

# THE REASON BEHIND CHINA EFFORTS ON RAILWAY PROJECTS IN SOUTHEAST ASIA

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## Abstract

Following the vast development of high-speed railway in domestic, China decided to spread its high-speed railway investment, begin its industrial transition as the creator and the technology innovator. China started to approach Southeast Asia countries which is seen to have the potential market which need to develop. This condition also supported by the high demand of Southeast Asia countries that need high-speed rail technology and the existence of Japan's Shinkansen technology in the region. For the result of China's efforts, China was successfully built Indonesia's Jakarta-Bandung high-speed rail project, China-Laos railway projects, and China-Thailand railway projects. The realization of the projects then become a big question, that China which is likely focus on trading and is only a newcomer for railway technology turn to make efforts on the railway project to defeat the experienced Japanese railway technology and Japan strong ties with Southeast Asia countries.

The objective of the thesis is to analyze the reason behind the alteration of China's political behavior which changed from trading to investment. The qualitative methods was applied, that the writer using media and library research such as official webpage, government webpage, newspaper, journal and prior research related to China, Southeast Asia, ASEAN and railway.

The research found that China has considered that the decision of sending railway will bring more advantages for domestic China that it helps the realization of One Belt One Road that have the advantages whether economically or politically.

*Keywords: Railway projects, One Belt One Road, rational actor, Southeast Asia*

## **Introduction**

China is the world first economic leading country nowadays. Becoming the center of economy makes China has prosperity and the capacity to begin the development within the country. From the last decade, China has focusing itself on the development of high-speed rail industry. China's first high-speed rail system was started in 2004 by buying trains and rail technology from foreign companies such as Japan, Germany, France, and Canada. After that, the experience on train industry in the past had made China capable to develop its own high-speed rail technology in 2007(Chan, 2016).

Following the vast development, China decided to spread its high-speed railway investment, begin its industrial transition as the creator and the technology innovator. The idea of China's railway route plan is to connect Asia, Europe, Central Asia, and Indo-China. China started to approach Southeast Asia countries which is seen to have the potential market which need to develop. This condition also supported by the high demand of Southeast Asia countries that need high-speed rail technology (Shang-su, 2015).

Of course, Southeast Asia not only becomes China's only target to sell such high-speed rail technology. In Southeast Asia, Japan has already occupying railway market. Japan's railway has identically connected with their high-quality and reliability of railway system making Japan so confidence with their railway industry. Outside Southeast Asia, Japan's high-speed rail has successfully gained government's trust following its technology, safety, and efficiency (Kurasawa, 2013). This was very contrast to China's position whose railway technology is still new, which is not yet proven the long-term strength.

China shows its efforts and eagerness to realize its purpose to bring its high-speed rail technology overseas. It was evidenced with the successful bidding of China in Indonesia's Jakarta-Bandung high-speed rail project against Japan on September 2015. Japan, in this project, was initially the frontrunner. Japan has completed study that took ten years, estimating the cost, and showing the best commitments to the project following the strong ties of Indonesia-Japan relations. However, China's turned out to give more lucrative deals for Indonesian government to consider. With this project, China offered such as non-government guarantee which lead to manufactures industry and jobs opportunity. Also, China promised to complete all the projects before 2019, which make the offer irresistible (Syailendra, 2015). China is in plan on offering the same project to other countries such as Laos and Thailand. For the result of China's ambition, it successfully made agreement

with Laos to build the 427 kilometers-long high-speed rail connecting Vientiane to Luang Namtha (Chinese border) that cost over USD6 billion on December 2015. In Thailand, it also successfully built the 800 kilometers-long medium rail connecting Nong Khai with Laos and Southern China. (Chan, 2016).

The economic behavior of China tends to focus on trading agreement and policy. The agreements made with many countries were intended to open free trade area to strengthen the activity of export and import such as China-ASEAN Free Trade Agreement (CAFTA), China-United States Free Trade Agreement (CHUSFTA), and South Korea-China Free Trade Agreement. The decision to bring railway technology overseas has considered new for China. Even when entering the Southeast Asia market, most of the Southeast Asia countries are not countries that close to China. This also makes it difficult to attract Southeast Asia countries which are tend to close with Japan and the United States. Seeing from China's eagerness to send its railway projects in Southeast Asia, this paper will explain China's reason in doing so that has shifted from China's political behavior.

### **The Rational Actor Model**

According to Graham T. Allison (1971), rationality can be defined as "consistent, value-maximizing choice within specified constrains," thus the rational decision maker chooses the alternatives which give the most preferred consequences. In this model, the atmosphere of foreign politics is the result of rational actors, that purposively and motivated by goal-oriented behavior. It is an intellectual process by the government that has rationality and coordination, which within the process, the government uses the intellectual, rationality, and coordination to place the decision over the alternatives (Mintz & DeRouen, 2010).

