

CHAPTER II

CHINA'S ECONOMIC DEVELOPMENT AND CHINA'S ECONOMIC EXPANSION IN SOUTHEAST ASIA

This chapter will explain about the history of economic development started from the era of Mao Zedong, when China's economy mainly affected by the tendency of China that close itself from outside world, and this era showed that China hold the strong ideology of Socialism through the policy of Cultural Revolution. In the era of Deng Xiaoping, China started to normalize its relations with U.S. and implement what is so-called market-socialism. The era of Mao and Deng has going through many reformation and has shaped the modern economy of China: the combination of an economy which is driven by market (capitalism) and the state with strong authoritarian system. The capitalism in China has driven China to open its economy to outside world. There are many policies made by China to welcome the modern era such as joining inter-government institutions, making trade bloc, and investment on infrastructure. Those also used by China to expand its economy overseas, including the Southeast Asia region.

A. China's Economic Development

China is a big nation since ancient era. Until now, China is country with the biggest population, which holds the one fifth of all world population. Becoming the fastest economic growth does not mean China's history far from having turbulent and problems. China therefore experienced some reformation and

changing policy, and thus China's economic was strongly influenced with the policy produced by the government or by the leader who is in charge.

In the ancient era, China was led by the dynasty. Until in the 1800s China still had a powerful historical and cultural legacy, which was far from democracy and freedom. There were some speculation about the China's GDP for the period before 1912. The speculation came because there was no reliable basic data on indicators of agricultural productivity or population so that the GDP number produced is not in exact amount. Between 1820 and 1870, China's GDP per capita was only 0.25 per cent per year. Between 1870 and 1914, the GDP per capita raising up to 0.3 per cent per year(Bramall, 2009). In the 1912, the last imperial dynasty, the Qing, had collapse and Sun Yatsen was proclaimed as the President of Republic of China. Sun Yatsen was influenced by Christianity and Western political thought. His 'Three People's Principles' consisted of nationalism, people's right, and people's livelihood. He also formed the Guomindang, or so-called Nationalist Party (GMD). Not so long after the pointless warlords as the aftermath of forming the Nationalist Party, in the 1921, the Chinese Communist Party (CCP) started to rise. The soared member of CCP has made the Party-led committee began to challenge GMD authority. In this era, influenced by several reforms, the GDP was only raising in the point of 0.2 per cent per year(Bramall, 2009).

The death of Sun Yatsen lead to the coup by Chiang Kai-shek, which at that time had the power as the head of the Huangpu Military School and the commander of the National Revolutionary Army (NRA). For a decade from 1927,

Chiang Kai-shek Nationalist government ruled China. This Nationalist period in this government was somehow a failure. The new government had support from the Western, resulting to the unequal treaties, failed to re-unify China, and worst, the fiscal shortfall and corruption by GMD has made the government unpopular(Bramall, 2009).

This condition triggered China's Communist to pursue their path to power. This also marked the rise of Mao Zedong leadership as China came to the communist era. In October, 1, 1949, the formation of People's Republic of China has proclaimed and Mao Zedong became the President. The competence government led China to better economic condition, as it economy soon being recovered. Nevertheless, after the death of Mao, China started to return to right, and it became the first path of China's modern economy. The China's modern economy continued to experience series of reforms until it transformed the economic system into a unique hybrid of state control and the free-wheeling of capitalism(Hunter & Sexton, 1999).

