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China's Infrastructure Investment to the Belt and Road: The Case of the China-Indochina Peninsula Economic Corridor

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ABSTRACT

Inspired by China's historical role as a central hub in the Silk Road, the Chinese government officially launched the Belt and Road Initiative (BRI) in 2013. The BRI aims at deepening regional economic cooperation on a transcontinental scale and investing in infrastructure that promotes regional connectivity over land and sea. In recent years, China's outward foreign direct investment (OFDI) has increased tremendously. Empirical evidence suggests that Chinese OFDI is about 40 percent higher in BRI countries than non-BRI countries. Under the BRI framework, China is currently a global leader in the construction of transportation infrastructure. In this paper, we examine the case of the China-Indochina Peninsula Economic Corridor (CIPEC) and investigate the macroeconomic implication of the BRI by conducting empirical study on Chinese OFDI to the CIPEC, analyzing China's infrastructure investment, and conducting case studies of BRI infrastructure projects in the region. Our findings draw implication for policymakers in BRI nations who intend to attract Chinese infrastructure investment to improve regional connectivity. The lessons learned from these BRI projects highlight the importance of institutional relationship, domestic politics, political stability, and policy uncertainty, which in turn shed light on future infrastructure projects between China and host countries under the BRI framework.

KEYWORDS

Belt and road initiative (BRI); outward foreign direct investment (OFDI); infrastructure investment; transportation infrastructure; transport connectivity; regional connectivity; China-Indochina Peninsula Economic Corridor (CIPEC); China

1. Introduction

Inspired by China's historical role as a central hub in the Silk Road, the Chinese government officially announced the Belt and Road Initiative (BRI) in the year 2013, during Chinese President Xi Jinping's visit to Kazakhstan in September 2013[1] and to Indonesia in October 2013[2], respectively. The Belt and Road runs through the continents of Asia, Europe, and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other end, and encompassing countries with huge potential for economic development. The Silk Road Economic Belt (the "Belt") focuses on bringing together China, Central Asia, Russia and Europe; linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and west Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road (the "Road") is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other route[3] (See Figure 1).

In March 2015, the Chinese government issued its "Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road", which outlined the background, principles, framework, cooperation priorities, and cooperation mechanisms with respect to the

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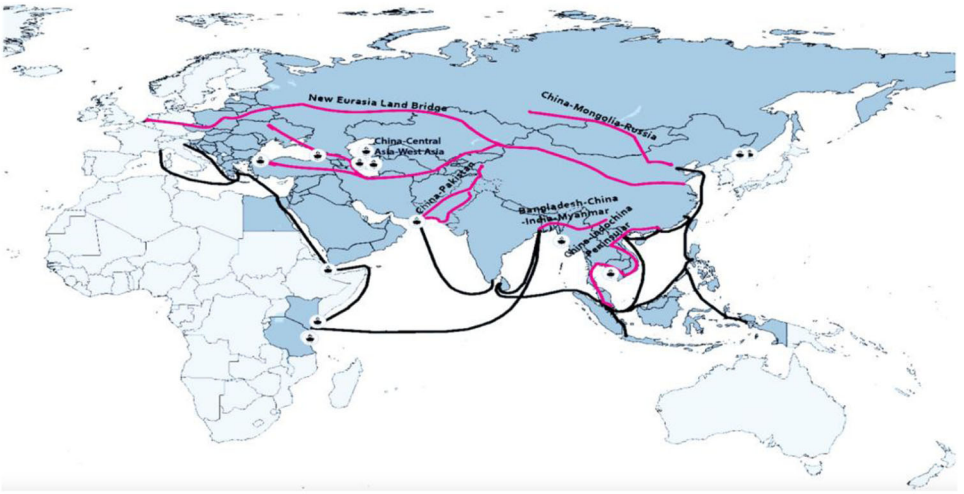


Source: World Bank (2019) (p. 3)

Figure 1. The Silk Road Economic Belt (the "Belt") and the 21st Century Maritime Silk Road (the "Road"). *Source*: World Bank (2019, p. 3)

BRI. There are five key areas of cooperation under the BRI framework. These BRI priority areas are policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds.

On land, the BRI focuses on jointly building a new Eurasian Land Bridge, and developing China-Mongolia-Russia, China-Central Asia-West Asia, and China-Indochina Peninsula economic corridors, by taking advantage of international transport routes and relying on core cities along the Belt and Road. At sea, the BRI focuses on jointly building international transport routes that connect major sea ports along the Belt and Road, including the China-Pakistan Economic Corridor, and the Bangladesh-China-India-Myanmar Economic Corridor (See Table 1).

In recent years, China's outward foreign direct investment (OFDI) has increased tremendously. Empirical evidence suggests that Chinese OFDI is about 40 percent higher in BRI countries than non-BRI countries (Kang et al., 2018). From 2013 to 2019, China's OFDI flows to BRI countries amounted to $117.31 billion, with flows mainly to Singapore, Indonesia, Vietnam, Thailand, United Arab Emirates (UAE), Laos, Malaysia, Kazakhstan, and Cambodia. (China's MOFCOM, 2019, p. 106) By the end of 2019, China's OFDI stocks in BRI countries totaled $179.47 billion, which accounted for 8.2% of China's OFDI stocks. In Table 2, we list the top 20 economies as destinations of China's OFDI stock by the end of 2019, which totaled $2030.87 billions of USD and accounted for 92.4% of China's OFDI stocks. A cursory look at the top destinations of China's OFDI in Table 3 reveals that significant Asian recipients include four ASEAN countries. They are Singapore, Indonesia, Laos, and Malaysia, respectively. These four ASEAN economies also belong to the China-Indochina Peninsula Economic Corridor (CIPEC) along the Belt and Road.

The CIPEC is an economic corridor that was first initiated in the year 2010[4] and was later incorporated into the BRI. It connects China with the five countries in the Indochina Peninsula (Vietnam, Cambodia, Laos, Thailand, Myanmar) and extends this to Malaysia, Singapore, and Indonesia. These eight Asian economies also belong to the Association of Southeast Asian Nations (ASEAN). In the first three quarters of 2020, ASEAN surpassed the United States and the European Union (EU) and has become China's largest trading partner.[5] On 15 November 2020, ASEAN hit historic milestones with the signing of the Regional Comprehensive Economic Partnership (RCEP), jointly with China, Japan, South Korea, Australia, and New Zealand.[6] What

Table 1. BRI Economies along the BRI Economic Corridors.

BRI Economic Corridors	BRI Economies
New Eurasian Land Bridge	China, Kazakhstan, Russia, Belarus, Poland (EU), Germany (EU).
China-Mongolia-Russia	China, Mongolia, Russia.
China-Central Asia-West Asia	China, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Iran, Turkey, Greece (EU).
China-Indochina Peninsula	China, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam.
China-Pakistan	China, Pakistan.
Bangladesh-China-India-Myanmar	China, Bangladesh, India, Myanmar.

Source: Hong Kong Trade Development Council (HKTDC).

Table 2. Top 20 Economies as Destinations of China's OFDI Stock, (in billions of USD), by end-2019.

No.	Economy	Stock	Share (%)	No.	Economy	Stock	Share (%)
1	Hong Kong SAR, China	1275.36	58.0	11	Canada	14.09	0.6
2	Cayman Islands	276.15	12.6	12	Luxembourg	13.90	0.6
3	British Virgin Islands	141.88	6.5	13	Russian Federation	12.80	0.6
4	United States	77.80	3.5	14	Macao SAR, China	9.85	0.4
5	Singapore	52.64	2.4	15	Sweden	8.58	0.4
6	Australia	38.07	1.7	16	Bermuda	8.34	0.4
7	Netherlands	23.85	1.1	17	Laos	8.25	0.4
8	United Kingdom	17.14	0.8	18	Malaysia	7.92	0.4
9	Indonesia	15.13	0.7	19	United Arab Emirates	7.64	0.3
10	Germany	14.23	0.7	20	Kazakhstan	7.25	0.3

Data Source: China's MOFCOM (2019, p. 114).

