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DRIVERS OF CHINA'S REGIONAL INFRASTRUCTURE DIPLOMACY: THE CASE OF THE SINO-THAI RAILWAY PROJECT

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Abstract: The land-based Silk Road Economic Belt, as a part of China's Belt and Road Initiative, has become central for the country's economic diplomacy since 2013. As part of these initiatives, Chinese authorities have been keen to expand their high-speed railways across the country's border into neighbouring countries. Thailand has been one of the front-runners in negotiating high-speed railway projects with China. This article seeks to answer the following questions: what are the driving forces behind the land-based Silk Road Belt; what are the rationales behind Sino-Thai rail project; and how can the process and outcome of Sino-Thai negotiations be understood? These questions reflect on whether we are witnessing Chinese economic diplomacy to advance commercial and wider economic goals or Chinese economic statecraft to serve foreign policy objectives. Overall, after examining the evidence, the article argues that Silk Road Economic Belt diplomacy, and the Sino-Thai rail project all are driven predominantly by economic motivations.

Key words: China, Thailand, Belt and Road Initiative, High-speed rail, Infrastructure development

The Belt and Road Initiative (BRI) – formerly known as the One Belt, One Road (OBOR) - has become a centrepiece of Chinese economic diplomacy since 2013. It encompasses a sea-based Maritime Silk Road and a land-based Silk Road Economic Belt (SREB). As part of the latter initiative, Chinese authorities are keen to expand their high-speed railways (HSR) across the border to neighbouring countries.[1] Chinese political leaders have in recent years travelled around Southeast and Central Asia acting as "HSR salesmen" and proponents of BRI. According to the Chinese scholar Zhang Yunling (2016, 64) BRI is "an 'express train' that regional nations cannot afford to miss."

Thailand has been one of the front-runners in negotiating HSR projects with China (as well as Japan). The military junta that seized power in May 2014 decided to proceed with four high-speed and medium-speed railway lines. The Northeast-South line, which involves Chinese state-owned enterprises (SOEs), was downscaled to medium-speed railway (MSR).[2] Thailand

and China reached a memorandum of understanding (MoU) in late 2014 concerning construction of the 873 kilometre (km) MSR-line from the eastern deep seaport Map Ta Put to the northeastern city of Nong Khai (bordering Laos) via Bangkok. They had a signature ceremony in late 2015 and construction was to start in May 2016. In March 2016, Thai Prime Minister General Prayuth Chan-ocha announced that Thailand would take full ownership of the project. Later, the first phase – 253 km from Bangkok to Nakhon Ratchasima – was agreed upon in September 2016. In June 2017, Prayuth claimed to have cleared the remaining legal issues concerning the project using his military junta's decree powers. Thailand was slated to provide the financing and most of the materials, while China was to contribute expertise and project supervision. The first Sino-Thai contracts – for design and technical advice – were signed in September 2017 and a ground-breaking ceremony for the first small section took place in December 2017.

This article analyses the Sino-Thai rail project in the context of the broader BRI . It examines the rationale behind Chinese rail diplomacy in Thailand. It seeks to answer the following questions: what are the driving forces behind the SREB initiative; what are the rationales behind Sino-Thai rail project; and, how can the process and outcome of Sino-Thai negotiations be understood? While the first two questions are China-specific, the last encompasses positioning and strategic decision-making by Thai authorities.

The next section of the article seeks to conceptualise the driving forces for the project and looks at the theoretical and analytical foundation of potential rationales – geo-strategic versus economic. This is followed by an examination of the forces behind BRI with an emphasis on the land-based SREB followed by a section that focuses on the regional and sectoral

dimension of China's regional rail diplomacy. The article then analyses the Sino-Thai rail project and a conclusion follows.