1. The Era of Mao Zedong (1949-1978)

Mao Zedong was the founder of People's Republic of China. Under his leadership, China became communist nation that rejected western values. The economic development in Mao's era was so much reflected as socialism, implemented in the Great Leap Forward policy, which somehow brought negative impact to China's economy itself. The late era of Mao was the attempt to reach modern Chinese society by cultural means and also the beginning of land reform which used by the state to consolidate power.

a) Early Stage of Mao Era (1949-1963)

This stage started when the Chinese civil war was brought to an end in 1949 by the success of the People Liberation Army (PLA). This army was led by Lin Biao. There were several regions fell to the hand of communist as the People Liberation Army had enough capacity. The region such as Beijing had been surrendered in January 1949. Chengdu fell in December 1949 and Hanan Island recaptured in April 1950. The Chinese Communist Party (CCP) had to eliminate any imperial presence within China, although they want to still let them had its own internal colonies such as in Tibet, Qianghai, Xinjiang, and Inner Mongolia, which intended to be preserved. They even needed to conquer Hong Kong, Macau, and Taiwan to make sure that Chinese empire has been completed. Those actions culminated in the declaration of the People's Republic on October 1, 1949(Hunter & Sexton, 1999).

The triumph of the military was solving one problem, but only the earliest one. The true challenge that should be faced by the CCP was how to develop the economy. The CCP, somehow, did not have the capacity in several respects. Many of the veteran cadres had perished in the struggle of revolutionary, and those who remained only had few experience in economic management or in the government activity. The region where the Party's held power had only little population (on the south-western China) and was weak compared to the north and the north-west region. This condition was somehow led to province separatism. Another burden, the problem of China over United States enmity, made China had limits on opportunities for foreign trade(Hunter & Sexton, 1999).

Nevertheless, the position of CCP in the year of 1949 was considered to hold great power. The party had won the support from China's middle class and the youth from the revolutionary. The popularity of the party has made the industrialist saw them as a hope for ending the incompetence and massive corruption by Guomindang (GMD). It was also supported by the CCP leaders that several of them had some experience of economic management by the time they spent in the Communist base area during 1940s. They also could turn for advice to the Soviet Union, which at that time could be available as China had close alliance with them(Hunter & Sexton, 1999).

In building new China using newly won power, the CCP developing the Chinese economic in the early 1950s through a Marxian lens. Society, or what Marx called the social formation, changed over time. All economies would pass from one mode to another over time. Each of these modes of production was characterized by the specific forces of production and the relations of production. The modes can be categorized by these phase; slavery was the starting-point, then feudalism, capitalism, and socialism. All modes are in its place, with one should precede the other in sequence, with socialism as the end of the process. The socialism is the goal and become the 'end of history' (Bramall, 2009).

The 1949 challenge that should be faced by China was deciding the most appropriate development strategy. China's condition at that time was the form of uncompleted capitalism. Moreover, there are several conditions that indicated that China still had its feudal era. The Chinese agriculture was unsophisticated and in the mid-1950s there still slavery persisted in parts of western Sichuan. However,

the industrial sector which quite modern, in Shanghai and in Manchuria, was capitalist. When China still experienced its capitalist and feudal elements, the conclusion we can draw is that China needed to modernize its technology, expand its capitalist stock, and create a free labor market. Then, it might complete the process of China from capitalism to socialism(Bramall, 2009).

The idea to complete the process of capitalism in order to make transition to the socialism was not quite well accepted for Chinese leadership. In Republican era, capitalism was seen as a failure for China. Although it can boost economic growth, its process would contradict and interfering the entire CCP project. The land reform and public ownership would have swept the CCP from power before it could accelerate the growth. The Marx idea in which capitalism should precede socialism was the reason the CCP reluctant to accept(Bramall, 2009).

The answer for Chinese economic was the New Economic Policy (NEP) of Soviet model of 1921 until 1928. China economic condition in 1950s was best served by copying the Soviet NEP. The USSR had seen better in generate the savings needed to finance the level of investment required to accelerate the growth, seeing the GDP of Soviet had doubled the Chinese. Indeed from this, China needed a longer period of gradual transition and that the CCP leader was mindful to the aftermath of the decision which in Soviet, has led to the great famine(Bramall, 2009).

