

# PERSPECTIVE

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## **Dancing with the Dragon: The Trans-Asia Railway and its Impact on Thailand**

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### **EXECUTIVE SUMMARY**

- By all accounts, China’s “One Belt, One Road” initiative seeks to accommodate the development of its neighbouring nations and create a new corridor for international economic cooperation. The Trans-Asia Railway is part of this vision.
- A key segment in the Trans-Asia Railway is the Thailand-China railway cooperation project. This runs through Bangkok, Nakhon Ratchasima, Khon Kaen, Nongkhai, Kaeng Khoi and Map Ta Phut, and has a total length of 873 kilometres; with investments into it expected to amount to about 500 billion Baht.
- However, greater connectivity with China demands a drastic upgrading of Thailand’s transport capabilities. On 28 March 2015 the Thai Cabinet passed the transport infrastructure investment plan, which spans seven years from 2015 to 2022, and will involve a total investment of 1.9 trillion Baht.
- There will be certain benefits in it for Thailand. It will heighten connectivity in general if domestic railways are made to link to neighbouring countries and if proper operational interfaces are implemented with ASEAN countries. The Trans-Asia

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Railway may enable Thailand to reduce logistical costs and also support the country's ambitions to become a hub for aviation and shipping.

- There are also big challenges involved. Thais are concerned that the railway will bring an increased influx of Chinese, some of whom can be expected to overstay. Thais also worry that cheaper Chinese goods will flood the country. Be that as it may, responsibility for the flow of people and goods lies with the Thai government.
- The Thailand-China Railway will help Thailand capitalize on its regional advantages and, from China's perspective and to its advantage, nurture Thailand's centrality within ASEAN.

## **INTRODUCTION: CHINA'S "ONE BELT, ONE ROAD" INITIATIVE**

On 7 September 2013, Chinese President Xi Jinping, in a speech made at Kazakhstan's Nazarbayev University, referred to the ancient Silk Road and spoke of historical trade in Central Asia. During the Han Dynasty (206 BC-AD 24), the imperial envoy Zhang Qian was twice dispatched to Central Asia to form trade links with polities there. More interestingly, President Xi argued that the Silk Road proved that different ethnicities, religions and cultures can coexist very well against a backdrop of economic development and mutual benefit.

On 3 October the same year President Xi addressed the Indonesian Parliament and assured all that China was ready to work with ASEAN countries to strengthen maritime ties. Cooperation on maritime issues would be able to tap on the fund that the Chinese government had established to stimulate marine partnerships with ASEAN. Mirroring his speech in Kazakhstan, President Xi called on relevant stakeholders to build a "21<sup>st</sup> Century Maritime Silk Road".

The "One Belt, One Road" geopolitical strategy was thus born.

The Chinese government's initiation of the Silk Road Economic Belt and the 21st Century Maritime Silk Road are similar to previous ones which had sought to expand Chinese economic engagement with its neighbours, such as the championing of Guangxi as "a gateway to ASEAN" and the touting of Yunnan as a "bridgehead" into Southeast Asia. The purpose, then and now, is to strengthen cooperation and exchanges with the rest of Asia.

"One Belt, One Road" seeks to accommodate the development strategies of neighbouring nations, create a new corridor for international economic cooperation, and put into place a smooth and efficient regional thoroughfare. Southeast Asia is the prime route for the 21<sup>st</sup> Century Maritime Silk Road to take, with "One Belt, One Road" being argued to be complementary to the ASEAN Economic Community.

## **RAILWAYS FOR ECONOMIC DEVELOPMENT**

Whether we are talking about ASEAN, ASEAN+1, ASEAN+3 or ASEAN+6, the key objective has been enhanced connectivity. The "One Belt, One Road" strategy points to regional connectivity through the building of infrastructure. To use the analogy of traditional Chinese medicine, physical health requires the unblocking of blood vessels. Similarly "One Belt, One Road" is to clear physical and regulatory paths to allow economic interactions to occur freely. Railways are central to this undertaking.