CHINA'S REGIONAL CONNECTIVITY POLICY: GEO-STRATEGY VS. ECONOMIC IMPERATIVES

China's HSR-diplomacy in mainland Southeast Asia is closely linked to BRI that aims to facilitate economic connectivity between China and its Southeast Asian neighbours (NDRC 2015, 3-4). The issue is whether China uses such economic tools to achieve strategic foreign policy objectives or whether infrastructure diplomacy is used to advance commercial interests and serve broader economic purposes. In this section, conceptual and analytical approaches that prioritise strategic objectives are considered in the context of how countries seek to turn wealth into global/regional power through strategically manipulated economic statecraft. This brings geo-political and geo-economic strategies to the forefront. Next, the section deals with concepts and approaches that highlight domestic economic imperatives and how the state seeks to boost economic growth and transformation through economic diplomacy.

Geo-strategy and economic statecraft

Geo-strategy is about national strategic political concerns and the dynamics of inter-governmental relations. One mode of geo-strategy is geo-politics that links geography and state territoriality to world-power politics. Here one takes spatial characteristics of resources (such as oil) and other geographical conditions into account but still operates within a state-centric, realist perspective in which all states seek to maximise their relative power (see Mackinder 1904; Brzezinski 1997). Hence, we could expect China to challenge the US's

regional position and seek first regional, then global, hegemony (see, for example, Mearsheimer 2006).

In relation to regional affairs – and including broader International Relations perspectives – the expectation is that China, through military, ideational and institutional efforts, as well as more tangible investments and infrastructure development, seeks to construct a regional political order that can neutralise containment strategies as well as make it costly for regional states not to accommodate China's strategic interests (Callahan 2016; Zhang 2016).

In the early 1990s, Luttwak (1990) suggested that the reduced role of military power in the post-Cold War era would cause the instruments of inter-state rivalry to increasingly be economic. In addition to classical trade policy instruments, Luttwak (1990, 23) pointed to "the competitive development of commercially important new technologies, the predatory financing of their sales during their embryonic stage, and the manipulation of the standards that condition their use – the geo-economic equivalents of the offensive campaigns of war." Petsinger (2016, 1) proposes that the increasing use of geo-economic tools is related to the rise of China, the revival of state capitalism and SOEs and the deepening of economic globalisation. Sparke (2007, 340) suggests that in contrast to the geo-politics of fear that reproduce "us" and "them," geo-economic scholars tend to "anticipate capitalist inclusion rather than expulsion or containment of the evil others. Their focus is on networks not blocs, connections not walls, and trans-border ties instead of national territories." While the difference between a geo-political and a geo-economic perspective is clear, there is no agreed upon definition of the latter. This article will follow Wigell (2016, 137) and define it broadly as the geo-strategic use of economic power, but limits that to the use of economic tools to serve national strategic objectives.

Wigell (2016, 144) outlines a typology of geo-economic strategies – one being hegemonic geo-economic strategies, which "deploy economic power as a means to uphold regional leadership, without habitually resorting to coercion." This typically encompasses alliance building through provision of regional public goods (for example, economic assistance, infrastructure, co-operative institutional arrangements) where the regional power bears the disproportionate share of the cost of provision (Wigell 2016, 143-45).

The notion of regional geo-strategy relates to the notion of statecraft. In his study of the state-business interaction in selected Chinese economic sectors, Norris (2016) develops a comprehensive analytical framework to understand the conditions under which and the manner in which states seek to use economic interaction to promote their strategic goals. He understands economic statecraft "as state manipulation of international economic activities for strategic purposes" and defines it more precisely as "the state's intentional manipulation of economic interaction to capitalise on, reinforce, or reduce the associated strategic externalities" (Norris 2016, 3, 13-14). Norris works from within a neoclassical realist perspective and takes his point of departure in the notion of a "grand strategy;" however, he relaxes the assumption that the state is a unitary actor and instead uses the degree of state unity as an independent variable.

In short, geo-strategy and economic statecraft are one possible way to approach China's infrastructure diplomacy in the context of BRI.

Economic drivers and economic diplomacy

Rather than serving strategic foreign policy objectives, regional infrastructure policy may serve economic goals. BRI and rail diplomacy may be driven by commercial goals and broader goals of national economic development. Similarly, all states deploy foreign economic policy to ensure a favourable external environment for advancing their domestic economy. In China, as elsewhere, we should expect commercial actors to engage in various forms of cross-border interaction and to seek state support in their process of internationalisation. This brings issues such as market opportunities, access to finance, access to cutting-edge technology, standard setting and access to supplies for energy resources to the forefront (see Breslin 2013, Brautigam and Tang 2012, Summers 2016).