The CCP started the gradual transition from industrial development. China is in contrast with Britain and Japan; which first develop its light industry just so the heavy industry will follow later. China followed the Soviet approach by giving

the early priority to the heavy industry. Chinese industrial production was underdeveloped in 1950s. There were other two policies made by China in this process. First was a definite commitment to the nationalization of private enterprises, which consider that state enterprises would invest more than those owned by private sector. Second, there was an attempt to shift the geography of China industrial production towards the interior, which originally on the coast. The industrial development policy was led to significant increases in production. The gross value-added in the industrial sector grew by around 19 per cent between 1952 and 1957. The output of production goods like steel, coal, and cement grew overwhelmingly, as well as the consumer goods like cigarettes, cloth, and sugar(Bramall, 2009).

In the first Five Year Plan during 1953 until 1957, the vision of economic development was much more in terms of agriculture, rather than only on industrial. Before 1949, both the Nationalist and CCP had agreed on the importance of state ownership for the key industries. The CCP somehow saw the redistribution of land ownership as the necessary step to abolish feudal exploitation, aiming the egalitarian distribution of land. It has started in 1947 and has extended to the whole China in 1953, which giving much growth rate rising up to 0.8 per cent(Ghosh, 1979).

In the early stage of Mao Era, the pattern of China's trade was mainly influenced by its poor relations with the United States, although China still had close relationship with the Soviet Union. Close relations with the Soviet Union was the only hope for Chinese trade in the 1950s; the imports from the USSR

contributed 65 per cent of all imports, they even had a one-year trade agreement, a USD300 million loan plus USD130 million (which of course need to be repaid), and the Soviet Union agreed to build 156 industrial projects(Bramall, 2009).

However, the early 1950s was not a successful route to the prosperity. The radical development strategy was marked on this year; as it resulted the establishment of producer cooperatives in Chinese agriculture and the effort of nationalize the remnants of private industry. Thus, lead China to the disastrous famine in the late 1950s which become the greatest failure of the Maoist era (Bramall, 2009).

b) Maoist Development Strategy in the Late Maoism Era (1963-1978)

The turning-point came when 1963 marked as the end of the Great Famine. This stage marked the turning-point of Mao's approach to economic development, as he launched the Socialist Education Movement (SEM) in the same year. Mao really wanted to make attempt to transform Chinese society and its economy by means of cultural change. The SEM then evolved into new policies which far known as Cultural Revolution of 1966-1968(Li X. , 2001).

The phase of 1963 until 1966 started with establishment of SEM and the beginning of the Third Front Movement. The SEM aimed to rid the nepotism and corruption in the countryside, as well as to put an end to the re-emergence of private farming, business, and commerce which occurred as the aftermath of the great famine, while the Third Front movement was to begin massive industrial development, by having an investment and projects on technology, basic

industries, transportation, and infrastructure. After 1966, as the culmination of previous events, Cultural Revolution era and the mass mobilization of Red Guard Movement was newly established by Mao to restructure the CCP itself(Li X. , 2001).

The Cultural Revolution phase ended in 1968 and the period of two years was the most radical period in policy terms. This program somehow seen as the damage to the Chinese society and the economy as well, however the program showed us that this was the first and foremost program of rural economic development which has been driven by ideological and cultural change. According to Mao, to only way to achieve economic modernization is by cultural and ideological transformation, which in this case was Cultural Revolution itself (Li X. , 2001).

After the death of Mao in 1976, Chinese was under Hua Guofeng leadership until 1978. He was Mao's choice to be the successor. The years of Hua were regarded as the continuation of Mao's strategy in the late era. It was formalized in the Ten Year Plan of Hua, emphasizing petroleum and machinery imports, centered 120 industrial projects, aimed to 'catching America and surpassing Britain'. Yet, the data from foreign trade only showed that China's GDP stayed between 4 and 5 per cent. In practice, the Ten Year Plan of Hua was never fully implemented due to the growing political ascendancy of Deng Xiaoping(Bramall, 2009).