For example, the China-Laos Railway starts from Kunming, capital of China's Yunnan Province, runs through the famous Laotian tourist resort of Luang Prabang, and ends in Vientiane. The entire route is. The Chinese will be responsible for the construction of the 417-kilometres-long railway in accordance with international technical standards. Passenger trains travelling this route will reach a speed of 160 km/h while freight trains will travel at up to 120 km/h. The ground breaking ceremony to launch the project was held on 2 December 2015, Lao National Day, after some delay, and the railway is estimated to take five years to complete.

Myanmar is also of interest in this context. It neighbours China and has a long coastline, and excellent port and maritime facilities. There, the "One Belt, One Road" strategy, together with the BCIM Economic Corridor that links Bangladesh, China, India and Myanmar, seeks to deepen cooperation between the countries. Energy cooperation has been one of the important areas of cooperation between China and Myanmar, and the China-Myanmar oil and gas pipeline project has been a success. In addition to this, Myanmar may also be encouraging Chinese enterprises to invest in mining, power, construction, transport and other fields.

Westwards, we have the Chengdu-Europe Express Rail, which opened on 15 May 2013. The route runs from Chengdu, the capital of Sichuan Province, via Kazakhstan, Russia, Belarus and several other countries, and ultimately ends at Lodz in Poland. All in all, goods sent from Chengdu will take only 12 days to reach Lodz. This is significant because Chengdu is a booming city. It registered 8.8 percent economic growth in 2014 and its GDP is expected to rise above US\$161.1 billion. Chengdu's electronics and IT industry alone generated 280 billion Yuan, while its automobile industry brought in 130 billion Yuan. As has been reported: "Chengdu now produces 20 per cent of the world's computers and two-thirds of its iPads. Half the world's laptop computer chips are also encapsulated and tested in the city. More than 260 Fortune 500 companies have opened offices in Chengdu including more than 40 in the IT sector. It also has 13 of the world's top 20 software makers located there".<sup>1</sup> The speed of trains plying this route reaches 400 km/hr, and the railway is expected to be 9,826 kilometres long when completed. For now, only freight service is available. When the passenger service commences, a number of Chinese cities will be directly connected to the heart of Europe.

In Thailand's case, the Thailand-China railway project runs through Bangkok, Nakhon Ratchasima, Khon Kaen, Nongkhai, Kaeng Khoi and Map Ta Phut—a total length of 873 kilometres, and investments amounting to about 500 billion Baht are expected to be pumped into it. On 19 December 2015, Thailand and China held a foundation-stone laying ceremony at Chiang Rak Noi, Ayutthaya, to launch the project. Chiang Rak Noi will be the location

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<sup>1</sup>"Riding the Chengdu-Europe Express" ([http://www.chinadaily.com.cn/regional/2015-01/30/content\\_19452016.htm](http://www.chinadaily.com.cn/regional/2015-01/30/content_19452016.htm), accessed 28 Jan 2016).

for the operations control centre, and construction is expected to start in the middle of this year.



Where Vietnam is concerned, the passenger train service from Nanning to Hanoi was officially opened on 2 January 2009. This was in time to meet the 2010 completion of the China-ASEAN Free Trade Area agreement. The China-ASEAN transport cooperation strategy plan paved the way for the International Transport Corridor between China and ASEAN countries; and the railway from Nanning to Hanoi is an important passageway in that context. On 28 October 2014, the regional government approved the south railway expansion of the Nanping section of the Hunan-Guangxi rail, involvement of a total investment of 17 billion Yuan. The designed speed is 160 km/hr, and construction is scheduled for 2016.

The new standard-gauge Kunming-Hekou railway is also scheduled for construction. After the revamping of its Kunming-Yuxi section, it will be the first high-speed railway having a speed capacity of up to 200km/hr in Yunnan Province. This railway will be about 330kilometres long, and with it a journey from Hekou to Kunming will only take about three hours. It will be the second China-Vietnam international railway, after the Nanning-Pingxiang (Guangxi) railway.