From this perspective BRI and overseas rail infrastructure projects are not about economic statecraft but about economic diplomacy. This can be defined as the decision-making behind, policy-making of, and advocating of broader nationally-defined economic strategies. Lee and Hacking (2010, 9-10) argue that "diplomats can be seen as the agents of globalisation given their direct involvement in the creation, development, and regulation of markets and capital through trade and finance negotiations, as well as commercial activity." Naray (2008, 2) uses the term "commercial diplomacy" to denote a slightly narrower range of activities "conducted by state representatives with diplomatic status in view of business promotion at home and a host country. It aims at encouraging business development through a series of business promotion and facilitation activities."

In the Chinese context, such networking has been highlighted by Gonzales-Vicente (2011, 403), who argues that SOEs cannot be analysed through a state versus market binary; instead, it is a combined process, in which the internationalisation of the Chinese state is an "increasingly decentred process impelled by an entrepreneurial statehood rationale."

Accordingly, this process is driven by the central government, by marketised state branches in the form of SOEs and by local contingencies in overseas operations. Breslin (2013, 1274) similarly makes a call for disaggregating China into different interests and actors and for not underestimating the role of commercial goals. We should expect to find a disaggregation of China into a variety of actors with different interests, so that "within any given sector there is typically more than one state (or state-related) actor, and competition between different SOEs is far from uncommon (even when supposed divisions of interest and activity have been established between them)" (Breslin 2013, 1282).

This call for a decentred actor approach does not stand in contrast to searching for more structural economic drivers behind SREB and overseas infrastructure projects. As in capitalism in general, there are also fundamental contradictions in Chinese capitalism that lead to over-accumulation/under-consumption crises and generate shifting strategies – technical, organisational, and spatial fixes – to solve them. Moreover, China's position in global value chains is not stable. Thus, global value chain scholars argue that there is an on-going transformation of China from being a production hub in global buyer-driven chains to becoming an emergent end-market fuelling regional value chains (Gereffi 2014). This change, and the related technological upgrades, leads to changing trade and investment patterns, which in turn may drive global and regional infrastructure projects and related economic diplomacy.

Scholars who argue that the Chinese use the economic toolkit for commercial and broader economic reasons would consider China's rail diplomacy as "normal" state-sponsored economic interaction. They would also normally agree that China is characterised by "fragmented authoritarianism," meaning, for example, that one should not expect the

activities of the Ministry of Foreign Affairs to be tightly co-ordinated with the Ministry of Commerce.[3]

However, some scholars are more open to the role state guidance in China's expansion abroad. Thus, Brautigam and Tang (2012, 802-03) call state-involvement in promoting firm-level activities with mostly commercial rationales for "the developmental state abroad." They argue that apart from the stronger role of Chinese SOEs, this is not different from what Japan and Taiwan did earlier.

In contrast, Jones and Zou (2017) argue that the fragmentation, decentralisation and internationalisation of the state apparatus have undermined the direct control of the state over SOEs. As Jones and Zou (2017, 744) explain it, the result is that we have "an evolving, struggle between disparate actors within a fragmented, poorly coordinated governance structure in which the state can only direct SOEs "by issuing targets, principles and guidelines," giving SOEs considerable interpretive latitude if they present their commercial strategies as enacting overall directives (Jones and Zou 2017, 749).

In short, BRI and rail diplomacy may be driven by firm-level commercial goals and broader goals of national economic development. The former includes supporting the competitiveness and internationalisation of, for example, construction and equipment firms. The latter refers to more structural issues such as dealing with domestic over-capacity, domestic economic upgrading and infrastructural aspects of regional supply chains. In the following section, I will discuss whether this is the case or if we find a coherent foreign policy directed strategy – geo-political or geo-economic – where China uses economic statecraft to enhance its efforts to establish a hegemonic regional order. If the latter, we would expect China to bear the

disproportional share of the cost of rail infrastructure provision and compromise on commercial profitability.