2. The era of Deng Xiaoping (1978-1996)

During the transition, Deng's position was weak. Although he had been appointed as Vice Premier, he was being accused for being ignorant towards Marxism-Leninism and being critical to the Cultural Revolution, which it seems like Mao's greatest achievement. The ideological climate somehow turned Deng position into favor. Deng's opportunity to seek for repudiation supported by the publication of '*Practice is the Sole Criterion for Truth*' which printed also in several influential newspaper such as *GuangmingRibao* and *RenminRibao* (People's Daily). The article and the PLA uniting behind it was the support for Deng, and his seizure of power was complete (Bramall, 2009).

Deng's seizure of power has far known as new era in Chinese development. The late era of Mao's economic system were abandoned. China was explicitly moved into the direction of creating a market-oriented economy based on private ownership but under an authoritarian state.

In the practice, there was no attempt at privatization, instead there was allowance to set-up the new non-state firms. The alteration of price by the state was reflecting the national market condition. The experiment to bring China into more market-oriented has become the most successful way, and that could lead into more radical policy implementation in the late era of Deng. The policy is recognized as nothing less than some form of market socialism, which in this case was characterized by the liberalization and the minimal effort of state to occupy market. The beginning of market socialism marked by the agricultural decollectivization, industrial liberalization that comes more further, and the

market-based price determination which reflects the minimum involvement of the state in market(Shleifer & Vishny, 1994).

For more specific, China's economics in the era of Deng Xiaoping was going through several policies. Before the market socialism begun, the policy-making was focused on the readjustment. The readjustment took place in the years of 1978 to 1982. The readjustment aimed to accelerate the growth rate through various program: changing price structure, changing the structure of ownership, and establishing Special Economic Zones (SEZs)(Bramall, 2009).

The phase of readjustment was only the early transition towards market socialism. The policies came after 1982 was aimed to combine a market economy with socialism. The policy-making was derived from a number of Deng's statements and speeches which stated that he wanted China to open to outside world, combine a planned economy with a market economy, and began the structural reforms with no intention to counter the principle of socialism. The changing policy in this phase was including the agricultural reform and the removal of price controls. However, other changes has occurred: China has increasingly being more open to the foreign trade, controls over private industry are getting relaxed, and China try to improve the performance of urban industry(Bramall, 2009).

When Deng's era entered the year of 1990s, the economic policies were preferred to the acceleration of the pace of economic growth and continue the marketization process. Thus, China was focused on the rapid opening-up of its

economy towards foreign trade and investment, and continued to enhance the industrial sector(Bramall, 2009).

a) Foreign Trade and Investment

The most imperceptibly feature of Chinese economic development in the era of Deng Xiaoping was the pace of People's Republic in being open up towards foreign trade. For this, the country's contributes on the share of world exports of manufactures increased from 0.8 per cent to 8.3 per cent between 1980 and 2004, and continue to increase until this decade. China maintaining its balance of payments by being a big importer of fuels and raw materials from Australia, Africa, and Latin America and assembles into manufactures products for export. The foreign trade and investment was believed as the factors that drive Chinese economic growth(Bramall, 2009).

The foreign trade activity in China started in 1971. The main event happened was the Richard Nixon's decision to normalize United States relation with China. From this, the US policy of containment was retreated as well as ending the ban on non-strategic US exports to China. The visit of Nixon in 1972 was pretty much improving US-Sino relations. However, thing that must be noted was the normalization of relations between Japan and China which no other driven by the events in 1972. The expansion of foreign trade between Japan and China became the most important thing because it led to the mutually beneficial trade. Japan, which reflected from its policy, wanted the access to China's natural resources (oil), while China could get more advanced technology which needed the most. Before Deng's era, the principle aimed from the policies was to improve the

relations of China towards Japan and the West by importing many advanced technology and equipment. The expansion of import of course supported by the development of Daqing oilfield and the rise of world oil price, therefore China's oil export was increase dramatically(Watson Institute, 2001).