Table 3. Variables, Motivation Types, and Data Sources.

Variable	Motivation Type	Data Source
GDP growth (annual %)	Market seeking	World Bank – WDI
GDP per capita (constant 2010 US$)[1]	Market seeking	WDI
GDP per person employed (constant 2017 PPP $)[1]	Efficiency seeking	WDI
Raw materials, export product share	Natural resource seeking	World Bank – WITS
Capital goods, export product share	Strategic asset seeking	WITS
China's imports from country *i* / China's total imports	Institutional relationship	WITS
Political stability in host country *i*	Institutional relationship	World Bank – WGI
China's EPU index - HK		PolicyUncertainty.com
China's EPU index - mainland		PolicyUncertainty.com

1A natural logarithm is used to ensure a normal distribution of data.

the BRI and the RCEP have in common is that they both remove barriers. What they differ is that the BRI removes physical barriers (like roads, railways, and ports), and the RCEP removes nonphysical barriers. Hence, the eight ASEAN countries in the CIPEC benefit from both the RCEP and the BRI. This signals the strategic importance of the CIPEC region along the Belt and Road.

In this paper, we study the case of the China-Indochina Peninsula Economic Corridor (CIPEC) and investigate the macroeconomic implication of the BRI by first conducting empirical research on China's outward foreign direct investment (OFDI) to the CIPEC region (in Section 2), in which we examine the motivation behind Chinese investment, and assess the impact of political stability in the host country and economic policy uncertainty (EPU) in China. Under the BRI framework, China is currently a global leader in the construction of transportation infrastructure. In Section 3, we present stylized facts and analyze China's infrastructure investment in the eight CIPEC countries. In Section 4, we then conduct case studies of BRI infrastructure investment projects in the CIPEC region, including a "Belt" and "Road" project, and a "Road" project. Section 5 concludes and draws implication for policymakers in BRI nations who intend to attract China's infrastructure investment in order to promote economic development and to improve transport and regional connectivity.

2. China's outward investment in the CIPEC

In this section, we conduct empirical study to analyze China's OFDI to the CIPEC. In particular, we explore the motivation behind Chinese multinational enterprises (MNEs) to invest in the CIPEC, and also to assess the impact of political stability in the host country and economic policy uncertainty (EPU) in China. In our regression analysis, we follow Kang and Jiang (2012) to use China's OFDI stock as the dependent variable. Compared to FDI flows, FDI stock is less volatile and is a more precise measure of FDI location distribution (Cheung & Qian, 2009).

In the literature on the locational determinants of OFDI, previous studies along this line of research indicate that the motivation types of Chinese MNEs investing abroad can be categorized as market seeking, efficiency seeking, natural resource seeking, and/or strategic asset seeking. See, for example, Deng (2004); Buckley et al. (2007); Rui and Yip (2008); Duanmu (2012); Kang and Jiang (2012); Kolstad and Wiig (2012); Ramasamy et al. (2012); Wang et al. (2012); Ramasamy and Yeung (2020).

The motivation of market seeking is considered to be an important driver underlying outward investment by China's MNEs. This is particularly true for the motive of China's OFDI in Europe. See Blomkvist and Drogendijk (2016); Dreger et al. (2017). However, empirical results are inconclusive for Chinese OFDI in Southeast Asian countries. See Kang and Jiang (2012); Ramasamy and Yeung (2020). To proxy the motivation of market seeking FDI, empirical studies find that rapid economic growth in the host country increases aggregate market demand for products, which in turn stimulates greater demand for FDI inflows. Moreover, there is also a strong positive relationship between FDI inflows and the market size of the host country in the empirical literature (Bevan & Estrin, 2004). So when a Chinese MNE is motivated to seek and penetrate new markets through FDI, it will take an interest in the economic growth and market size of the host country. We follow this line of research to use GDP growth rate and GDP per capita, as proxies for the motivation of market seeking FDI.

The motivation of efficiency seeking has been applied mainly to deal with the FDI location choice between home and foreign markets in the literature (Vernon, 1966). Countries with lower labor cost are more likely to attract FDI flows (Sethi et al., 2003). Chinese MNEs consider other countries with relatively low labor cost for their labor-intensive activities (Cheung & Qian, 2009), and they are more deterred by high cost structure of the host country (Duanmu, 2012). However, low labor cost may not mean much if labor productivity levels are also low, because the ultimate goal of efficiency seeking FDI is a reduction in unit costs (Dreger et al., 2017). In that context, CIPEC countries, with relatively higher wages rates but with matching productivity, may offer a good location for Chinese investment. To proxy the motivation of efficiency seeking, we follow Bevan and Estrin (2004) to use output per person employed, which is a common variable in the literature that is used to measure labor productivity and represent efficiency in production.

The motivation of natural resource seeking is common for MNEs from both developed and developing economies that need to gain access to natural resources in foreign countries. Compared to the size of the country and its population, China is relatively less endowed with natural resources. Thus, countries with rich natural resources are likely to be more attractive for Chinese MNEs. In the literature, the motive of natural resource seeking has been considered as one of the key strategic reasons for China's overseas investment. To measure the motivation of natural resource seeking, the exports of natural resources have been used to proxy for the abundance of natural resources of recipient countries in the literature. See, for example, Buckley et al. (2007); Cheung and Qian (2009); Kolstad and Wiig (2012). In our analysis, we construct a variable $RAWMAT_{i,t}$, which is calculated as host country i's export product share in raw materials. The intuition behind this constructed variable is that it captures the relative importance of raw materials in the total exports from country i.

$$RAWMAT_{i,t} = \frac{country\ i's\ exports\ of\ raw\ materials}{country\ i's\ total\ exports}$$

In addition to the motives of market seeking, efficiency seeking, and natural resource seeking, Meyer (2015) sheds light on the concept of strategic asset seeking FDI, as some FDI is undertaken explicitly with the aim to use assets acquired abroad to enhance the operation of the investor in other markets, including the home market. This distinct type of investment motivation contributes to capability-building processes of the investing MNE. Local firms in host countries may have certain capabilities that have made them important suppliers to large MNEs in the home country (Piperopoulos et al., 2018). However, results are inconclusive for China's OFDI in Southeast Asian countries. Kang and Jiang (2012) find the motivation of strategic asset seeking to be insignificant, while Ramasamy and Yeung (2020) find this motive to be significant in the case of China's OFDI to Southeast Asia. In our analysis, the measure of strategic asset seeking FDI is proxied by a constructed variable $KGOOD_{i,t}$, which is calculated as host country i's export product share in capital goods.

$$KGOOD_{i,t} = \frac{country\ i's\ exports\ of\ capital\ goods}{country\ i's\ total\ exports}$$

Dunning and Lundan (2008) extend the eclectic paradigm to incorporate an institutional dimension in order to further explain the motivation of MNEs to invest abroad. This institutional paradigm can take various forms. For instance, the BRI can be considered as an institutional factor that influences the locational choice of Chinese MNEs to make overseas investment. In the literature, Dreger et al. (2017), and Daly and Zhang (2011) find the existing trade relationship with China to be a prime factor that drives Chinese OFDI to Europe. The institutional dimension is a rather wide concept, however, the bilateral trade ties between the host country and China might encapsulate this dimension, as it reflects the outcomes of the institutional similarities and differences between countries. For the institutional dimension that links China with the host country, we follow Ramasamy et al. (2012) and use a constructed variable $IMP2CHN_{i,t}$ to represent China's imports from country i as a proportion of China's total imports from the world. The intuition is that the larger China's imports from country i relative to China's total imports from the world, the larger the information diffusion between the two countries. This proxies the existing trade relationship between China and CIPEC countries.

$$IMP2CHN_{i,t} = \frac{China's\ imports\ from\ country\ i}{China's\ total\ imports}$$

As another dimension of the institutional relationship, we include a variable on political stability, which is considered to be a significant one in previous research studies (Busse & Hefeker, 2007), especially when host countries are developing economies. In the literature on China's OFDI, a number of studies find a negative relationship between political stability and Chinese OFDI, particularly in the case of natural resource seeking FDI. See, for example, Buckley et al. (2007); Kolstad and Wiig (2012); Ramasamy et al. (2012); Ramasamy and Yeung (2020).

