

# PERSPECTIVE

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## **Thailand's Perennial Kra Canal Project: Pros, Cons and Potential Game Changers**

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### **EXECUTIVE SUMMARY**

- The pros and cons of constructing a canal across the Isthmus of Kra have been debated for centuries: proponents stress economic and strategic benefits, while critics argue that it is too costly and commercially unviable.
- Since the 2014 coup in Bangkok, advocates of the canal have highlighted three potential game changers: the new Thai monarch, China's Belt and Road Initiative and Thailand's 20-year National Strategy.
- Prime Minister Prayut Chan-ocha has responded cautiously to the proposal, as he must consider complex domestic, economic and geopolitical factors.
- Because of political uncertainties in Thailand, lack of royal support and the global economic slowdown, construction of a Kra canal remains a distant prospect.

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## INTRODUCTION

Few mega construction projects have been on the drawing board for as long as Thailand's Kra canal. The idea of cutting a waterway across the Isthmus of Kra in the Upper South of the country that would link the Gulf of Thailand with the Andaman Sea—and hence the Pacific and Indian Oceans—was first proposed more than 300 years ago. Since then the project has been repeatedly revived, resulting in a series of expensive engineering surveys and feasibility studies, before being quietly dropped.

The arguments for and against a Kra canal are longstanding and well-rehearsed.

Proponents of the canal point to the economic and strategic benefits that Thailand would accrue. They argue that the construction of the 100-kilometre canal, and related industrial infrastructure such as ports, manufacturing plants and oil refineries, would create jobs for tens of thousands of Thai workers, stimulate the economy (especially during periods of economic downturn) and, over the long-term, generate a lucrative revenue stream from the collection of shipping tolls. Militarily, the canal would enable the Thai navy to move ships quickly from one coast to the other during times of crisis. In addition, a Kra canal would also provide a faster and thus cheaper route between the Indian Ocean and the South China Sea, thus providing a viable alternative to the increasingly congested and “pirate infested” Straits of Malacca.<sup>1</sup>

Detractors of the canal remain unconvinced. Their main argument is that a Kra canal is commercially unviable: that the massive construction costs could not be clawed back from toll fees as shipping companies would be reluctant to bear additional costs just to save two or three days sailing time (especially at a time when the price of oil is low)—a situation quite unlike the Suez and Panama Canals which save vessels weeks of extra time at sea. With regard to the strategic benefits, critics argue that Thailand faces no threats from its neighbours, a canal would cleave the country into two halves and thus embolden separatists in the Far South, and the ownership and operation of the waterway would inevitably become entangled in Great Power rivalry.

Since the 2014 coup, the Kra canal proposal has resurfaced once again. This time the project's backers argue that the circumstances favouring the canal are more propitious, for three main reasons. First, the Kingdom has a new monarch who needs to cement his legacy. Second, China is keen to invest in regional infrastructure projects such as the Kra canal as part of its Belt and Road Initiative (BRI). And third, the Thai government has promulgated a two-decade national development strategy which emphasizes the importance of global connectivity initiatives.

After a brief review of the history of the proposed waterway, this paper assesses these potential game changers and concludes they do not significantly enhance the canal's prospects.<sup>2</sup>

### **THREE HUNDRED YEARS OF SURVEYS AND FEASIBILITY STUDIES**

Although the construction of a Kra canal was first considered in 1677, and again in 1793, it was not until the nineteenth century that the proposal was given serious attention. However, that attention came not from Thailand, but from colonial rivals Britain and France.

During the mid-nineteenth century, the British examined the feasibility of building a railway or a canal across the Kra Isthmus to facilitate trade between India and China. British engineers conducted surveys in 1843, 1849, 1863 and 1872. They concluded that while a railway or a canal was technically possible, the costs were prohibitive.<sup>3</sup> The French had other ideas. In 1883 Count Bertrand-Francois Mahé de La Bourdonnais, a French naval officer and administrator with the French East India Company, advocated for a Kra canal in order to promote French commercial interests in nearby Indochina.<sup>4</sup> Bourdonnais envisaged that once the canal was completed, French-controlled Saigon would eclipse British-run Singapore as Southeast Asia's most important port. Keen to protect its commercial interests on the Malay Peninsula, Britain opposed the canal and prevailed upon successive Thai monarchs and governments to reject French overtures. Twice—in 1897 and 1946—Britain forced Siam into signing agreements in which it agreed not to allow the construction of an inter-oceanic canal.

