

CHAPTER IV

ONE BELT ONE ROAD AS THE REASON BEHIND CHINA EFFORTS ON RAILWAY PROJECTS IN SOUTHEAST ASIA

This chapter will explain about the reason behind China efforts on railway projects in Southeast Asia which is the realization of One Belt One Road (OBOR). The new strategy of One Belt One Road seems to have more advantages to China. In this chapter the writer will first explain about the concept of One Belt One Road as a Chinese national strategy and how Southeast Asia is part of the One Belt One Road route. The explanation then come to the advantages obtained from One Belt One Road in Southeast Asia whether from economic perspective or from political perspective. Seen from economic perspective, the expansion of China through One Belt One Road can give China a new market and will keep its economy active and the railway projects conducted in several countries especially in Southeast Asia can create new trade route to stimulate exports and domestic consumptions. Seen from political perspective, the investment of railway can be used for diplomacy tool and to control the political dynamic in the Southeast Asia through recipient countries.

A. The Concept of ‘One Belt One Road’

Before it is called One Belt One Road as one concept, the first initiation was proposed by Xi Jinping in Kazakhstan and in Indonesia as he wanted to build

The New Silk Road Economic Belt which shorted as One Belt, and The 21st Century Maritime Silk Road which shorted as One Road. The “Vision and Action on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” has issued by National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs, and Ministry of Commerce with State Council authorization on March 28, 2015, marked that the initiative is officially and in national-level.

The One Belt One Road is expected to increase the connectivity between China and countries that involved which spreads along the continent of Asian, European, and African. It also aimed to faster the flows of goods and services, giving the long-term advantages to boost economic growth and the development along countries that involved. The One Belt One Road is intended to pull together various initiative and projects in a unified and more comprehensive framework that can facilitate, guide, and coordinate the international cooperation(Hong, 2016).

Picture 4.1 The Map of the One Belt One Road Initiative



The route is based on the “Vision and Action on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” issued by National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs, and Ministry of Commerce with State Council authorization of People’s Republic of China (2015)

From the map, it can be seen that the Silk Road Economic Belt (One Belt) route is represented in red line and the 21st Century Maritime Silk Road (One Road) is represented in blue line. The line is connecting China with countries around the world that the route is focuses on:

1. One Belt (red line): linking China (Beijing, Xi’an, Urumqi) into Europe through Central Asia, Turkey (Ankara), and Russia (Moscow); linking China to the Persian Gulf (Gwadar) through the Middle East

and Central Asia; connecting China into Southeast Asia (Indochina), South Asia (India), and the Indian Ocean.

2. One Road (blue line): linking China to Europe through South China Sea and Indian Ocean through many ports in Southeast Asia, India, Africa, and Middle East.

The region of Southeast Asia is mentioned a lot in the One Belt One Road that the region is part of the route that focused on. By making cooperation with countries in Southeast Asia, China can open its connectivity towards other region. From One Belt, Southeast Asia opened a link to South Asia, especially India which becomes the region with potential economy. While from One Road, the cooperation made with Southeast Asia countries can facilitate the agreement in the South China Sea as the connector between China's ports in the east towards Indian Ocean that will lead into European.

B. Advantages from Economic Perspective and Political Perspective

Although the One Belt One Road initiative was purposely for benefiting other countries that involved, there are still many advantages that China could get from the realization of One Belt One Road through conducting railway projects, especially in Southeast Asia. The advantages can be seen from economic perspective and political perspective.

1. Economic Perspective

The establishment of One Belt One Road was triggered by the slowdown of China's domestic economy. China needs to expand its economy by investment

and financing support whether for trade or economic connectivity. The One Belt One Road has become the most ambitious economic program of China since Mao era. It was combining the framework of Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative. Its financial was supported initially by China Investment Corporation (China's sovereign wealth fund), China Development Bank, China Eximbank, the State Administration of Foreign Exchange, and soon after that the projects are under the Silk Road Fund of USD40 billion launched by the government. By linking Europe, Africa and the whole of Asia, it covers the 70 per cent of the world's populations, around one-third of global GDP, holds the moves of a quarter of all the goods and services, and covers 75 per cent of known energy reserves(Godement, 2015).