Moreover, we investigate the effect of economic policy uncertainty (EPU) on China's OFDI to the CIPEC. In the literature on EPU and OFDI, Choi et al. (2020) examine the role of policy uncertainty on FDI inflows into 16 host countries in the OECD, and they find that domestic policy uncertainty in a host country has a negative effect on FDI inflows. While FDI is known to be the most stable type of international capital flows, it may be subject to heightened economic policy uncertainty - not only in the host country, but also in the home country.

In our analysis, we examine the role of China's EPU on Chinese OFDI to the CIPEC. The Economic Policy Uncertainty (EPU) index, developed by Baker et al. (2016), measures policy-related economic uncertainty. There are two EPU indexes for China. One EPU index for China is

developed by Baker et al. (2013), which is a scaled frequency count of articles about policy-related economic uncertainty in the South China Morning Post (SCMP), Hong Kong's leading English-language newspaper. The other EPU index for China is developed by Davis et al. (2019), which quantify uncertainty-related concepts using two mainland Chinese newspapers: the Renmin Daily and the Guangming Daily. Both methods follow the newspaper-based methods of EPU in the United States and other countries, as in Baker et al. (2016). The two China's EPU indexes are constructed monthly. To construct our annual data for the China EPU, we take the 12-month moving average of the monthly data, and select the data point in December as a proxy for the annual data in that year.

In Table 3, we summarize the proposed determinants of OFDI that are relevant to Chinese MNEs, which we use as the independent variables in our regression analysis.

In Figure 2, we calculate the pair-wise correlation coefficients among the variables in our model (first row: Cambodia, Indonesia, Laos, Malaysia; second row: Myanmar, Singapore, Thailand, Vietnam). The correlation is calculated with Pearson method in Figure 2A, Spearman method in Figure 2B, and Kendall method in Figure 2C. We find that the dependent variables GDP per capita (X2) and GDP per person employed (X3) are highly correlated for all CIPEC countries. So we omit the dependent variable GDP per capita (X2) in our regression analysis.

The selection of variables discussed above leads us to the construction of regression model to identify the determinants of China's OFDI in the CIPEC, which is specified as follows:

$$\begin{aligned} &ln(OFDI_{i,t}) \\ &\quad = \alpha + \beta_1 GDP\_growth_{i,t} + \beta_3 GDP\_PPE_{i,t} + \beta_4 Raw\_Materials_{i,t} + \beta_5 Capital\_Goods_{i,t} \\ &\quad + \beta_6 China\_import\_share_{i,t} + \beta_7 Political\_Stability_{i,t} + \beta_8 \ln(China\_EPU) + \varepsilon_{i,t} \end{aligned}$$

where the dependent variable $ln(OFDI_{i,t})$ is the logarithm of China's OFDI stock to country i. The independent variable $GDP\_growth_{i,t}$ is GDP growth rate of country i, which proxies the motivation of market seeking FDI. The variable $GDP\_PPE_{i,t}$ is GDP per person employed, which measures labor productivity in the host country, and it proxies the motivation of efficiency seeking FDI by Chinese MNEs. The constructed variable $Raw\_Materials_{i,t}$ is country i's export product share in raw materials, which is used as a proxy for the motivation of natural resource seeking FDI. The constructed variable $Capital\_Goods_{i,t}$ is country i's export product share in capital goods, and it proxies the motivation of strategic asset seeking FDI. The constructed variable $China\_import\_share_{i,t}$ is China's import share from country i, which is a measure of the institutional dimension. The variable $Political\_Stability_{i,t}$ is another measure of the institutional dimension. The variable $ln(China\_EPU_{i,t})$ is the logarithm of annualized China's EPU index. In Table 4, we present our regression results for the eight CIPEC countries.

Next, we fit a Poisson count model, where the dependent variable is the count of FDI projects from China to each CIPEC country every year. The results of the Poisson count model are reported in Table 5.

In Tables 6A and 6B, we summarize the main results from our regression model and Poisson count model, respectively.

For the motivation of market seeking FDI, GDP growth factor is a significant positive variable in the case of Laos and Thailand. So the higher the economic growth is in the host country, the more Chinese FDI is attracted to these two countries.

For the reason of efficiency seeking FDI, GDP per person employed is a significant positive variable for Indonesia, Laos, Malaysia, Myanmar, Thailand, and Vietnam. Hence, the higher the labor productivity is in the host country, the more Chinese OFDI is attracted to that country. This is the only motive that is common across most of the CIPEC countries. These eight CIPEC countries all belong to the ASEAN Economic Community (AEC). One of the primary objectives of the AEC is to encourage skilled labor mobility to address shortages and boost productivity