Construction of high-speed railways like the Chengdu-Europe, Nanning-Hanoi, Kunming-Mengzi-Hanoi, China-Laos and China-Thailand railways accords well with the “One Belt, One Road” strategy. The contours of the Trans-Asia Railway are becoming clear as China proactively participates in the construction of the infrastructure. Not only have these railway lines brought China closer to Southeast Asia, they have also placed real opportunities and challenges at Thailand’s doorstep.

## **THAILAND’S INFRASTRUCTURE DEVELOPMENT STRATEGY**

Greater connectivity to China, however, demands drastic upgrading of existing transport capacity in Thailand. On 28 March 2015, the Thai Cabinet passed the transport infrastructure investment plan. This spans over seven years from 2015 to 2022, involves a total investment of 1.9 trillion Baht, and is divided into five parts.

The first part consists of an inter-city rail network, improved infrastructure systems and a double-track railway. The second aim is to improve urban transit planning and ease traffic flows in Bangkok and its suburban areas. This entails developing 10 light rail lines, purchasing 3183 natural gas buses, and increasing the number of roads and viaducts in Bangkok. The third seeks to enhance transport connectivity within the country and to neighbouring countries by improving transportation links to agricultural centres and tourist resorts within the country, enhancing nation-wide links to the country’s capital, improving connectivity to neighbouring countries and upgrading services and support functions related to road transport.

The fourth part of Thailand’s transport infrastructure investment plan concerns the development of water transport networks. This includes the building of a new port and the improving of water transport capacity. Finally, there is the enhancement of air transport capacity. This aims at improving airport services, airport traffic management and the capacity of flight crews, establishing an aviation industrial park, and expanding airport terminals.<sup>2</sup>

## **THE IMPACT OF THE TRANS-ASIA RAILWAY ON THAILAND**

Although China and Thailand had signed a framework agreement on cooperation on railway construction and the Thai-Chinese Joint Committee has held nine meetings, the two sides have not been able to reach an agreement on certain details. On the Thai side, there are

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<sup>2</sup>แผนพัฒนาโครงสร้างพื้นฐานด้านคมนาคมขนส่งของไทยพ.ศ. 2558-2565 และแผนปฏิบัติการด้านคมนาคมขนส่งระยะเร่งด่วนพ.ศ. 2558 (<http://www.beta.ryt9.com/s/cabt/2126319>).

different views about the impact of the Thailand-China railway on the Thailand's economy, on Thai society and on the country's politics and security situation.

Thailand stands to gain economically from the Trans-Asia Railway though. It has an advantageous location and owns significant logistical, trade and finance capabilities. Firstly, Thailand will be able to achieve very high connectivity if domestic railways are to be linked to neighbouring countries and if operational interfaces are implemented with ASEAN countries. Thailand can also tap into China's vast railroad system, reaching into China's vast mid-western and eastern regions, and even entering Europe through China's railway system.

The Trans-Asia Railway may also reduce logistical costs for Thailand. Such costs currently account for 15.2 per cent of GDP and the implementation of the 7-year plan may reduce these by an estimated 2 per cent. The Trans-Asia Railway may also help Thailand realise its ambition to become a hub for aviation and shipping. The country should quickly experience that a well-functioning rail system cannot be distinct from its aviation hub plans. Similarly, Thailand's development of the existing deep-water port at Laemchabang will complement Shanghai's Yangshan Deepwater Port and Ningbo Port in Jiangsu.

In order to boost the competitiveness of the Thai economy, the government has made two policy adjustments. The first is meant to encourage the development of industries with high technology content. The second is aims at establishing ten special economic zones. The purpose of these is to narrow the regional income gap, extend prosperity to border provinces, and integrate resources with neighbouring countries. The ten zones are mainly located in border provinces. Once Thailand connects properly with its neighbours through the Trans-Asia Railway, it is hoped that the development of infrastructure and transport in its provinces will narrow the economic gap between Bangkok and the rest of the country.