Drivers of the Silk Road Belt

China's involvement in Thailand's railway expansion is part of President Xi Jinping's BRI . Xi became general secretary of the Chinese Communist Party (CCP) in November 2012 and launched the land-based part of BRI in September 2013. In March 2015, the National Development and Reform Commission (NDRC), together with the Ministry of Foreign Affairs and Ministry of Commerce, and with State Council authorisation, produced a BRI "white paper" (NDRC, 2015). It emphasises win-win regional and bilateral co-operation, openness to all countries, common interests, dialogue between "civilisations" and connectivity of "infrastructure construction plans and technical standard systems." The latter encompasses transport, energy, and communication infrastructure (NDRC, 2015). Funding will come from new institutions such as the Silk Road Fund (US$40 billion) and the Asia Infrastructure Investment Bank ($100 billion) but will mostly from state-owned "policy banks" such as China Exim-Bank, China Development Bank and China Investment Corporation. During the 19th National CCP Congress in 2017, BRI was – as part of "Xi Jinping Thought" – written into the CCP constitution, indicating that it will have high policy priority at least through 2022 (*Reuters* October 24, 2017).

In order to ensure coherence in the foreign economic policy-making of the Chinese party-state, Xi Jinping centralised decision-making on BRI. A special Leading Small Group with a secretariat in the NDRC was established to oversee and co-ordinate the implementation of BRI. Xi Jinping and Premier Li Keqiang made the major BRI announcements and Vice-

Premier Zhang Gaoli led the Leading Small Group (2015-2017). Clearly, BRI is a national strategic priority and policy coherence is a main concern (Yang and Parker 2015; Callahan 2016, 229-30; Hong 2016, 3).

Various observers and scholars believe BRI is primarily driven by strategic concerns. In the following section, I will outline these strategic concerns and economic statecraft. However, the argument in this article is for more attention to commercial goals and broader economic imperatives Although Beijing explicitly states that BRI is not a geo-political tool or amounts to a diplomatic offensive (Hong 2016, 4-5), it is useful to understand it through geo-political and geo-economic perspectives.

Overall, BRI/SREB can be instrumental to Xi's "Chinese Dream" of a great national rejuvenation that will allow China to return to great-power status without provoking the USA or producing a counter-reaction from its neighbours (Clarke 2017,72). There are several reasons for this. First, BRI can be seen as China's response to US President Obama's "pivot to Asia" (Wang 2016,457-58). This included the Trans-Pacific Partnership, which aimed to tighten the economic linkages between selected Asian allies and the USA and tame China by writing the future economic rules in the region (Wilson 2015, 248-250). Obama tried to counter the Chinese competitiveness by introducing advanced, so-called golden standards that fit highly developed countries and by setting up rules that restricted subsidies to Chinese SOEs (Obama 2015).

Second, the Chinese government reacted to the Obama's pivot through its own pivot toward the West, within China and beyond (Swaine 2015, 14). BRI intends to develop a "Eurasian" transport corridor that will lessen the country's dependence on current sea routes, partly to

make China less dependent on the narrow Strait of Malacca but more generally to give China the possibility of bypassing sea-lanes that are subject to American naval dominance and prone to conflicting claims such as the South China Sea (Rolland 2015).

Third, BRI is a different template of regional order (Ferdinand 2016, 946-48). The administrations in the USA and Japan proposed a Trans-Pacific template with an emphasis on free markets, private entrepreneurship, services, investments, financial liberalisation and uniform rulemaking. The Chinese regime advanced an Asian-centred template, with an emphasis on state-driven activities, physical infrastructure links, policy-led trade facilitation and case-by-case negotiation on the allocation of resources and the direction of development (Arase 2015, 33-34).

Fourth, Beijing officials also hoped that BRI could safeguard regional stability and expand regional influence. One element was the use of cross-border extensions of trade and infrastructure in the West and the South as a way of preventing ethnic conflicts in neighbouring countries from spilling over into China, which already had conflicts in Tibet and Xinjiang (Rolland 2015, 3). By lifting living standards in both its outer provinces and neighbouring countries, Beijing aspired to moderate "the three evils" of separatism, extremism and terrorism. Another element was to deepen inter-dependence, shape preferences, instil confidence and build trust with neighbouring countries. In part, China did this by presenting itself as a benevolent partner that would not interfere in domestic affairs (Arase 2015, 31-35).