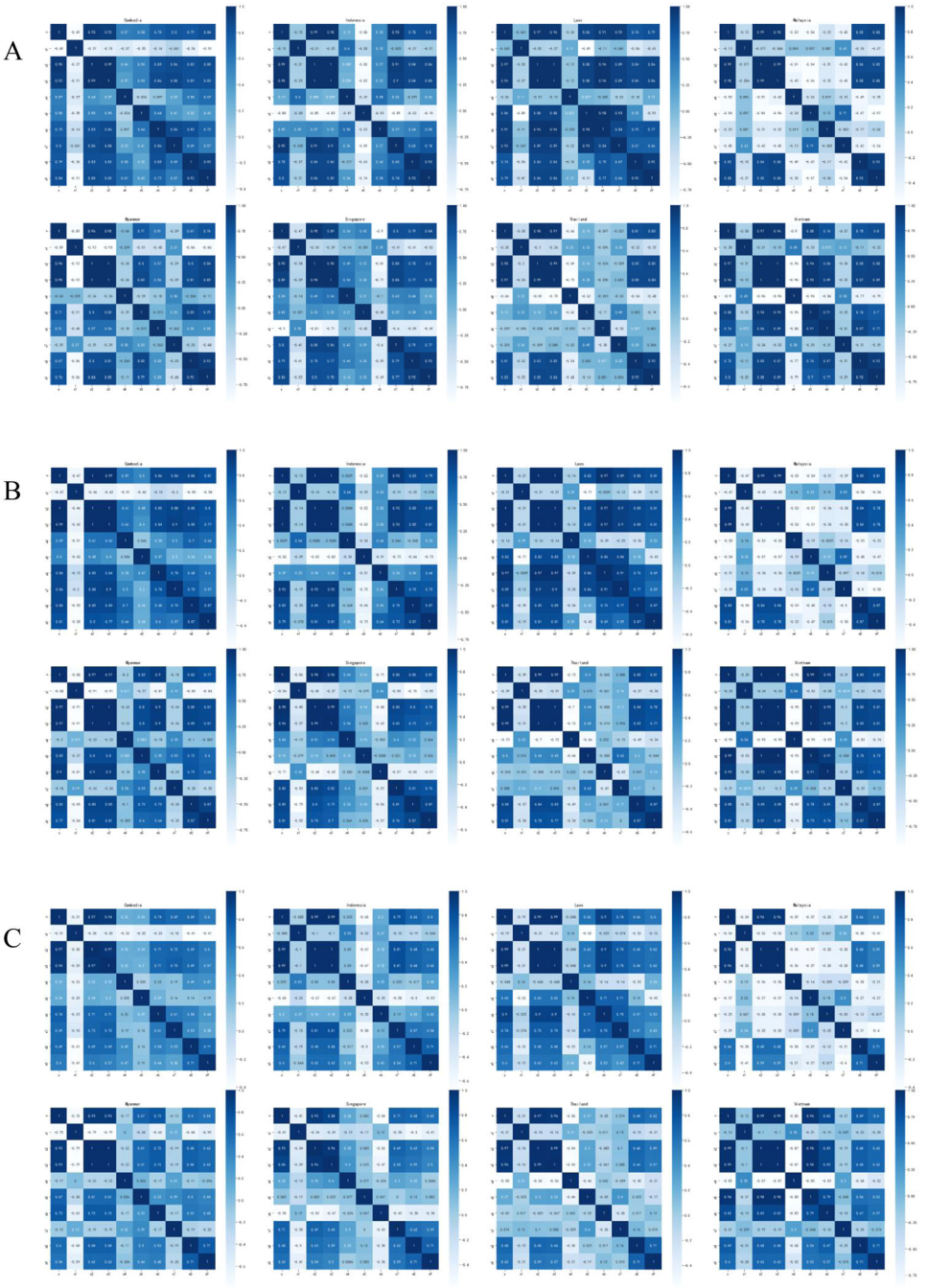


Figure 2. **A.** Correlation Matrix for Model Variables, (method = 'Pearson'). **B.** Correlation Matrix for Model Variables, (method = 'Spearman'). **C.** Correlation Matrix for Model Variables, (method = 'Kendall').

(Gentile, 2019). This calls for the need of transport connectivity and infrastructure investment in the region, which is consistent with our finding in Figure 4 that transport is one major sector that attracts China's OFDI to the CIPEC, as it helps to bridge the gap in infrastructure investment in the region.

Table 4. China's OFDI to the CIPEC – Regression Model Results.

Dependent variable: China's OFDI stock to country i								
	Cambodia		Indonesia		Laos		Malaysia	
GDP growth	−0.1133	−0.0118	−0.0831	−0.1420	0.5863 **	0.5855 ***	−0.0395	−0.0256
p-value	(0.317)	(0.916)	(0.611)	(0.423)	(0.011)	(0.004)	(0.340)	(0.600)
GDP per person employed	5.4629	5.3613	4.2148 *	5.1029 **	8.8584 ***	8.2962 **	13.2673 ***	11.6420 ***
p-value	(0.122)	(0.120)	(0.060)	(0.046)	(0.010)	(0.014)	0.000	0.000
Raw Materials, Export Product Share	0.8098 **	0.4204	−0.1245 **	−0.0836			−0.2871 **	−0.2569 **
p-value	(0.043)	(0.296)	(0.027)	(0.115)			(0.016)	(0.033)
Capital Goods, Export Product Share	0.0997	0.1395	−0.2367 **	−0.2270 *			−0.0308	−0.0273
p-value	(0.654)	(0.498)	(0.050)	(0.059)			(0.113)	(0.186)
China's Import Share	34.5043	13.7008	0.8839	0.7630	−0.4073	0.8585	0.4324	0.3240
p-value	(0.380)	(0.665)	(0.132)	(0.157)	(0.976)	(0.944)	(0.203)	(0.421)
Political Stability in the CIPEC	−0.9161	−0.7789	1.6464 ***	1.4361 **	0.2951	0.3720	0.2783	0.2806
p-value	(0.768)	(0.799)	(0.008)	(0.020)	(0.579)	(0.535)	(0.677)	(0.701)
China's EPU1	−0.5364		−0.2607		0.0002		−0.2576	
p-value	(0.518)		(0.213)		(1.000)		(0.233)	
China's EPU2		1.0394		−0.3680		0.1274		0.0988
p-value		(0.425)		(0.220)		(0.785)		(0.766)
Adjusted R-squared	0.904	0.908	0.985	0.985	0.969	0.970	0.971	0.966
Time Range	2003–2016		2003–2018		2003–2018		2003–2018	
	Myanmar		Singapore		Thailand		Vietnam	
GDP growth	−0.2746 *	−0.2127	−0.0546	−0.0493	0.0472	0.0588 **	0.0803	0.0630
p-value	(0.058)	(0.175)	(0.351)	(0.327)	(0.186)	(0.019)	(0.809)	(0.814)
GDP per person employed	4.9200 ***	5.1921 ***	10.0567 **	7.6010	10.2800 ***	11.5185 ***	11.1330 ***	11.3919 ***
p-value	(0.001)	(0.003)	(0.049)	(0.111)	0.000	0.000	(0.001)	(0.001)
Raw Materials, Export Product Share			−0.4977	0.9333	−0.1635	−0.2466 **	0.0141	0.0006
p-value			(0.752)	(0.558)	(0.236)	(0.016)	(0.780)	(0.992)
Capital Goods, Export Product Share			0.0122	0.0098	−0.2573 **	−0.3708 ***	−0.0034	−0.0146
p-value			(0.540)	(0.584)	(0.012)	0.000	(0.933)	(0.771)
China's Import Share	−0.9558	−0.9818	−2.4028 **	−2.4456 ***	−0.2552	−0.2537	−0.6276	−0.6486
p-value	(0.300)	(0.388)	(0.015)	(0.008)	(0.620)	(0.381)	(0.416)	(0.211)
Political Stability in the CIPEC	−0.5610	−1.6798	−0.5293	−0.4362	0.4452	0.5198 **	0.3925	0.6069
p-value	(0.565)	(0.203)	(0.747)	(0.760)	(0.221)	(0.017)	(0.726)	(0.567)
China's EPU1	−1.0672 **		0.5470		−0.3267		−0.1449	
p-value	(0.024)		(0.256)		(0.229)		(0.804)	
China's EPU2		−1.1352		0.9510 *		−0.8501 ***		−0.3043
p-value		(0.158)		(0.088)		(0.003)		(0.653)
Adjusted R-squared	0.943	0.921	0.926	0.941	0.969	0.988	0.951	0.945
Time Range	2003–2018		2003–2018		2003–2018		2003–2017	

*,**,*** indicate respectively statistical significance at the 10, 5, and 1 percent levels, respectively.

For the motive of natural resource seeking FDI, an abundance of natural resources in Cambodia is an important driver for outward investment by Chinese MNEs. From our Poisson count model, we also find evidence of strategic asset seeking FDI by Chinese MNEs in the case of Cambodia.

On the institutional dimension of political stability, we find evidence of significant positive coefficient for the case of Indonesia, Thailand, Singapore, and Vietnam. Thus, more political stability can attract more FDI inflows from Chinese MNEs to these CIPEC countries. In Section 4.1, we conduct a BRI case study on Thailand to further illustrate this finding.

On the institutional dimension of trade relationship, we find a significant positive coefficient for the variable of China's import share in the case of Malaysia from our Poisson count model analysis. This finding will be further justified in our BRI case study on Malaysia in Section 4.2.

Table 5. China's OFDI to the CIPEC – Poisson Count Model Results.