Given the basic problems of economic slowdown has made China shifting its policy. The One Belt One Road has triggered the investment on railway and the involvement of construction industries, making it become the economic activity presented by China, which back then dominated by trading activity and manufacture industries. China as the rational actor needs to be ready for alteration in order to adapt with international atmosphere. In taking the decision, China has intellectually and rationally considered the consequences and effectiveness from the decision to sending railway overseas by identifying the domestic problem and what China really need to step in the international arena. Thus, China has fully aware that the advantages given by investing on railway projects is only half part of all advantages China could get by realizing the projects. From the economic

perspective, One Belt One Road can keep China's economic to be active and creating a new trade route.

a) To Keep China's Economy Active

China's real GDP has declining since 2008. According to the data of World Bank, China's real GDP growth in 2008 dropped in the rate of 9.6 per cent. In the next 5 years after it, the rate more dropped into 7.8 per cent and further down happened in 2015 with the rate only 6.9 per cent becoming the lowest rate of China's real GDP growth after the economic reformation in Deng Xiaoping era. The slowdown of China's economic was dragged by the global economic downturn. The manufacturing sector cannot be relied on anymore. The manufacture has been struggled much in deals with the shrink of global demand on Chinese products(Allen, 2016). The free trade agreement made by China was only one way to solve problems, but China needs to establish new economic platform for them to keep up the economy.

To complete the One Belt One Road initiative, China needs to link every country along the route. It required countries to be more develop in order to be able to deal and compete with the future economic shaped by new route. The new economic strategy of China started from: China begin to invest on infrastructure in the countries that involved in One Belt One Route initiative. China's investment on railway projects was the kick start. The railway project has chosen because it deals with broad consortium and involving many companies in various fields such as constructions industries.

When the manufacturing industries are on its struggle, China has weighing its economic to constructions industry through the investment of infrastructure, especially on railway projects which require many construction companies. Only from railway projects, whether in domestic or overseas, there are many construction industries pushed to involve and drag into proper competition to assist the projects. The three countries in Southeast Asia which currently is having railway projects (Indonesia, Laos, and Thailand) are involving various companies:

1. The state-owned CRRC (China Railway Rolling Stock Corporation) is the supplier of rail transit equipment with the main business almost covered all elements of railway which are research and development, design, manufacture, repair, sale, lease and technical services for rolling stock, urban rail transit vehicles, engineering machinery, electrical equipment, environmental protection equipment, consulting services, industrial investment and management, asset management, and import and export (CRRC Corporation Limited, 2015).
2. The state-owned CRC (China Railway Corporation) is under the management of central government which focused on unified control and command of railway transport, operation and management of passenger and freight transport by national railways, and public welfare transport specified by national regulations (China Railway, 2015).

3. XCMG (Xuzhou Construction Machinery Group) is the Chinese constructions and machinery industry which provide Loader to help preparation on China-Thailand railway projects on its groundbreaking ceremony(PRNewswire, 2015).

The state-owned CRRC is the only company that involved in all railway projects whether in Indonesia, Laos, or Thailand. In the Official Annual Report 2015, the chairman of the company, Cui Dianguo, stated that the “high-speed railway diplomacy” which included the One Belt One Road strategy has encouraged the company in accelerating its overseas business and pushing for more revitalization and better equipment of manufacturing industry. In the financial summary, the revenue for CRRC is increasing significantly from RMB165 billion in 2011 to RMB237 billion in 2015. From company’s revenue in 2015, it is increasing 8.85 per cent compared to year of 2014(CRRC Coporation Limited, 2015).

In 2016, the construction industry was developing rapidly by 17 per cent of growth value. One of the factors of constructions industry to grow was the decision of government to realize the One Belt One Road initiative, which pushed China to do investment on infrastructure. China’s railway company has already covered all elements of railway that makes China capable to dominate its involvement in the projects. Sending infrastructure technology to overseas also means open new market for constructions industry to keep growing and active which contribute much on the GDP growth(Shan, 2017).

Several China's construction companies has been in the top four Global Contractors in the last three years, according to rank by Engineering News Record (ENR). The companies are China State Construction Engineering, China Railway Group Limited, China Railway Construction Corporation Limited and China Communications Construction Co. Ltd. Most of them are involved in China's overseas railway projects. Thus, the China's so-called "going out strategy" and the realization of One Belt One Road initiative has successfully pushed the companies to seek for market and doing proper competitions in overseas investment. As the result, China's construction companies are continued to expand its role in overseas investments and partnerships, especially along the route of One Belt One Road(Shan, 2017).

b) To Establish New Trade Route

The railway projects conducted in Southeast Asia countries, especially in Laos and Thailand is intended to create a route which linking Kunming in China to Bangkok in Thailand. The route is expected to become the gate for China in reaching Southeast Asia region. With railway technology, China is expected the fast flows of goods and services from China to the countries in Southeast Asia, and vice versa. By linking up unconnected sections, removing transport bottlenecks, and advancing transport safety facilities and equipment, it is expected to stimulate the trade activity and exports from China(Bo, 2015).