In brief, it appears that there is certain support for the interpretation that China uses its overseas infrastructure projects to serve strategic foreign policy objectives. As a result, if

implemented, BRI could have significant geo-political implications. At the same time, continued economic development remains particularly important for a party-state that maintains its legitimacy and social and political stability by delivering economic growth and creating employment opportunities. Such economic drivers also influence BRI.

A major challenge for the CCP is regional inequality, which has seen Western and Southwestern provinces fall behind. The BRI white paper places Yunnan and the Guangxi Zhuang Autonomous region as gateways to the ASEAN countries (NDRC 2015, 9). BRI can be interpreted as a way of using infrastructure projects to reinvigorate the economy in these frontier regions and to give them direct access to international markets (Clarke 2017, 73-74; Cai 2017 6-8).[4] While regional balancing is important, there are also several national economic incentives associated with BRI.

One of these incentives involves access to natural resources, particularly energy resources. China became a net oil importer in 1993 and has become increasingly reliant on imports (Liu and Dunford 2016, 9-12). In addition, the economy increasingly relies on imports for industrial raw materials as well as grains and other food products. This natural resource vulnerability links to BRI, as it is seen to open alternative routes of transport from resource-rich Central Asian countries and for land-based alternatives to sea lanes for oil and raw materials from Africa and the Middle East Two further domestic challenges facing the Chinese economy are surplus capital and industrial over-capacity (*The Economist*, February 27, 2016, 51-52). Since the mid-1990s, China has followed an export-led growth model, converting China into the "workshop of the world." This model was characterised by low wages, resulting in a low domestic consumption rate. High savings rates and subsequent trade surpluses have given China international financial power in the form of huge foreign-

exchange reserves. Some argue that OBOR and related infrastructure banks are a way of tackling the problem of excessive foreign exchange reserves, which are currently sent back to the USA and invested in Treasury bonds. By channelling funds to other locations in Asia, China can also alleviate the risk of being "addicted to" these bonds. Another, though minor, economic motive may be the internationalisation of China's currency. Whereas cross-border flows can be settled in RMB, flows of investment using excess reserves will typically be in US dollars, as will the funding through the Asia Infrastructure Investment Bank (Arase 2015, 31; Summers 2016, 1637). In the wake of the Global Financial Crisis, a huge financial stimulus package resulted in an investment boom that led to further contradictions in the economic model – now in the form of excess capacity, falling profits, over-stretched banks and bad debts. The result was that China developed a classical over-accumulation crisis and subsequent push for capital exports (Hung 2015).

Therefore, BRI is a way of exporting over-capacity in the construction and steel industries and enhancing the investment returns to more profitable investments sites through relocation. Moreover, China's 2015 concept of "International Capacity Co-operation" is meant to also relocate manufacturing capacity in more capital-intensive industries to other countries (see Lu 2016; Cai 2017; The State Council 2015). However, due to the limited scale, BRI projects cannot solve all of China's over-capacity problems. As Hofman (2015) explains: "While it is true that the New Silk Road needs a lot of investment, even the highest estimates would constitute a relatively modest share of China's $5 trillion annual investments back home. Investment of $1 trillion over 10-15 years is not going to absorb a lot of China's overcapacity." Hong (2016, 20-21) reaches a similar conclusion regarding BRI to solving and over-capacity in the steel industry. Hence, the BRI initiatives amount to an element in a medium-term rebalancing process.

A further economic driver is industrial upgrading and the export of high-end manufactured goods as a means to (slowly) alleviate the under-consumption problem.[5] The Chinese leadership fears that rising wages will result in China losing its comparative advantages in cheap labour manufacturing. Therefore, it is prioritising upgrades to the production structure and has announced a transition to a more innovative economy. Overseas infrastructure projects and related economic zones offer an opportunity to relocate low-value added manufacturing facilities to neighbouring countries. China can then export higher value-added goods and services to these countries in exchange for agricultural goods, raw materials and resource-intensive intermediate goods (Lin 2015, 589; Mingjiang 2015; Holslag 2015). There is also an important expectation that BRI partners will be more willing to enter into such regional value chains and accept Chinese standards (Cai 2017, 9).

