1992 (UNESCAP) including TAH and TAR
- ASEAN Highway Network Project
- ASEAN "Comprehensive Investment Agreement"
- Under discussion: Asian Infrastructure Bond Fund, ASEAN Infrastructure Financing Mechanisms
- Relatively un-institutionalized

Source: UNESCAP 2008





Source: UNESCAP 2008



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# Implications for Regionalism

- Is the impetus driving the spatial integration of China's peripheries primarily economic/commercial?
    - If so, is this yet another demonstration that regional integration in Asia has been mainly and firstly a bottom-up, market-driven process, to be supported belatedly and hesitantly by government actions?
  - *Alternatively*, given the planning- and capital-intensive nature of infrastructure projects, do firms and households react to government initiatives?
    - What governance mechanisms assign risks and cope with the political consequences (Cambodians vs. TAH)?
  - Linkage to trade liberalization negotiations:
    - Harmonization: Border control, documents, customs inspection, traffic rights, reciprocal free transport licenses
    - S-T protectionism during economic crisis
    - L-T shift away from export dependence of Asian growth
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# Domestic Policy Implications

- Liberalization - attracting the right kind of new players?
    - BOT projects dump risks on the government/banks?
    - Crony capitalism with private and foreign investors
  - Deregulation and re-regulation
    - What is the utility of creating central agencies dedicated to infrastructure expansion?
  - Decentralization and redistribution
    - Regional disparities increasing despite central redistribution
    - Variations in the fiscal capability of sub-national governments
  - Political reform
    - Credible national/elite commitment given recent political turmoil
    - Local elections affect the provision of public goods and negotiations over land clearance, etc.
  - Holding Chinese firms accountable to local development
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