Chinese policy in 1970s was showing that China was ready to engage with the world economy which more to realism rather than under the ideological only. However, Mao's death in 1996 had been accelerating the integration of China towards outside world and expanding trading possibilities. It was also generated by the policy of the Foreign Leap Forward by Hua Guofeng in the 1976-8 back then.

Foreign trade in Deng's era was far more expanded. The policy of opening up to the outside world resulted to growing value of imports by 51 per cent only in 1978. This event however was the effect of the restoration of China and US diplomatic relations in 1979, which opening a way to open for wider expansion of trade for China. In 1979 also, China was showing the willingness to accept foreign direct investment. This was marked by the establishment of Special Economic Zones for several regions, such as Bao'an, Zhihai, Shantou, Xiamen, etc. The chosen region then implement the characteristic of free trade zones such as having low rates of taxation and less bureaucratic procedures to encourage the technology transfer. The policies which designed to attract FDI were also implemented, as the FDI would also help to promote the export expansion (Bramall, 2009).

The policy of opening up continued in the 1980s. There were fourteen coastal cities opening up to the FDI which as well increased the number of SEZs. After 1992, the engagement of China towards world economy had increased further. There were more regions released to open to foreign direct investment. For China, expanding the zones, which at first only enjoyed by the coastal city, will also expand the flow of the FDI (in terms of employment and technology).

b) Industrial Development

The industrial sector in the Mao's era was weak. The reason can be concluded that at that time China tends to focus on defense, however, the improvement of China-US relations had ended the obstacle. Therefore, the Party currently should try to find a policy that appropriate to welcome the economic era of peaceful time. The effort to resolve China's weakness in the industrial sector were continuing the expansion of industrial production in rural areas and overcoming industrial inefficiency.

The planners seen that the rural industry must be the biggest factor in driven the growth of industrial, therefore the focus should be placed on the township and village enterprises (TVEs). The restructure process then needed as industrialization in the rural was much of state-driven process rather than the attempts to create private property. The restructure process aimed to close any agricultural TVEs and transfer their assets on the enterprises to household (which this is also part of decollectivization). The restructure process in the sector was a way to overcome inefficient and to create a foundation for expanding the industrial phase, which took place in 1980s. After the restructure had completed,

the industrial growth was re-launched in a bigger intention. As the results, industrial TVEs output were soared, even more impressive is the growth of the industrial TVEs which reaching 78.6 million in the 1996 (which is multiple higher than in the 1978)(Bramall, 2009).

The restructuring of state-owned enterprise was also hoped to resolve the weakness of Chinese industrialization. The Party ensuring that price was set in close approximation to marginal cost, and thus making the SOEs performance to be more transparent. The Party was hoping much upon the liberalization; removing barriers for private or foreign companies to enter, and hope that it could create competition.