Upgrading of China's manufacturing capabilities has been on the state agenda since 2011 in the form of seven "Strategic Emerging Industries." It has also been highlighted in the "Made in China 2025" plan. Furthermore, the Chinese leadership in 2015 accelerated a wave of mergers among SOEs. This was partly to reduce over-capacity and avoid vicious competition, but meta-mergers were also introduced to boost competitiveness. Within the logistics and infrastructure sector, this led to the formation of one major rail rolling stock SOE (see below). Thus, BRI can in part also be understood as economic diplomacy measures nurturing national champions or "dragon heads" as globally competitive multinational companies (Leutert 2016, 2-3).

Related, BRI represents a new phase of China's opening-up. China started bringing in Western investment in the 1990s, followed by "a Going Global" policy during the first

decade of the 2000s. This is now accelerated through a cross-border extension of the "Go West" policy, which was initiated in 2001. Through BRI, selected cities in Western and Southern China are to serve as developmental gateways to neighbouring regions. Thus, China is now the leading trade partner with the ASEAN region and, although it is still smaller than Japan as an investor, Chinese investment has increased, reaching 37% on average of the inflow of FDI from Japan in 2013-15 (ACIF 2016, 14, 38). Hence, BRI is a piece of economic diplomacy in which Chinese leaders try to support and lead this internationalisation process to advantage the country's economic transformation and as a way of advancing Sino-centred regional productions chains. This impetus may take form of state leadership and control but may also be more indirect, exerting leadership, as suggested by Jones and Zou (2017), through setting broad targets and guidelines for profit-seeking SOEs.

In short, while BRI may be driven by geo-political and geo-economic strategic concerns, it is better understood as being motivated by a range of economic imperatives (industrial over-capacity, surplus capital, access to resources, market access, export of standards and global competitiveness) in the on-going process of the Chinese economy's globalisation and regionalisation. Using the case of apparel productions networks, Zhu and Pickles (2014) have demonstrated that industrial upgrading, relocation to inland China and relocation overseas are closely related. They argue that "state policies, social pressures on low-wage manufacturing and changing demands of different end markets are becoming important drivers of industrial upgrading in eastern China and crucial drivers of the relocation of low value-added segments of the industry to other regions and countries" (Zhu and Pickles 2014, 37). Similarly, this article suggests that BRI is mainly driven by China's search for a new engine of economic growth and is way of connecting the many regional and national economic restructuring programmes.

CHINESE INFRASTRUCTURE DIPLOMACY: REGIONAL INITIATIVES AND SECTORAL DYNAMICS

As part of BRI, the Chinese government has launched a multi-year infrastructure investment programme that aims at linking China with the rest of the world. At the same time, it also aims to improve infrastructure connectivity with Southeast Asia and through that develop broader economic co-operation with its southern neighbours. However, it will also allow China to compete with Japan, which has been engaged in infrastructure development in the Southeast Asian region for decades. Due to run-down and under-utilised rail networks in the region, it was considered a promising investment market. An ADB report (2009, 167, 169) estimated that between 2010 and 2020 a total of $2.5 trillion of investments was needed in transport in Asia, of which $38.6 billion was in railways. In addition, a further $82.8 billion was identified for regional projects along the Trans-Asian Railway, of which the Pan-Asia Network is a part.

ASEAN and the Pan-Asia Rail Network

Xi Jinping's government has made the railway sector a top priority in the expanding co-operation between China and ASEAN and has promised special infrastructure loans for ASEAN-China infrastructure development. The increased interest is reflected in China's involvement in discussions of the Master Plans on ASEAN Connectivity 2010/2025 through the Chinese Working Committee of China-ASEAN Connectivity Co-operation (ASEAN 2016; Hong 2016, 9).