It was not until the early 1970s that the canal project was revisited. In 1972, a Chinese-born Thai industrialist, K.Y. Chow, convinced the Thai government to consider the mega project. As with previous proposals, Chow argued that although the construction costs would be high, ultimately the canal would turn a profit from port operations, transit fees and transshipment charges.<sup>5</sup> Chow funded a US\$400,000 feasibility study undertaken by the US consultancy company Tippetts-Abbett-McCarthy-Stratton (TAMS). Among nine possible routes that were surveyed, TAMS recommended Route 5A: a 102-km long one-way canal from Satun on the west coast to Songkhla on the east. TAMS estimated the canal would take 12 years to construct at a cost of US\$5.6 billion; or ten years and US\$3.5 billion if the excavation work utilized small nuclear explosives.<sup>6</sup> However, shortly after TAMS submitted its report to the Thai government, the 1973 Oil Crisis caused a downturn in the global economy and the project was shelved. Throughout the 1970s and 1980s, Japan periodically expressed an interest in financing and constructing a Kra canal. Japanese energy imports from the Middle East depended heavily on the Straits of Malacca, and in the early 1970s, Tokyo became concerned when Indonesia and Malaysia proposed introducing restrictions on the size of oil tankers transiting through the Straits.<sup>7</sup> In the mid-1980s, Japan's Mitsubishi Research Institute revisited TAMS' recommendations (including nuclear blasting) but nothing ever came of it.<sup>8</sup>

In the early 2000s, during the premiership of Thaksin Shinawatra, the Kra canal reappeared on Thailand's national agenda. The initiative was spearheaded by Deputy Prime Minister and Defence Minister Chavalit Yongchaiyudh, a retired general in the Royal Thai Army. Chavalit also promoted the Kra canal as a money spinner that would create thousands of jobs and pay for itself within a short period of time. According to Chavalit—who was Thailand's point man with the Chinese armed forces during the Cambodian Crisis in the 1980s—China was one of several East Asian countries that was interested in financing the canal.<sup>9</sup> Another feasibility study was commissioned, but within a few years the project had collapsed amid allegations of financial mismanagement and corruption.<sup>10</sup> In 2005, Thaksin

himself suggested the construction of an oil pipeline across the Kra Isthmus as a cheaper alternative to a canal. The project died when Thaksin was ousted by the military in 2006.

### **THE KRA CANAL POST-2014 COUP**

Since the 2014 military coup, the Kra canal has once again entered the national policy debate. There are two principal advocates: the Thai-Chinese Culture and Economic Association (TCCEA) and the Thai Canal Association for Study and Development (TCASD).

In 2015 the TCCEA called on the junta to support the construction of a Kra canal using TAMS' Route 5A. According to its deputy director, Pakdee Tanapura, the project would cost US\$20 billion and take eight years to complete.<sup>11</sup>

In a seemingly unrelated event the same year, it was reported that two entities—Thailand's Asia Union Group (AUG), led by former Prime Minister Chavalit, and the China-based China-Thailand Kra Infrastructure Investment and Development Company (CTKIID)—had signed a memorandum of understanding (MOU) to build a canal across the Kra Isthmus. However, both the Thai and Chinese governments vigorously dissociated themselves from the MOU while Chavalit himself denied any links to the AUG.<sup>12</sup> The MOU, AUG and CTKIID were never heard of again.