It is clear that from an economic development standpoint, the Thailand-China Railway will be beneficial for Thailand. Nevertheless, controversial social, economic and political impacts on the country are to be expected. Many Thais are concerned that the railway will spur an influx of Chinese. Many of the Chinese will no doubt engage in legitimate commercial business, but some can be expected to overstay. It is estimated that the railway fare from Kunming to Bangkok will cost around 700 Yuan (about 3500 Baht) and that 200,000 Chinese passengers will make their way to Thailand each year. At the same time, Thais going to China by rail is expected to be relatively few.

There should also be an impact on the local economy. Thais, especially small businessmen, worry that cheap Chinese goods will pour into Thailand. But the fact is that Chinese goods come in a variety of qualities. China produces and exports expensive high-quality goods like mobile phones and electronic devices as well as low-quality and cheap goods like kitchenware and plastic goods. It is undeniable that the latter are in great demand in Thailand



as well as Vietnam, Laos, Myanmar and Cambodia. However, it would be unfair to blame China solely for flooding the local market with cheap goods. Firstly, there is local demand for them, and, secondly, local government departments responsible for the inspection and quality control of these imported goods will simply have to discharge their duties more diligently. In any case, the Thailand-China Railway project will be just one of many channels for Chinese commodities to enter Thailand.

Finally, the Thailand-China Railway may have a profound political and security impact. The Thais have witnessed China rising to become their largest export market and their second largest source of imports, as well as their largest tourist source country. Since 1999 when China implemented its “go out” strategy, an increasing number of Chinese companies have chosen to invest in Thailand. China has by now become Thailand’s second largest source of foreign direct investment. As such, the Thais have felt more keenly than most the rising economic clout of its giant neighbour. And while China has occasionally assured its neighbours that its rise is peaceful and not a threat but an opportunity, Thais implicitly understand that that giant will seek to exert global influence and that Thailand will have to learn to dance with the dragon.

Nevertheless, compared to other projects, the negative impact of the Thailand-China railway on Thailand is quite limited. Thailand will take this opportunity to enhance the quality of its domestic infrastructure, and the risk that Thailand-China railway project will be obstructed by NGOs is relatively small. Another important reason for this project to work is that both the Chinese and Thai governments have held a number of exhibitions such as “Thailand in 2020”, Thailand-China railway workshops, and advocacy seminars to persuade and educate Thais on the importance of the project.

The tenth meeting of the Joint Committee has been held in Beijing in March 2016. But will the project go forward as expected? The answer is still very difficult to predict. There are four main reasons for this.

1. **Loan Rate.** The Thai government is unable to accept the interest rate of 2.5 per cent offered by China to Thailand, a rate that is higher than the 2.0 per cent that China has offered to Indonesia on loans for infrastructure.
2. **Construction Costs.** China has put forward a construction cost of 550 billion Baht, which is much higher than the 400 billion Baht that the Thai government considers valid.
3. **Return on Investment.** If construction costs are to be 500 billion Baht and the annual interest rate is 2.0 per cent, Thailand’s annual interest payment will be 10 billion Baht. If the price of a ticket on the Thai segment of the line is 500 Baht, ridership of twenty million people per year will be needed for Thailand to pay the interest. That number is very unrealistic.



4. Investment Ratio. The investment is very large, and it will be difficult for Thailand to earn sufficient return on its investment. Furthermore, the Thai government thinks that the Thailand-China railway will be favourable not only to Thailand but to China's "One Belt, One Road" as well. It therefore hopes that the Chinese side will complete construction using the internationally accepted form of "build-operate-transfer" (BOT). Can Chinese government accept this proposal? This is the key issue.

## CONCLUSION

The Thailand-China Railway project will enhance the infrastructure and connectivity of Thailand as well as realize China's Maritime Silk Road vision. It will not only enable Thailand to grow as an important transportation hub but also promote regional connectivity through the broader Trans-Asia Railway network. It will help Thailand to exploit its regional advantages and, from China's perspective and to its advantage, nurture its centrality to ASEAN.

While of concern, the impact of the Thailand-China railway project on Thailand's society, economy and environment is manageable. With regard to the worry that large numbers of Chinese will enter Thailand or that the local market will be flooded with cheap and inferior Chinese goods, it must be remembered that it is the responsibility of the Thai government to control the inflow of people and goods into the country.

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