China has also strengthened its involvement in the Greater Mekong Subregion (GMS). In contrast to Japan, China has direct access to mainland Southeast Asia and considers its GMS involvement as a natural complement to its sub-national regional strategy for connecting Chinese provinces with neighbouring countries. To boost infrastructure development, China has promised funding focused along the North-South Economic Corridor that makes Yunnan a "gateway to the South" and involves close allies, Laos and Cambodia. This is complementary to Japan's interests in the East-West Economic Corridor and the Southern Economic Corridor. The vice chairman of the NDRC, Wang Xiaotao, has underlined that the Chinese government will give priority to building road and rail connections with Cambodia, Laos, Myanmar, Vietnam, and Thailand (*The Nation*, November 25, 2017; Li 2016; Summers 2016).

China's involvement in upgrading railways links with Thailand and Laos is part of a larger Pan-Asia Railway Network from Kunming in China's Yunnan province to Singapore. Plans to link Singapore and Yunnan were proposed in colonial times, but the modern form – the Singapore-Kunming Rail Link – was proposed by ASEAN more than 20 years ago. It encompassed an eastern and a western line that would build upon existing national networks, crossing seven ASEAN countries.

However, in 2007 China and Thailand agreed to a proposed central route via Laos, which would allow a railway network with three 4,500-5,500 km lines. The present China-Laos-Thailand projects aim at implementing this Pan-Asia Railway Network by having a central line linking Kunming and Singapore with Bangkok as the main hub. This could link to the 2,264 km HSR line from Shanghai to Kunming that was in full operation by December 2016 (*China Daily*, December 28, 2016). The central route is consistent with China's involvement

in North-South Economic Corridor, which also runs from Kunming to Bangkok. The administration in Beijing has emphasised reaching an agreement with Thailand on the railway between Bangkok and the Lao border and using it as a showcase for their involvement in regional infrastructure projects.

High-Speed Rail: Sectoral Dynamics

The drivers behind the building of Chinese high-speed rail networks abroad are of particular interest here, because HSR has become the cornerstone of China's infrastructure diplomacy under BRI, and the two are inter-related. According to Kratz and Pavlicević (2016, 8):

> the two are mutually reinforcing: the attractiveness of HSR spearheads China's OBOR campaign abroad and in return the going out of HSR benefits from the support of the political and financial commitment and vigorous public diplomacy promoting the OBOR initiative around the world.

In 2004, the Chinese Ministry of Railways decided to push a domestic state-guided HSR development based on imported technologies; subsequently, domestic HSR expansion became a part of the huge 2008 stimulus package following the Global Financial Crisis. The domestic experience served as a stepping-stone for the export of HSR systems. Exports took-off in 2011 when Beijing launched a campaign to export HSR-rail systems around the world. A second wave began in late 2014 with strong backing from Xi Jinping and Li Keqiang with HSR tightly linked to the promotion of railway networks under BRI (; Pavlićević and Kratz 2017, 2018.

China's HSR technology had been developed through a combination of pre-existing technological capabilities and re-engineering, followed by the experience obtained from constructing and providing equipment for 20,000km of HSR tracks domestically.[6] This allowed China to offer an internationally competitive technology at low cost and with fast delivery. The main companies involved in overseas HSR projects are the China Railway Group (CREC) and China Railway Construction Corporation (CRCC) involved in construction and China Railway Rolling Stock Corporation (CRRC), a rolling stock company.

CRRC is a state nurtured national champion. Previously, there were two major SOEs within the rail equipment sector: China CSR Corporation and China CNR Corporation. Initially the two firms competed aggressively in foreign bidding processes abroad (EIU 2016, 37). In June 2015, these two SOEs were merged into CRRC in order to boost international competitiveness and eliminate price wars. CRRC is slated to deliver trains to the Sino-Thai Rail project (*South China Morning Post,* September 26, 2016).

The two major marketised SOEs – CREC and CRCC went public in 2008, with CRCC having a greater share of private ownership. CREC had in 2017 projects in 17 countries (CREC 2017). In addition to the Thai project, in Southeast Asia, CREC is also involved in Indonesia and Malaysia and was keen to bid on the Singapore-Kuala Lumpur HSR line until the change of regime in Malaysia *Bangkok Post*, March 22, 2016; *South China Morning Post, July 11,* 2016). CRCC is China's second largest construction company. It has established a subsidiary, China Railway Construction (Southeast Asia) Company, located in Bangkok and involved in the project in Thailand (CRCC 2017; *Peoples Daily Online*, August 27, 2015).