Dependent variable: the count of China's FDI projects to country *i*								
	Cambodia		Indonesia		Laos		Malaysia	
GDP growth	0.3756	−0.0004	0.3400	0.3602	0.2920	0.3480	0.1625	0.1894
p-value	(0.212)	(0.999)	(0.453)	(0.429)	(0.426)	(0.219)	(0.274)	(0.244)
GDP per person employed	14.7885	−3.0262	4.7692	10.1249 **	5.9608 *	8.4453 *	11.8606 *	22.6995 **
p-value	(0.279)	(0.716)	(0.243)	(0.037)	(0.098)	(0.052)	(0.091)	(0.031)
Raw Materials, Export Product Share	−0.0836	0.4592	0.0065	0.0416			−0.9241 ***	−0.3816
p-value	(0.906)	(0.537)	(0.952)	(0.696)			(0.003)	(0.382)
Capital Goods, Export Product Share	0.7400 *	0.7302	−0.3859	−0.3553			−0.2588 ***	−0.2145 **
p-value	(0.098)	(0.110)	(0.130)	(0.171)			(0.005)	(0.015)
China's Import Share	−69.9473	−14.0601	−1.0140	−0.0442	5.9365	6.9394	2.0145 **	2.0355 **
p-value	(0.298)	(0.798)	(0.392)	(0.970)	(0.775)	(0.705)	(0.028)	(0.016)
Political Stability in the CIPEC	−9.7132	1.8462	−0.6759	−1.4750	−0.7150	−1.7498	−3.5803 **	−4.9828 **
p-value	(0.284)	(0.765)	(0.419)	(0.119)	(0.517)	(0.198)	(0.042)	(0.015)
China's EPU1	3.7222 **		−0.0089		−0.3992		−0.3887	
p-value	(0.029)		(0.983)		(0.512)		(0.493)	
China's EPU2		2.1614		−1.0709 *		−0.9611		−1.8265
p-value		(0.229)		(0.073)		(0.231)		(0.111)
Pseudo R-squared	0.4277	0.3406	0.4421	0.4732	0.3903	0.4019	0.6376	0.6539
Time Range	2013–2016		2003–2018		2003–2018		2003–2018	
	Myanmar		Singapore		Thailand		Vietnam	
GDP growth	0.1044	0.0945	−0.1985 **	−0.1655 *	0.1523	0.2539 *	0.4354	0.6521
p-value	(0.677)	(0.699)	(0.030)	(0.066)	(0.268)	(0.101)	(0.361)	(0.138)
GDP per person employed	3.5005	2.0986	3.3792	3.0636	10.1071 *	14.1201 **	21.9046	8.8329
p-value	(0.181)	(0.438)	(0.325)	(0.479)	(0.100)	(0.022)	(0.105)	(0.414)
Raw Materials, Export Product Share			1.7650 *	1.1211	−0.8280	−1.1955	−0.0508	−0.0069
p-value			(0.101)	(0.437)	(0.178)	(0.113)	(0.674)	(0.946)
Capital Goods, Export Product Share			0.0118	0.0039	−0.5511	−1.0566 *	−0.1321 *	0.0060
p-value			(0.746)	(0.912)	(0.218)	(0.057)	(0.067)	(0.953)
China's Import Share	−1.5701	−0.7633	−1.1336	−1.1701	1.1982	0.3448	−2.6485 **	−2.3765 **
p-value	(0.427)	(0.704)	(0.224)	(0.208)	(0.518)	(0.797)	(0.024)	(0.015)
Political Stability in the CIPEC	0.7496	1.2102	3.6029 **	2.5955 *	0.1209	0.9318	4.5430 *	1.8015
p-value	(0.669)	(0.520)	(0.031)	(0.104)	(0.958)	(0.637)	(0.087)	(0.492)
China's EPU1	−0.0880		−0.7324		−0.8834		0.4204	
p-value	(0.914)		(0.133)		(0.428)		(0.643)	
China's EPU2		0.7468		−0.3577		−2.2389 *		2.5311 *
p-value		(0.534)		(0.597)		(0.061)		(0.079)
Pseudo R-squared	0.2099	0.2177	0.5558	0.5382	0.4265	0.4792	0.3394	0.3792
Time Range	2003–2018		2003–2018		2003–2018		2013–2017	

*,**,*** indicate respectively statistical significance at the 10, 5, and 1 percent levels, respectively.

With respect to economic policy uncertainty (EPU) in China, we find that if policy is more certain in China, then there will be more FDI flows to Myanmar, Thailand, and Indonesia; and if policy is more uncertain in China, then there will be more FDI flows to Singapore, Cambodia, and Vietnam.

3. China's infrastructure investment in the CIPEC

Both economic theories and empirical studies attest the importance of infrastructure, trade and investment for promoting economic development. Economists have long considered that infrastructure investment enhances economic productivity. See, for example, Aschauer (1989), Barro (1990). Many empirical studies have provided evidence to support the economic arguments. For

Table 6A. China's OFDI to the CIPEC – Regression Results Summary.

	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Singapore	Thailand	Vietnam
Market Seeking			(+)		(−)			
Efficiency Seeking		(+)	(+)	(+)	(+)	(+)	(+)	(+)
Natural Resource Seeking	(+)	(−)		(−)				
Strategic Asset Seeking		(−)					(−)	
China's Import Share						(−)		(−)
Political Stability in CIPEC		(+)						
China's EPU1					(−)			
	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Singapore	Thailand	Vietnam
Market Seeking			(+)				(+)	
Efficiency Seeking		(+)	(+)	(+)	(+)		(+)	(+)
Natural Resource Seeking				(−)			(−)	
Strategic Asset Seeking		(−)					(−)	
China's Import Share						(−)		
Political Stability in CIPEC		(+)					(+)	
China's EPU2						(+)	(−)	

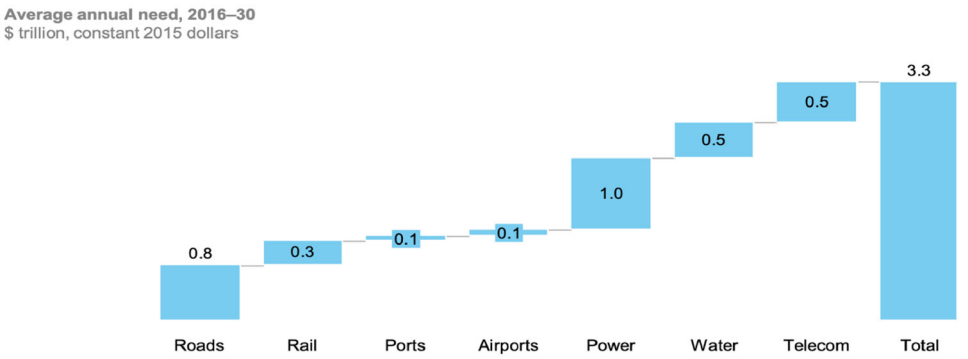
Table 6B. China's OFDI to the CIPEC – Poisson Count Model Results Summary.

	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Singapore	Thailand	Vietnam
Market Seeking						(−)		
Efficiency Seeking			(+)	(+)			(+)	
Natural Resource Seeking				(−)		(+)		
Strategic Asset Seeking	(+)			(−)				(−)
China's Import Share				(+)				(−)
Political Stability in CIPEC				(−)		(+)		(+)
China's EPU1	(+)							
	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Singapore	Thailand	Vietnam
Market Seeking						(−)	(+)	
Efficiency Seeking		(+)	(+)	(+)			(+)	
Natural Resource Seeking								
Strategic Asset Seeking				(−)			(−)	
China's Import Share				(+)				(−)
Political Stability in CIPEC				(−)		(+)		
China's EPU2		(−)					(−)	(+)

instance, 32 out of 39 empirical studies on OECD countries show a positive effect of infrastructure (Romp & de Haan, 2007), and 9 out of 12 studies on developing countries indicate a significant positive impact (Estache & Fay, 2007).

However, the world is facing prodigious gaps in infrastructure investment. Various estimates suggest that the world would need to increase its investment in infrastructure by about 60 percent by 2030 compared with the current level (Dobbs et al., 2013). Woetzel et al. (2016) estimate that the world needs to invest $3.3 trillion in economic infrastructure annually through 2030 in order to keep pace with projected economic growth (See Figure 3). Hence, infrastructure investment is the key.

Under the BRI framework, China is currently a global leader in the construction of transportation infrastructure. We collect Chinese OFDI data from the China Global Investment Tracker (CGIT) provided by the American Enterprise Institute (AEI), which covers China's global investment and construction. It includes the number of Chinese greed-field FDI projects as well as mergers and acquisitions (M&As) across energy, transportation, real estate, technology, and other sectors. In Figure 4, we count the number of China's OFDI projects to the CIPEC by sectors between 2005 and December 2020. Chinese OFDI are mainly attracted to energy and transport sectors in Cambodia; energy and metals sectors in Indonesia; energy sector in Laos; energy, real estate, and transport sectors in Malaysia; energy and transport sectors in Myanmar; real estate and transport sectors in Singapore; transport and energy sectors in Thailand; energy and transport sectors in Vietnam. We find that energy and transport are the two major sectors that attract China's OFDI to the CIPEC, the latter of which helps to bridge the gap in infrastructure investment in the region.