In 2017 a group of businessmen and retired military officers formed the TCASD to advocate for the construction of the canal (which they prefer to call the "Thai canal" rather than the Kra canal). Led by a retired general, Pongthep Tesprateep, the TCASD proposed TAMS' Route 9A—a 120-km long canal from Krabi on the west coast to Nakhon Si Thammarat on the east coast. The proposed eastern terminus of the Thai canal would, they argued, complement the Eastern Economic Corridor (EEC), a US\$40 billion high-tech innovation and transportation hub spanning three provinces across the Gulf of Thailand which is due for completion between 2021 and 2025.<sup>13</sup> To discuss the proposal further, the TCASD hosted a conference on the canal in Bangkok in September 2017.

#### *Three Potential Game Changers*

Both the TCCEA and TCASD have advanced well-worn rationales in support of the canal: that its construction would act as dynamo for the Thai economy and provide shipping companies with a quicker and safer alternative to the Malacca Straits. However, the canal's supporters have also suggested three potential game changers have made the Kra canal a more viable proposition than in the past.<sup>14</sup>

The first is Thailand's new monarch. In December 2016, 50 days after the death of his father King Bhumipol Adulyadej, King Vajiralongkorn became the tenth king of the Chakri Dynasty. His coronation took place in May 2019. At 64, King Vajiralongkorn was the oldest Thai monarch to ascend the throne. The realization of the Kingdom's three-centuries-old dream to build a Kra canal would cement his legacy, especially if the canal were to be named after him. However, as the King has never mentioned the project in public it is unclear whether it has his personal backing or not. If it does, Thailand's ruling elite might take the project more seriously.

The second is China's Belt and Road Initiative (BRI). Due to its geographic position in the heart of mainland Southeast Asia, China views Thailand as a key node in its trillion-dollar global infrastructure project. Since the 2014 coup, the government of Prime Minister Prayut Chan-ocha has been a keen supporter of BRI. However, China's most high-profile BRI project in Thailand, a High-Speed Rail (HSR) network, has been repeatedly delayed due to disagreements over financing, technology and operational issues.<sup>15</sup> Domestically the HSR has been heavily criticised for its excessive cost, for its lack of transparency and for making Thailand too dependent on China. Nevertheless, both the TCCEA and TCASD have suggested that China could finance a Kra canal as part of one of the BRI's six designated corridors, the China-Indochina Peninsula Economic Corridor.

China's views on the Kra canal are opaque. In the mid-2000s, Chinese strategic analysts suggested the canal would enhance the country's energy security by reducing the need for Chinese-flagged oil tankers to transit through the Malacca Straits which was "controlled" by the United States.<sup>16</sup> It was reported at the time that China supported Chavalit's canal proposal, but ultimately balked at the US\$20 billion price tag. A decade later, China is much more eager to finance large infrastructure projects as part of BRI. Moreover, while the so-called "Malacca Dilemma" was always exaggerated, strategic analysts in China still view a Kra canal as a useful way to achieve "risk dispersal".<sup>17</sup> However, Beijing has never officially promoted the canal as a BRI project. Nevertheless, in the view of many Thai analysts, Beijing is quietly pushing Chinese companies to support the canal.

The third potential game changer is Thailand's twenty-year National Strategy. Mandated by the 2017 Constitution, and published in October 2018 by the Office of the National Economic and Social Development Board (NESDB), the National Strategy lays out a vision for the Kingdom's socio-economic development from 2018 until 2037. All government policies must accord with the National Strategy and the Senate monitors compliance with it.<sup>18</sup> The National Strategy proposes that Thailand develop high-quality infrastructure to connect the country with the rest of the world.<sup>19</sup> Although it does not mention a waterway across the Kra Isthmus specifically, a canal could be classed as a high-quality connectivity project. Shrewdly, the TCASD submitted its proposal for a Kra canal to the NESDB in December 2017.<sup>20</sup>

#### *Prime Minister Prayut's Response*

Prime Minister Prayut's response to the new push to build a Kra canal has been cautious: he has neither endorsed it nor rejected it. In February 2018, his spokesman said that while the idea was not a priority, the government was reviewing it.<sup>21</sup> In October 2018, it was reported that Prayut had told the NESDB to examine the TCASD's proposal.<sup>22</sup>

Several factors account for Prayut's caution.