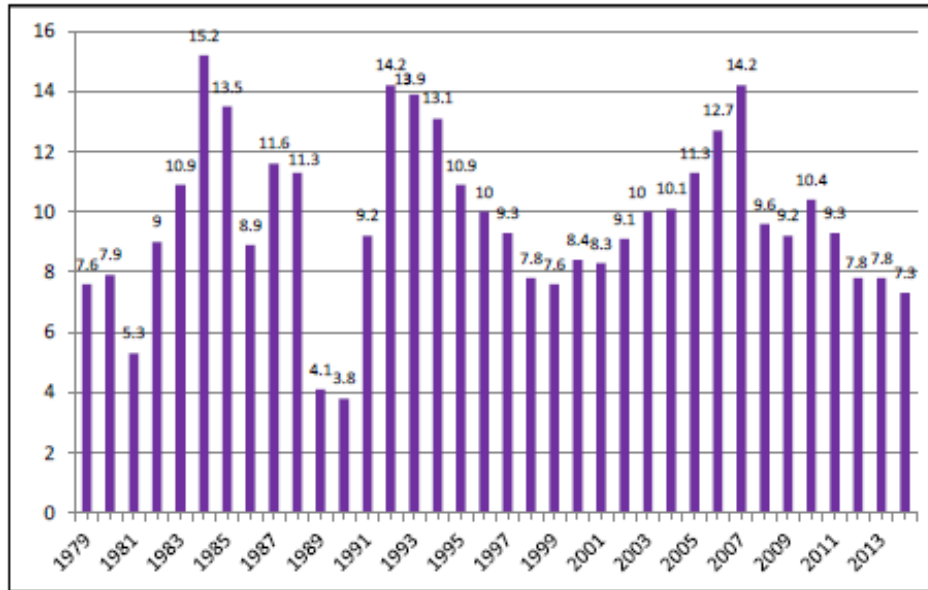
The various policies applied to improve SOEs performance were: (1) structural adjustment; the state intended to shift the investment to the more dynamics sectors such as light industry, (2) price reform and liberalization; price setting become more transparent and intensify the competition to encourage innovation and productivity through liberalization, (3) governance reform; the experts take place in the decision-making rather than the Party. As the results of the policy towards industrialization, large number of jobs opportunity were increased, China became more industrialized as seen by 1996, and China also ensured the dramatic increase in terms of GDP per capita(Bramall, 2009).

3. China Economic Development in Modern Era

The death of Deng Xiaoping in 1997, however, has impacted on how China will shape its economy in the future. In the late 1990s, China was likely

headed to the purpose of transition toward capitalist and abandoned the market socialism in Deng's era. As an alternative, China then saw that neauthoritarianism was compatible to change market socialism. Thus, a combination of an economy which driven by market and the state with strong authoritarian system will facilitate China to reach modernity. The conclusion can be drawn by looking at Chinese history where the market-led system has brought China into rapid growth and the Tiananmen incident was a reflection that only strong state can stood over rebellion. China has gone through a lot of policy reforms, even in the modern era, China continue to upgrade its policy to adapt the international arena. It has escorting China into major global economic power, the world biggest manufacturer, and the world largest destination for FDI inflows(Bramall, 2009).

Table 1. Chinese Real GDP Growth from 1979 to 2014



Accessed from report by Congressional Research Service in “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States”, year 2015

The real GDP showed in the table was a reflection of the rapid growth of Chinese economy up until 2014. The growth of GDP were not under 7 per cent except for the year 1989 and 1990 when the Tiananmen Square massacre occurred in which it was threaten the political stability. Whereas, the significant decrease in 2008 was the impact of the global economic crisis. The economist somehow said that China’s GDP will keep declining until 2020. However, China itself has preparing some policy to anticipate future economic turbulence(Morrison, 2015).

B. Factors that Stimulates China’s Fast Growing Economy in Modern Era

Although in the era of Deng Xiaoping China’s economy was rising dramatically, the more stable economic condition was started in the modern era.

When China decided to leave the market socialism system, China was in the peak of economic growth. The trade was flowed freely and the biggest amount of foreign direct investment was come into China, boosting the development domestic infrastructure. There are several factors that driving the growth of China's economy, as China started to be more open towards the outside world.

4. Opening Ways toward Modernity

For China, a path to modernity could be achieved by leaving the market socialism. The neoauthoritarian system was applied to create strong state and the transition to international capitalism was begun. The new policy marked with three steps to stimulate Chinese into modernity: First, China accession into World Trade Organization (WTO); second, the program of industrial privatization, and third, the program on the internal labor migration.