Source: Woetzel et al. (2016: Exhibit 3).

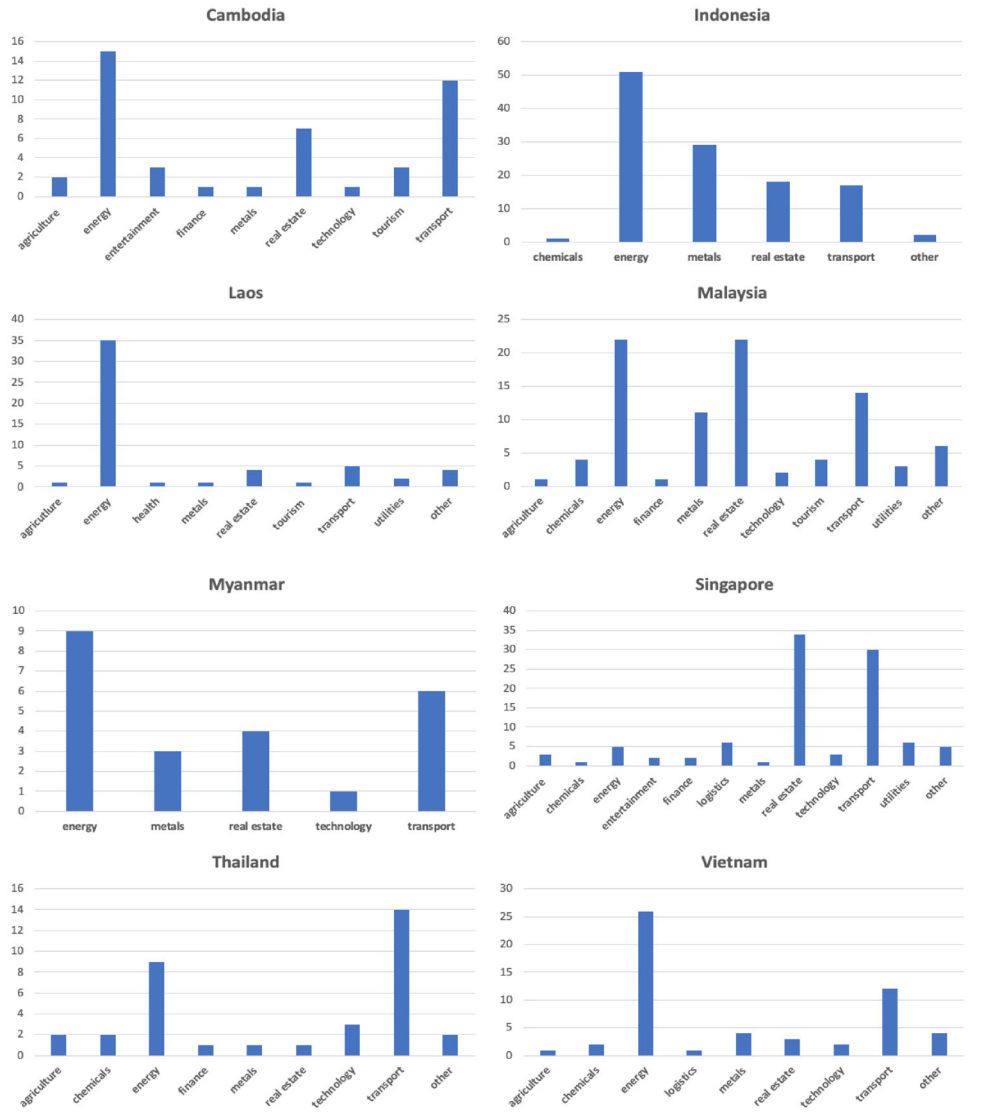
Figure 3. Global Infrastructure Gaps.
Source: Woetzel et al. (2016, Exhibit 3).

One of the main objectives of the BRI is to ease the bottlenecks for cross-border trade, especially to achieve a well-connected transport infrastructure with effective logistics services. Cross-border trade can be accelerated by reducing cross-border logistics friction (Lee & Shen, 2020). To evaluate the performance of CIPEC countries in trade logistics, we study the Logistics Performance Index (LPI) by the World Bank[7], which provides qualitative evaluation of a country in six areas by its trading partners, including (1) the efficiency of customs and border management clearance ("Customs"), (2) the quality of trade and transport infrastructure ("Infrastructure"), (3) the ease of arranging competitively priced shipments ("Ease of arranging shipments"), (4) the competence and quality of logistics services ("Quality of logistics services"), (5) the ability to track and trace consignments ("Tracking and tracing"), and (6) the frequency with which shipments reach consignees within scheduled or expected delivery times ("Timeliness"). Table 7 presents the data for the six dimensions of LPI for China and the eight CIPEC countries in 2018.

In Figure 5, we utilize the Logistics Performance Index (LPI) data in Table 7 and conduct correspondence analysis of logistics performance for China and the eight CIPEC countries in the year 2018. The interpretation of the correspondence analysis in Figure 5 is that given a row (country) and a column value (LPI category), for example, China (row) and infrastructure (column), the longer their distance to the origin, the stronger their association with other points (e.g. China and infrastructure) on the map. Moreover, the smaller the angle between the two points, the higher the correlation between the two. Hence, China performs well in infrastructure, Singapore performs well in customs, Indonesia performs well in international shipments, Vietnam performs well in logistics, and Laos performs well in tracking and tracing. For other CIPEC countries (Thailand, Malaysia, Cambodia, Myanmar), their comparative advantage in logistics is not revealed via the correspondence analysis. Thus, we need to resort to case-based analysis in Section 4.

4. Case studies: BRI infrastructure projects in the CIPEC

The BRI aims to promote the connectivity of Asian, European and African continents and their adjacent seas, by setting up all-dimensional and multi-tiered transport connectivity networks over land and sea. The connectivity projects of the BRI will help to tap market potential in the region, promote investment and consumption, and create demands and job opportunities.[8] In this section, we further examine China's infrastructure investment to the CIPEC by conducting case



Data Source: China Global Investment Tracker (CGIT).

Figure 4. China's OFDI projects in the CIPEC – by sectors, 2005-2020.
Data Source: China Global Investment Tracker (CGIT).

studies of BRI infrastructure projects in transportation construction. In our case studies, we examine two BRI capacity development projects in the CIPEC. The first BRI infrastructure investment program is the Thai Canal in Thailand, which is a "Belt" and "Road" project; and the second BRI project is the Kuantan Port in Malaysia, which is a "Road" project.

4.1. "Belt" and "Road" project: Thai Canal, Thailand

Thailand is a country in Southeast Asia, which is located at the center of the China-Indochina Peninsula. It is ranked as the 21st largest economy in the world by gross domestic product (GDP) on a purchasing power parity (PPP) basis, with a 2020 estimated GDP of US$1.261 trillion.[9]

Table 7. Logistics Performance Index (LPI) – China and the CIPEC, 2018.

Country	Customs	Infrastructure	International Shipments	Logistics Competence	Tracking & Tracing	Timeliness
China	3.29	3.75	3.54	3.59	3.65	3.84
Cambodia	2.37	2.14	2.79	2.41	2.52	3.16
Indonesia	2.67	2.90	3.23	3.10	3.30	3.67
Laos	2.61	2.44	2.72	2.65	2.91	2.84
Malaysia	2.90	3.15	3.35	3.30	3.15	3.46
Myanmar	2.17	1.99	2.20	2.28	2.20	2.91
Singapore	3.89	4.06	3.58	4.10	4.08	4.32
Thailand	3.14	3.14	3.46	3.41	3.47	3.81
Vietnam	2.95	3.01	3.16	3.40	3.45	3.67

Data Source: World Bank.