First, he does not wish to alienate those who support the canal, including members of the business community and his former colleagues from the armed forces, by ruling it out.

Second, since 2014 Prayut has been preoccupied with creating a new political structure which ensures military dominance and defenestrates those who oppose it. The 24 March 2019 elections were the culmination of this process.<sup>23</sup> As such, he has little time to evaluate the pros and cons of a canal.

Third, and most importantly, the Prayut government needs to consider a host of complex and intertwined economic, domestic and geopolitical factors before endorsing such a massive and controversial construction project. As always, the most critical issues are economic: how would the canal be financed and would it be economically viable? Reliance on China—even if Beijing were willing to underwrite the US\$20-30 billion mega project—would likely be unpopular at home given the controversies surrounding the HSR and Thailand’s purchase of Chinese submarines.<sup>24</sup> If the proposal is to elicit national support, it must be seen as being a wholly-owned Thai initiative and not a Chinese one. A Kra canal as part of China’s BRI would also elicit a negative response from Thailand’s ally, the United States, given the Trump administration’s criticism of the policy as “debt trap diplomacy”.<sup>25</sup> Thai strategic analysts worry that a Kra canal might become the object of Sino-US rivalry, much as the proposed project became embroiled in Franco-British competition in the nineteenth century. Surprisingly, some Thais still express concern that a canal would divide the country and embolden southern separatists. More realistically, others worry that the 100-km long waterway would be vulnerable to attacks from Malay-Muslim insurgents. Bangkok must also factor in the commercial sensitivities of its neighbours, especially Singapore and Malaysia, as a canal could divert valuable shipping away from their ports. The Thai government must also consider the environmental impact of this massive construction project and how it would affect the country’s lucrative tourism industry.

## CONCLUSION

Arguments for and against the construction of a Kra canal continue to be recycled. Potential game changers have altered the context of the debate slightly but not decisively. If the project is to go ahead it will need the imprimatur of the monarch, and thus far King Vajiralongkorn has shown no inclination to support it. A Chinese-funded waterway would be too controversial at home and set back Thailand’s relations with America which have only just recovered from the 2014 coup. A crucial factor in moving the canal forward would be to identify it as a key infrastructure project under the National Strategy. However, as the Prayut government remains preoccupied with political difficulties, the country’s budget deficit grows, and the global economy faces strong headwinds caused by the US-China trade war (which has already drastically reduced demand for shipping), neither the political will nor the financial resources are currently available to realize Thailand’s Kra canal dream.

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<sup>1</sup> Piracy has been a problem in the Straits of Malacca for centuries. However, since the mid-2000s, enhanced security cooperation among the littoral states has reduced piracy attacks to historic lows. See Ian Storey, “Addressing the Persistent Problem of Piracy and Sea Robbery in Southeast Asia”, *ISEAS Perspective*, #30/2016 (7 June 2016),

[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2016\\_30.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2016_30.pdf). Traffic congestion is a more serious issue. Every year approximately 80,000 ships transit the Malacca Straits. According to the International Maritime Organisation, vessel movements are expected to increase by 50% over the next decade. “Vessel movements in straits of Singapore and Malacca expected to rise by at least 50% by 2030”, *Straits Times*, 25 September 2018.

<sup>2</sup> The author would like to thank Michael Montesano for his helpful comments on the first draft.



<sup>3</sup> Ong Kim Siong, *The Isthmus of Kra (1843-1886): A Study of the Early Kra Canal and Railway Projects*, dissertation, Department of History, University of Malaya, 1954.

<sup>4</sup> Comte A. Mahé de la Bourdonnais, *A French Engineer in Burma and Siam (1880): With a Discussion on the Kra Canal Controversy* (Bangkok: White Lotus, 2014).

<sup>5</sup> M. Rajaretnam, *Thailand's Kra Canal: Some Issues* (Singapore: ISEAS, 1978).

<sup>6</sup> Ibid.