With the WTO accession, China has avowedly showing its transition into capitalism. Before 1996, China's policy on trade was focusing on expanding exports while maintaining high tariffs on import. However, the path and process on policy-making has changed China's focus into the creation of free-trade economy and led China to WTO accession. The rational reason for being membership was to undermine the domestic interest group that joining the WTO will serve to non-tariffs barrier. Therefore, they, especially the manufacturing sectors, would be exposed and forced into proper competition. The competition itself would trigger the innovation and growth of productivity. It also can reduce subsidies, accelerate restructuring, and expose the SOEs to be able to compete with domestic private sector. As the results, it can be seen from Chinese GDP

which rising dramatically in the year after 2001 up until 2007 (at least before the global economics crisis happened in 2008 and affected Chinese GDP). However, WTO accession was the most significant steps of China in entering world economy and reflecting its will towards capitalism(Morrison, 2015).

5. Bilateral and Regional Free Trade Agreement

The Free Trade Agreements (FTAs) was the steps China's take to further its opening up policy towards world economy. It became a new way for China in making integration and strong cooperation towards other countries economy. The agreements also concluded the agreement on investment and development. The FTAs are much beneficial and flexible as it can regulate less country and smaller scope of region rather than the WTO, so it will be easier to reach the agreements.

Nowadays, China has been making a number of bilateral and regional FTAs with: ASEAN, Australia, Chile, Costa Rica, Hong Kong, Iceland, Macau, New Zealand, Pakistan, Peru, Singapore, and Switzerland(Morrison, 2015). China has also had the agreement equivalent with FTAs towards Taiwan named Economic Cooperation Framework Agreement (ECFA). There were also some countries and regions that in the phase of negotiating with China such as: Arab States (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, and Bahrain), Norway, African Union (South Africa, Botswana, Lesotho, Namibia, and Swaziland), Sri Lanka, Japan, and South Korea. China also joined in the Regional Comprehensive Economic Partnership (RCEP) which would become the largest free trade region with other member such as ASEAN, Japan, South Korea, Australia, and New Zealand. Furthermore, China has renewed the effort to

achieve the Free Trade Area of Asia-Pacific (FTAAP) and the interest to join the Trans-Pacific Partnership (TPP)(Morrison, 2015).

6. Investment on Infrastructure

Infrastructure is one of the most important factors to support the economic development. Direct investment towards infrastructure can create several conditions which also have direct impacts on economic: (1) it can be the production facilities and stimulates economic activities, (2) it can reduce the cost of transaction and trade as well as improving competitiveness, (3) it can create employment opportunities for the poor. When the infrastructure does not being developed properly, the development of economy will be hampered(Sahoo, Dash, & Nataraj, 2010).

China has realized the importance of the infrastructure to sustain its growing economy. For China, the constraints in infrastructure have been overheating its economic in recent years. Therefore in 2012, China has spent about 50 per cent of its GDP on the investment towards roads, bridges, trains, ports, technology, factories and office buildings (China Mike, 2008). It is much bigger than Japan and South Korea. In a matter of railroads and airports, China has the fastest and biggest development. In railroads sector, according to data of World Bank, China has 66,989 kilometers long of railway route available for train services. In high-speed rail, China has become the most ambitious country to take programs resulted large network of railway which has nearly 8,400 kilometers long only in the 2011(The Economist, 2011). In airport sector,

China is planning on building new 97 airports in twelve years and will become the largest airliner market(China Mike, 2008).

C. China's Economic Expansion in Southeast Asia

As the fastest growing economy, China now has the capability to expand its economy. Expanding its economy means that China planned to maintain its growing economy, spreading influence, and wants to contribute more in the global economy and development. The ways of China expanding its economy can be seen by its economic policies such as joining the inter-state government institutions, making trade-bloc and investment on infrastructure. In the inter-state government institutions, China policy reflected by WTO accession. The trade-bloc policy was also realized by many free trade agreements whether bilateral or multilateral. However, the investment on infrastructure considered new to China.