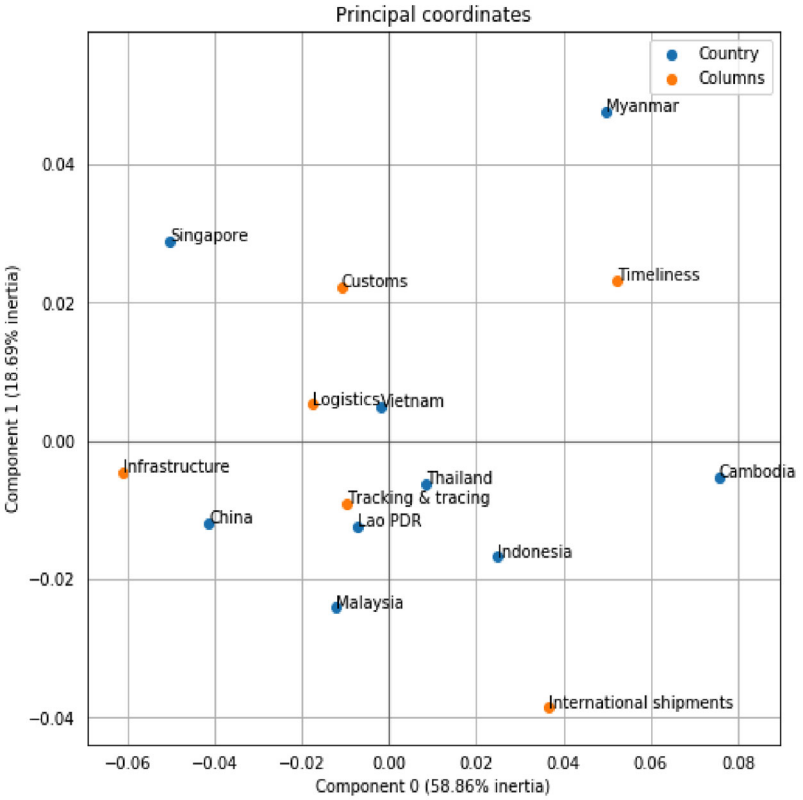


Figure 5. Correspondence Analysis of Logistics Performance – China and the CIPEC, 2018.

Thailand is the second-largest economy in Southeast Asia after Indonesia. It is foreseen to have the potential to be the hub that will link the countries both inside and outside the ASEAN region (Punyaratabandhu & Swaspitchayaskun, 2018). With its availability of workforce, raw materials, and convenient transportation, Thailand is a perfect base of trade and FDI. In terms of trade relationship, Thailand is China's third most important trade partner after Malaysia and Singapore, and China is the first trade partner to every ASEAN country, including Thailand (Punyaratabandhu & Swaspitchayaskun, 2018: p. 4). In terms of investment relationship, China's OFDI flows to Thailand increased from US$57 million in 2003 to US$1,372 million in 2019, with a OFDI stock of US$7,186 million at the end of 2019 (See Table 8).

By sector, transport is the major sector that attracts Chinese OFDI to Thailand (See Figure 4). The Thai Canal is a BRI project that is related to both the overland "Belt" (World Bank, 2019,

Table 8. China's OFDI in the CIPEC, 2003–2019, (in millions of USD).

	Flow																	Stock
Countries	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019
Cambodia	2	3	5	10	64	205	216	467	566	560	499	438	420	626	744	778	746	6,464
Indonesia	27	62	12	57	99	174	226	201	592	1,361	1,563	1,272	1,451	1,461	1,682	1,865	2,223	15,133
Laos	1	4	21	48	154	87	203	314	459	809	781	1,027	517	328	1,220	1,242	1,149	8,250
Malaysia	2	8	57	8	−33	34	54	164	95	199	616	521	489	1,830	1,722	1,663	1,110	7,924
Myanmar		4	12	13	92	233	377	876	218	749	475	343	332	288	428	−197	−42	4,134
Singapore	−3	48	20	132	398	1,551	1,414	1,119	3,269	1,519	2,033	2,814	10,452	3,172	6,320	6,411	4,826	52,637
Thailand	57	23	5	16	76	45	50	700	230	479	755	839	407	1,122	1,058	737	1,372	7,186
Vietnam	13	17	21	44	111	120	112	305	189	349	481	333	560	1,279	764	1,151	1,649	7,074

Data Source: China's MOFCOM (2019).

p. 139, project No. 64), and the maritime "Road" (World Bank, 2019, p. 140, project No. 88). This indicates the strategic importance of the Thai Canal, in terms of its location under the BRI framework. The Thai Canal is also known as "Kra Canal" or "Kra Isthmus Canal". This man-made waterway is a proposed route that would connect the Gulf of Thailand with the Andaman Sea across the Isthmus of Kra in southern Thailand (See Figure 6, for the location of the Thai Canal[10]). The proposed canal would cut across the Malay Peninsula, and allow for higher vessel utilization by reducing voyage distances by 1,200 km and voyage time by 2 to 5 days on the current journey via Singapore (Rahman et al., 2016). This waterway is estimated to become an alternative maritime transit route that would bypass the traditional route traveling through Singapore and the Strait of Malacca (Lee & Shen, 2020).

The idea of the Thai Canal has been revisited over the centuries. On 15 May 2015, a memorandum of understanding (MOU) was signed by the China-Thailand Kra Infrastructure Investment and Development Company in Guangzhou, China to advance the project of the Thai Canal.[11] However, this BRI project has stalled due to gridlock in Thai domestic politics. This is an illustration of our finding on the significance of political stability on China's OFDI to Thailand as in our empirical study in Section 2. Although Thailand has already signed cooperation with China in various projects in the development of transportation network, various projects have not progressed much (Punyaratabandhu & Swaspitchayaskun, 2021). In October 2020, the Thai Canal was back in spotlight, as Thailand's National Economic and Social Development Council was ordered by the premier to speed up public hearings and begin a new feasibility study on the scheme of the Thai Canal.[12] If the construction of the Thai Canal were to proceed ahead, it could become a navigational, trade and geopolitical game changer upon completion in Southeast Asia (Lam, 2018).

4.2. "Road" project: Kuantan Port, Malaysia

Malaysia is a country in Southeast Asia, which occupies parts of the Malay Peninsula and the island of Borneo. It is a relatively open state-oriented and newly industrialized market economy. Malaysia is ranked as the 29th largest economy in the world by GDP on a PPP basis, with a 2020 estimated GDP of US$0.9 trillion.[13] Based on a composite indicator in Chen (2018), Malaysia is one of the most supportive nations of the BRI in Southeast Asia. Since 2013, Malaysia has received substantial inflows of BRI-related funds for infrastructure, in particular, railways and ports (Hutchinson & Tham, 2020). Ports are central nodes along the maritime "Road" and can also act as intersections between the "Belt" and the "Road" (Brewster, 2017). The Kuantan Port is a BRI project along the 21st Century Maritime Silk Road (the "Road") (World Bank, 2019: p. 140, project No. 89). It is a federal multi-purpose port in the east coast region of Peninsular Malaysia. Connected to the major sea lanes of the shipping world, Kuantan Port servers primarily China, Indochina, Far East, and Pacific Rim[14] (See Figure 7, for the location of the Kuantan Port).

Figure 6. The Thai Canal.

Previously run by Kuantan Port Authority, the Kuantan Port has been privatized since 1998 and is currently operated by Kuantan Port Consortium Sdn. Bhd. (KPC). The KPC is jointly owned by China's Guangxi Beibu Gulf Holding Co. Ltd and IJM Corporation Berhad, which is a public listed company on Bursa Malaysia. So the KPC is a joint venture that links a large state-own enterprise (SOE) in China with a local player in Malaysia. As of 2015, the Chinese SOE invested 40% of the shares (Chin, 2020). The provincial government of Guangxi pursues the Beibu Gulf Economic Region program, which is an ambitious regional development plan that features stronger economic cooperation between Guangxi and Southeast Asia. Liu et al. (2020) review China's overseas investment in infrastructure and they find that the BRI is driven by a range of Chinese stakeholders that are situated at different scales, and Chinese SOEs at the province level are more motivated by economic incentives. This leads to the Guangxi region's interest in forging more ties with ASEAN and its interest in the Kuantan Port (Ngeow et al., 2019).