<sup>7</sup> In 1981 oil tankers over 230,000 tons were required to use the Lombok Straits instead.

<sup>8</sup> Euan Graham, *Japan's Sea Lane Security, 1940-2004: A matter of life and death?* (London and New York: Routledge: 2006), p. 165.

<sup>9</sup> "Scheme has PM's support, says Chavalit", *Bangkok Post*, 28 August 2002.

<sup>10</sup> The fate of Chavalit's proposal strengthens the view that backers of the Kra canal are not really serious about the project but use the funds allocated for feasibility studies for their own personal gain.

<sup>11</sup> Nirmal Ghosh, "Thailand's dreams of Kra", *Straits Times*, 9 April 2015.

<sup>12</sup> Teo Cheng Wee, "China not involved in Kra canal work", *Straits Times*, 20 May 2015; "Chavalit hits out at 'bogus' reports on Kra canal deal", *Bangkok Post*, 23 May; Gaku Shimada, "Kra Isthmus shortcut would mean big shifts in Southeast Asia", *Nikkei Asian Review*, 25 June 2015.

<sup>13</sup> William Mellor, "Influential Thais in push for Kra Canal project", *Nikkei Asian Review*, 7 August 2017.

<sup>14</sup> This section is based on the author's interviews with diplomats, academics and journalists in Bangkok in February 2019.

<sup>15</sup> Shang-Su Wu and Alan Chong, "Developmental Railpolitics: The Political Economy of China's High-Speed Rail Projects in Thailand and Indonesia", *Contemporary Southeast Asia* 40, no. 3 (December 2018): 509-515.

<sup>16</sup> Ian Storey, "China's 'Malacca Dilemma'", *China Brief* VI, no. 8 (12 April 2006).

<sup>17</sup> Lyle Goldstein, "Could this be China's Panama Canal?", *The National Interest*, 30 May 2016.

<sup>18</sup> Michael J. Montesano, "The Place of the Provinces in Thailand's Twenty-Year National Strategy: Toward Community Democracy in a Commercial Nation?", *ISEAS Perspective* #60/2019 (8 August 2019), [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2019\\_60.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2019_60.pdf)

<sup>19</sup> Office of the National Economic and Social Development Board, *National Strategy 2018-2037 (Summary)* [English version],

[https://www.bic.moe.go.th/images/stories/pdf/National\\_Strategy\\_Summary.pdf](https://www.bic.moe.go.th/images/stories/pdf/National_Strategy_Summary.pdf)

<sup>20</sup> Chris Husted, "Phuket event unveils Kra Canal push", *Phuket News*, 3 February 2018.

<sup>21</sup> "Proposed Kra Canal not current government project: Thailand", *Channelnewsasia.com*, 12 February 2018, <https://www.channelnewsasia.com/news/asia/proposed-kra-canal-not-current-government-project-thailand-9950434>

<sup>22</sup> "PM mulls canal plan but army brooks no delay", *Bangkok Post*, 30 October 2018.

<sup>23</sup> See the Roundtable "Thailand's Amazing 24 March 2019 Elections", *Contemporary Southeast Asia* 41, no. 2 (August 2019): 153-222. Interestingly one political party, the Khlong Thai (Thai Canal) Party, campaigned for the construction of the canal during the election.

<sup>24</sup> Ian Storey, "Thailand's Military Relations with China: Moving From Strength to Strength", *ISEAS Perspective* #43/2019 (27 May 2019),

[https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2019\\_43.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2019_43.pdf)

<sup>25</sup> "Vice President Mike Pence's Remarks on the Administration's Policy towards China", 4 October 2018, <https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018>; Speech by Patrick M. Shanahan, Acting Secretary of Defense, US, 18<sup>th</sup> Asia Security Summit, The IISS Shangri-La Dialogue, 1 June 2019, <https://dod.defense.gov/News/Transcripts/Transcript-View/Article/1871584/acting-secretary-shanahans-remarks-at-the-iiss-shangri-la-dialogue-2019/>

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