From the model, the decision maker needs to be ready to the alteration and adaptation in deciding a policy. The actor has to be able to gain information and assessing all alternatives in order to choose which one directed to their goals. Greg Cashman (1993) explains a set of steps in the rational model, which is (1) the rational actor needs to identify the problem; (2) the rational actor needs to identify rank goals; (3) the rational actor needs to gather information and identify alternatives for reaching goals; (4) after that, it needs to be analyzed by considering consequences and effectiveness (cost and benefits) of each alternatives; (5) select the best alternatives over the alternatives chosen in step four; (6) and finally, the rational actor can implement the decision while the actor monitor and evaluate(Mintz & DeRouen, 2010).

In the case of China in which made efforts on railway projects in Southeast Asia there is a decision-making process as the model of rational actor. China as the new economic leading power in the world which more likely to focus on trading agreement is now turns its behavior into building infrastructure overseas such as railway projects in Southeast Asia. The alteration of China's behavior neglecting the shortcomings owned by China's railway such as inexperienced railway technology and the lack of good relations between Southeast Asia countries. China as rational actor is obviously had been considered and chose this decision through intellectual process as alternative option, as well as the advantages and disadvantages that may follow from the decision.

With rational actor model, this research can explain how China chooses the best alternative that can bring benefits and reach China's national goals. In this case, China should choose over the alternatives: making efforts on railway projects in Southeast Asia or not making efforts on railway projects in Southeast Asia. In choosing the alternatives, the advantages and disadvantages that follow China's decision elaborated on the table below:

**Table 1.1 The advantages and disadvantages of China's effort on railway projects in Southeast Asia**

<b>Parameter</b>	<b>China making efforts on railway projects in Southeast Asia</b>	<b>China is not making efforts on railway projects in Southeast Asia</b>
<b>Advantages</b>	- It helps China to realize its 'One Belt One Road' strategy that can ease China's economic influence to the world, as several Southeast Asia countries are part of the route.	- China and Japan relations will remain stable.
<b>Disadvantages</b>	- Political relations of Japan and China will	- China will lose its chance to develop its

	<p>become worse.</p> <ul style="list-style-type: none"> <li>- China should give favorable offers which can burden China itself in order to attract recipient country.</li> </ul>	<p>economic through Southeast Asia.</p>
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According to the table, the advantages and disadvantages are the rational reasons that influenced China in decision-making or in changing its political or economic behavior. The advantages if China decided to make efforts on railway projects by sending its railway technology to Southeast Asia, is to help China realize their One Belt One Road strategy. The One Belt One Road strategy can help China develop new economic corridor and expanding its economic influence as its part of diplomacy. However, the decision of China to make efforts on railway projects in Southeast Asia also brings disadvantages for China itself. The relation between China and Japan are never stable following its historical condition, thus this decision makes China have more things to be challenged with Japan which can worsen their political relations. Also, in order to face Japan’s existence in Southeast Asia and beat Japan’s railway, China should give favorable offers to recipient country which can burden China itself.

Nevertheless, China is considered to be able to determine a decision that taken over the best alternative and the decision to make efforts on railway projects in Southeast Asia is the decision best taken that considered can bring advantages for economic and political condition in China.

**One Belt One Road As The Reason Behind China Efforts On Railway Projects In Southeast Asia**

Based on the explanation of rational actor model, China as a rational actor has chosen to conduct railway projects in Southeast Asia because it raises more advantages which is the realization of One Belt One Road. The new strategy of One Belt One Road seems to have more advantages whether in economic perspective or in political perspective.

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

### **1. 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 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 need 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 this: 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 dragged 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(CRRC Coporation 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 (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, its 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 capability 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 constructions companies has been in the top four Global Contractors in the last three years, according to rank by Engineering News Record (ENR). 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).

## 2. 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 expected to stimulate the trade activity and exports from China (Bo, 2015).

**Picture 4.1**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>

The route 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 located near Luang Namtha 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 Nong Khai 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 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 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 expected to raise domestic demand which will increase domestic consumption.

## **B. 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 is 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 has been showing 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 are 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 divide 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 49<sup>th</sup> 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 49<sup>th</sup> 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.

## **Conclusion**

Every country is a rational actor who seeks the best decision for himself, including China. Through the thesis, the writer attempted to analyze the reason behind China's efforts to on railway projects in Southeast Asia. The hypothesis of the writer has been proven, that China's chose to make efforts on railway projects because it has so many advantages whether economically or politically.

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