All Chinese investors embrace the 'Port-Park-City' (PPC) model that is pioneered by Shenzhen China (Liu et al., 2020). The concept of PPC has been applied in international port projects to develop industrial parks in port vicinity areas. Key economic industrial parks are used as cooperation platforms under the BRI.[15] The BRI project of Kuantan Port also applies the PPC concept, which is accompanied by the Malaysia-China Kuantan Industrial Park (MCKIP). Officially launched on 5 February 2013, the MCKIP is Malaysia's first national industrial park.[16] It is strategically located in the east coast economic region of Malaysia, which provides a gateway access to tremendous growth potential of ASEAN and worldwide markets. The Kuantan Port acts as the catalyst for the MCKIP, where both the port and industrial park will create the synergy and dynamic platform for the investors to expand their business to other regions.[17] This is an example of the motivation type of strategic asset seeking FDI that contributes to capability-building process of the investing Chinese MNE, as argued in Meyer (2015). As of 2019, the MCKIP has attracted 10 committed projects with a total investment of almost RM18 billion from China and Malaysia, and it is expected to create 20,000 jobs for the locals in the area (Tham & Negara, 2020).

Moreover, the MCKIP is the sister park of China-Malaysia Qinzhou Industrial Park (CMQIP) in China, which is located close to Guangxi Qinzhou Free Trade Port Area and the state-level Qinzhou Port Economic and Technological Development Zone. The CMQIP is another flagship project of investment cooperation between China and Malaysia.[18] The MCKIP and the CMQIP

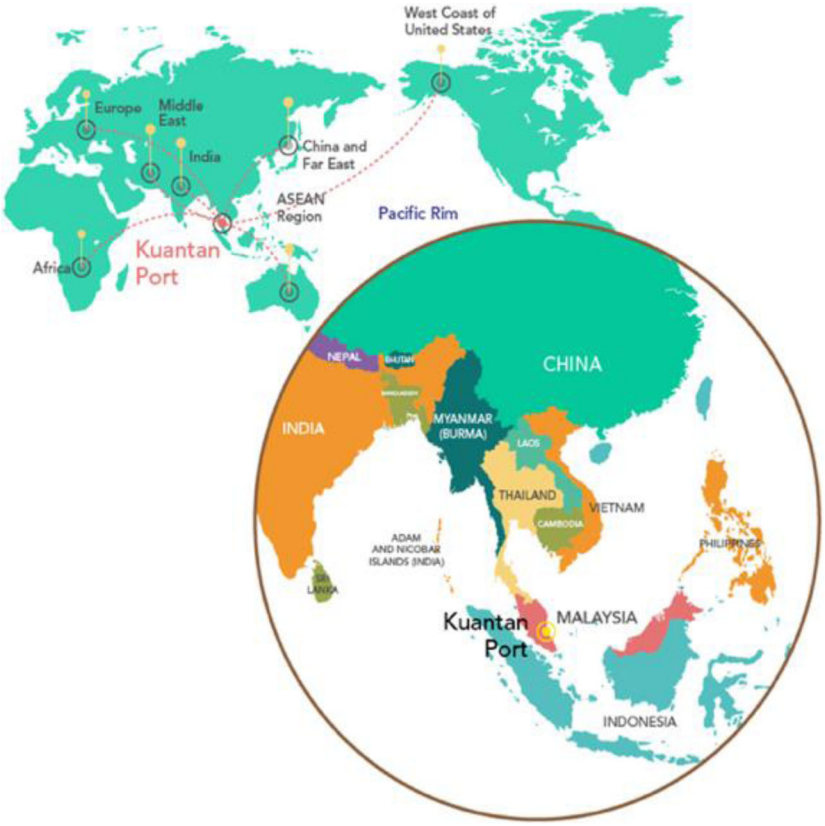


Figure 7. The Kuantan Port, Malaysia.

represent a new model of "two countries, two parks" for international cooperation on industrial parks, which show the potential that local firms in the MCKIP Malaysia may develop certain capabilities that will make them important suppliers to large MNEs in the CMQIP, as suggested in Piperopoulos et al. (2018). This is consistent with our empirical result from the Poisson count model analysis in Section 2 where we find a significant positive coefficient for the variable of China's import share as a measure of institutional relationship between China and Malaysia. Going forward, the MCKIP will require more investment, including FDI, in the east coast region to develop more manufacturing activities in order to generate additional demand for port services (Tham, 2019). With more shipping demand, the Kuantan Port will promote economic growth through the integrated development of the ports, parks, and cities (Huo et al., 2019).

5. Conclusion

Against the backdrop of the Belt and Road Initiative (BRI), our objective in this paper is to examine the macroeconomic implication of the BRI by studying the case of the China-Indochina Peninsula Economic Corridor (CIPEC). To that end, we first examine China's outward foreign direct investment (OFDI) to the CIPEC, and we find that the motives of Chinese investment in the CIPEC differ according to countries. The motivation that is common across most of the CIPEC countries is efficiency seeking, not market seeking. These CIPEC countries all belong to the ASEAN Economic Community (AEC). One of the primary objectives of the AEC is to encourage skilled labor mobility to address shortages and boost productivity (Gentile, 2019). This

calls for the need of transport connectivity and infrastructure investment in the region, which is consistent with our finding in Figure 4 that transport is one major sector that attracts China's OFDI to the CIPEC, as it helps to bridge the gap in infrastructure investment in the region.

We then conduct case studies of BRI infrastructure investment projects in the CIPEC. The first BRI investment project is the Thai Canal in Thailand, which is a "Belt" and "Road" project. This BRI project has stalled due to gridlock in Thai domestic politics. It is an illustration of our finding on the significance of political stability on China's OFDI to Thailand as in our empirical study in Section 2. Although Thailand has already signed cooperation with China in various projects in the development of transportation network under the BRI framework, various projects have not progressed much (Punyaratabandhu & Swaspitchayaskun, 2021). Hence, domestic politics, political stability, and policy uncertainty pose challenge on the realization of economic development and regional connectivity under the conceptual framework of China's BRI strategy.

The second BRI infrastructure investment project is the Kuantan Port in Malaysia, which is a "Road" project. As one of the most supportive nations of the BRI in Southeast Asia, Malaysia has received substantial inflows of BRI-related funds for infrastructure since 2013, in particular, railways and ports (Hutchinson & Tham, 2020). Ports are central nodes along the maritime "Road" and can also act as intersections between the "Belt" and the "Road" (Brewster, 2017). All Chinese investors embrace the 'Port-Park-City' (PPC) model (Liu et al., 2020). The BRI project of Kuantan Port also applies the PPC concept, which is accompanied by the Malaysia-China Kuantan Industrial Park (MCKIP). This is an illustration of our empirical result from the Poisson count model analysis in Section 2 where we find a significant positive coefficient for the variable of China's import share as a measure of institutional relationship between China and Malaysia. With the integrated development of the ports, parks, and cities, the Kuantan Port will promote economic development and improve regional connectivity.

The findings from our empirical study and case studies in this paper draw implication for policymakers in BRI nations who intend to attract China's infrastructure investment in order to promote economic development and improve regional connectvity. The lessons learned and experience gained from these BRI projects hightlight the importance of institutional relationship, domestic politics, political stability, and policy uncertainty, which in turn shed light on future infrastructure investment projects between China and host countries under the BRI framework.

Notes

1. https://www.chinadaily.com.cn/china/2013xivisitcenterasia/2013-09/08/content_16952228.htm
2. https://www.chinadaily.com.cn/china/2013xiapec/2013-10/02/content_17007915_2.htm
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