Picture 4.2 The Map of China's Railway Projects from Kunming to Bangkok



Accessed from <https://www.theguardian.com/world/2014/aug/01/thailand-junta-approve-china-rail-link-23bn>

From the map we can see the railway route that offered by China (blue line), which several of them has been starting the constructions. The railway projects conducted by China in the map are explained below:

- 1) The railway from Kunming to Mohan (near LuangNamtha), with the track length of 507 kilometers-long, is linking China to the border of Laos.
- 2) The China's railway projects in Laos, which is the 427 kilometers-long railway from LuangNamtha to Vientiane, intended to continue

Kunming-Mohan railway to connect China with the capital city of Laos.

- 3) The China-Thailand railway projects, which intended to link the capital city of Laos (Vientiane) to the capital city of Thailand (Bangkok) as the continuation from the route originated in Kunming, divided into four sections, started from the 355 kilometers-long line from NongKhai to NakhonRatchasima.
- 4) The second section of China-Thailand railway projects is the 138.5 kilometers-long railway from NakhonRatchasima to KaengKhoi.
- 5) The third section of China-Thailand railway projects is the 246.5 kilometers-long railway from KaengKhoi to the industrial estate of Map Ta Phut.
- 6) The fourth section of China-Thailand railway projects is the 133 kilometers-long railway from KaengKhoi to Bangkok, which will completed the China's plan to link Kunming to the capital city of Laos and Thailand.

The route is started from Kunming, part of Yunnan province in China. China planned to link Kunming to the outside China. Kunming is an important region in Yunnan. In 1992, the state established a state-level development zone so-called Kunming High-tech Industrial Development Zones. This industrial development zone has many enterprises concentrates on new materials and equipment manufacturing, bio-medicines, and also makes an effort to develop the modern services industry. In 2013, it resulted RMB140.3 billion (\$22.46 billion)

in business, RMB4.27 billion of revenues, and RMB2.04 billion for the local budget. There are 189 high-tech enterprises in Kunming with around 60 enterprises reach revenues of RMB100 million, 12 enterprises reach RMB1 billion, and four enter enterprises reach RMB10 billion(China Daily, 2014). The high rate of industrial activity in Kunming and its location near China's border to Southeast Asia region makes the region a strategic area to open a railway stations. The route that directed to big cities such as Vientiane and Bangkok is the evidence that China wants to link Kunming to its market and to become the supplier to send its products outside China.

From Kunming, the route is first reaching Laos in Mohan. Mohan is located near LuangNamtha which is the location station of railway that leads to the station in Vientiane.As the capital city in Laos, Vientiane is targeted by China to become a new market. Moreover, in 2010, China and Laos has established Saysettha Development Zone as a cooperative projects between both governments. The construction of the zone is in cooperation between Laos and Kunming Hi-Tech Zone and Yunnan Construction Engineering Group. The project now has been listed as the project under One Belt One Road that gives significant development towards Laos. It aims to develop a new eco-industrial city in which industrial, commercial, service and residential areas will be integrated as a cohesive and visionary project.The zone is only located 17 kilometers to the northeast of Vientiane city. There are also other 13 zones in Laos that will be established by the government to develop both social and economic condition in the region(Vientiane Times, 2016).

In Thailand, the railway route started first from NongKhai which located near the border of Thailand and Laos. The railway routed to the industrial estate of Map Ta Phut and the capital city of Bangkok. China put this route not without the intention to gain economic benefit. The industrial estate Map Ta Phut is home for 58 large industrial factories with the total investment of THB470 million and holding employment of 13.600 people. It was developed in 1989 by the state enterprises, Industrial Estate Authority of Thailand and Ministry of Industry as the raw material production bases for consumption in the country(Industrial Estate Authority of Thailand,Map Ta Phut Industrial Estate Profile, 2017). Because it is located in the Gulf of Thailand, it also has the industrial port that opens sea to the South. It is a high-capacity industrial port with a wide range of services and facilities suitable for all types of industries(Industrial Estate Authority of Thailand, The Map Ta Phut Industrial Port, 2017). For Thailand also, The route from Map Ta Phut to Bangkok can increase the flows of goods and services which can contribute much to Thailand's real GDP.

The region passes by railway are expected to pursue a more advanced economy so that China will be easy to reach its markets. With the easiness of this, it is expected to increase the demand on industrial manufacture, increase exports activity and overcome the overcapacity problem. In addition to export activity, the increase of real GDP growth is also influenced by consumption. The realization of trade routes that facilitate access to the flow of goods and services, it is expected to raise domestic demand which will increase domestic consumption.