After the success in developing the infrastructure in domestic, China began to spread its capability on infrastructure to the outside world. As part of the economy, sending infrastructure overseas hoped to stimulate China's economy as well as the economy in the targeted countries that will received the investment. For this, China has prepared the three policy banks: China Development Bank (CDB), the China Eximbank and the Agricultural Development Bank of China (ADBC). Those three policy banks intended to finance economic development and state-investment project either domestic or overseas. The CDB was providing the medium-term to long-term projects that in line with China's national economic strategy including infrastructure overseas. It was issued over USD 100 billion in loans and financing numerous mega projects. In domestic, CDB has

supported the projects of Three Gorges Dam, South-North Water Transfer Project, including projects of power grid, road, and high-speed rail. In overseas, CDB has supported project of gas pipeline in Myanmar, the VungAng coal power plan in Vietnam, and Stung Atai hydropower dam in Cambodia. Meanwhile, the China Eximbank is more heavily involved in overseas financing overseas projects. It becomes the top founder for China-ASEAN Investment Cooperation. It was also involved in China's railway investment and has signed agreement with China Railway Cooperation (CRC) to support overseas expansion through railway(Inclusive Development International, 2016).

The Southeast Asia region, however, was the strategic importance for China whether the economic potential or its geographical proximity. China's plan to expand its economy would obviously targeting Southeast Asia countries. Moreover, China should bring good influence in the region due to the heat coming from South China Sea issue that involved several countries such as Philippines, Malaysia, and Vietnam. The policy used by China in order to be able to enter Southeast Asia first was joining the inter-state government dialogue which is ASEAN Regional Forum (ARF). Through the ARF, the bilateral approach would be much easier. Then, beside bilateral agreement in economic, the China-ASEAN Free Trade Agreement (CAFTA) has facilitated China to create biggest trade-bloc in the world in terms of populations and the GDP(Cordenillo, 2005).

China's economic expansion, or known as the going-out strategy, has focused heavily on infrastructure investment and has placed its investment mainly in Southeast Asia. The reason was obvious: the Southeast Asia region requires USD

60 billion annually in the infrastructure investment such as power, water, road, rail, and other major infrastructure, the World Bank could only provide USD 24 billion annually while Asian Development Bank's annually only USD 13 billion to the infrastructure projects in the Southeast Asia(Inclusive Development International, 2016).

When entering Southeast Asia, China seems need to do more efforts. In the infrastructure sector, China is not the only investor that coming to Southeast Asia. Moreover, China's relations with Southeast Asia countries are not as close as its rival, Japan. Different with Japan which already entering Southeast Asia infrastructure sector since 1950s, China considered new to Southeast Asia countries which make China should carefully maintain its strategy in the region. One of the strategies of China to enter Southeast Asia market is using railway.

Recently, China's railway development was flourishing, whether in the domestic or in overseas projects. It has bringing enough confidence for China to begin offering its own railway technology to Southeast Asia region. Besides the high demand of Southeast Asia region towards high-speed rail technology, China tendency to use railway that it holds the great economic promise which it deals with broad consortium, involving many companies in various fields. China also wants to keep its construction industries to be consistently active and change the habit to not rely on manufacture exports(Orchard, 2016). Another reason why China using railway is that railway could bring long-term advantages for both China and recipient countries: (1) create employment, (2) help to stimulate trade which can transport bulky things easily, (3) short period of time of travel

(compared with other land transportations) which can increase the mobility of labor, and (4) reduce the strain in congested city in Southeast Asia(Mehta, 2005).

The development of Chinese economy and the policies that follows from Mao's era until Deng's era has showing China's economic characteristic. China that used to close itself from outside world slowly maintains the relations with other countries in order to boost the economy. It can also be seen that China's efforts in expanding its economic influence has the same goals as when China began to open relations to outside world. One of the efforts in expanding its economic is through sending railway technology overseas. Southeast Asia is the main region to receive China's investment, especially in railway sector. In the next chapter, will be explained about China's railway development, how China gained confidence to send its railway overseas and how China begin to send its railway in Southeast Asia.