2. Political Perspective

China's economic nowadays has giving China capability and power in the global arena. The China's so-called "going out strategy," which realized through One Belt One Road, has raising tension especially in neighboring countries. When the writers already explain about the advantages China could get from One Belt One Road in economic perspective, the countries who want to involved are obviously aware of what they may get or lose from the program. In political perspective, China seems to use One Belt One Road as diplomatic tool to gain China's political objectives through recipient countries.

In Southeast Asia, the relations between China and ASEAN countries are the combination among the aspect of cooperation and tension. The security relations between China and ASEAN were disrupted by the territorial disputes in the South China Sea, especially with the Philippines and Vietnam. China shows its effort on courting support for its territorial claim in the South China Sea.

In the April 2016, Chinese Foreign Minister Wang Yi visited to Brunei, Cambodia, and Laos. The visit to Laos, especially has received much attention from the region since Laos is the Chair of ASEAN which should play a key role on mediating a dialogue for the disputes between China and its Southeast Asian neighbors. Although Yi stated that the visit is to emphasizing the One Belt One Road initiative in Laos which proposed with China-Laos railway projects, the heavy investment of China in the country has seen as China's way to shift Laos's position in Southeast Asia (Kundu, 2016).

During Yi's visit to three countries, Yi also established 'a four-point consensus' related to South China Sea that has been agreed by Brunei, Cambodia, and Laos. Both China and the three countries agreed towards: (1) the disputes in South China Sea are not an issue between China and ASEAN as a whole therefore it should not disrupt ASEAN-China relations, (2) every sovereign state is free to choose their own way to solve the problem without any force or unilateral decision imposed on them, (3) the dialogues and consultations are conducted by parties directly concerned and under the Article 4 of the Declaration on the Conduct of Parties in the South China Sea (DOC), (4) the security in the region can be maintained together by the ASEAN and China (Ministry of Foreign Affairs the People's Republic of China, 2016).

From the 'four-point consensus', China is in its intention to avoid any multilateral dialogue and in its position to begin control the political dynamic in Southeast Asia. China's intention to control the political dynamic in Southeast Asia started by dividing the unity in ASEAN to prevent ASEAN release its statement regarding the South China Sea.

Laos and Cambodia are countries that receive much economic aid from China, especially Laos through the One Belt One Road. From China's aid, Laos can transform the country from land-locked country into country that connects China to the South through its investment on railway. The relations of China-Laos were getting closer due to the investment and economic agreement made Laos depends more on China. This condition is suspected to have impact on Laos's position in the ASEAN and Laos position towards China in South China Sea issue.

For the result, ASEAN was failed to release a joint statement regarding China's historical claim in the sea in the ruling by a United Nations-backed arbitral tribunal in The Hague, and Laos and Cambodia believed as the countries that prevent the release of the statement(Strait Times, 2016). It was due to its closer relations and its economic overdependence towards China; Laos as a land-locked country that has no direct access to the sea and receiving much economic aid from China will absolutely place itself in China's side.

In July 2016, during the 49th ASEAN Foreign Ministers' Meeting in Vientiane, Laos, the ASEAN was again failed to reach the consensus due to the Cambodia that blocks ASEAN's statement against the assertive political actions by China in South China Sea. Laos, however, has positioned itself neutral securing its position as a host in the meeting, although the country also supported Cambodia's position(Joshi & Malloy, 2016).

Claimant countries are on the efforts to integrate the whole ASEAN to settle the dispute on South China Sea. For the claimant countries, bilateral agreement will give unfair advantages due to China's potential power that will get an absolute winning by bilateral agreement. Brunei, Cambodia, and Laos position that supporting 'a four-point consensus' published by China will disrupt ASEAN integration as those three countries will not join the Philippines and Vietnam in their disputes over China's assertive act in South China Sea nor join multilateral agreement to resolve the dispute. The recent action of Cambodia and Laos that blocks ASEAN statements in the 49th ASEAN Foreign Ministers' Meeting has

also disrupted ASEAN's legitimacy as the mediator and the organization that should maintain security in the region by facilitating multilateral agreement.

The failed of ASEAN in reaching consensus is somehow seen as a win for China. China is again successful to avoid neither the attempt of ASEAN to conduct multilateral agreement nor the attempt of ASEAN to establish joint statement related to South China Sea and will keep seeking resolution through bilateral basis.

From the political objectives that China needs on the Southeast Asia region, it can be seen that the initiative of One Belt One Road is hoped by China to become a program to help China reach it. The successful of China attract Laos to support its consensus is the evidence that the investment can become a tool for diplomacy and bargaining, therefore China will still placing heavy investment especially in Southeast Asia to gain substantial backing for China's legitimacy in the region.