Another rationale behind the drive to export in HSR is over-capacity. China's domestic HSR industry will only have sufficient domestic demand if the government builds its planned 15,000km by 2025. However, this expansion is tied to the realisation of mega-city plans and to how much debt the already heavily indebted state-owned operator of trains, China Railway Corporation (CRC), can take on board (*The Economist,* January 14*,* 2017, 48). This uncertainty makes foreign projects attractive. As Peel and Hornby (2016) observe, "big rail projects are useful to China because they mop up spare supply-chain capacity that lacks enough orders domestically." This is particularly the case in related industries like iron, steel and aluminium that are all burdened by debt and low capacity utilisation. Even the rolling stock industry may need to offload over-capacity. CRRC, which derives 88% of its sales from domestic customers, plans to expand the export share to 20% (EIU 2016 October, 37). The use of exports to offset the slowdown in domestic orders became urgent in 2017, as China's spending on new HSR and mass-transit systems decreased (*Caixin*, September 22, 2017).

In China – as elsewhere – the export of huge infrastructural projects requires commercial and wider economic diplomacy involving government-to-government negotiations. In contrast to Japan, where HSR diplomacy tends to be organised around Public-Private Partnership models involving the host government (through loans) and Japanese companies, China has demonstrated financial flexibility with a preference for a "loan and build" approach known as the "EPC-F" model involving engineering, procurement and construction plus financing (Pavlićević and Kratz 2017, 21. The financial component often takes the form of loan commitments made by one of the two policy banks, China Development Bank or the China Exim-Bank, so that China can offer not only low overall costs but also soft loans with low interest rates and long grace periods (Kratz and Pavlićević 2016, 6).

The HSR industry is one of the strategic emerging industries where China can influence the establishment of international standards. Therefore, the HSR industry will, as part of "Made in China 2025," has access to new "government guidance funds" that allocate public investments. Hence, CCRC announced it will participate in the Central Enterprise National Entrepreneurship Guidance Fund, which is dedicated to developing investment projects abroad and which the company will use to set up 11 regional branches around the world (Kozul-Wright and Poon 2017; *Caixin*, July 4, 2017).

Summing up, Chinese leaders have acted as "HSR salesmen" all over the world. Besides being part of a process of normal commercial diplomacy supporting local exporters in the international markets, HSR also appears to be part of a broader set of economic dynamics linked to advancing structural change and technological upgrading and through that advancement of the country's economic power. It is connected to a state guided process of mergers, technological upgrading and reforms that will offload some over-capacity in the HSR and related supplier industries.

Likewise, HSR diplomacy – mostly through related financing – interacts with a broader regional infrastructural diplomacy. China has set aside funds via the Silk Road Fund and made loan commitments to infrastructural projects in the Mekong and the broader ASEAN region. By doing so, the HSR offensive may go beyond economic goals and also serve strategic foreign policy goals. Through presenting itself as a responsible regional power providing much-needed public goods (railways) and creating a climate of friendship, HSR diplomacy can – as suggested by Wigell (2016) – widen the scope for broader regional co-operation and alliance building. The extent to which this happens and becomes economic

statecraft depends on whether it is possible to mitigate the fragmented authority and ensure policy coherence across the involved state agencies, SOEs and policy banks (Norris 2016). Here the rail SOEs involved have all gone public and therefore have incentives to follow their commercial agenda and take notice of the relevant stock markets. Further, although it still is a policy bank, the Exim-Bank is supposed to work on a break-even basis and has become more commercially-oriented (Corkin 2011, 73-74).

In the following section, the interconnectedness of BRI and HSR-diplomacy will be examined with attention to the case of the Sino-Thai railway project.

THE SINO-THAI RAILWAY PROJECT

The Sino-Thai railway project is part of the proposed Pan-Asian Railway Network linking Kunming with Singapore along a line through Vientiane and Bangkok. This line is now part of BRI and China's HSR diplomacy, even if the railway is now quasi-high-speed.

Rail infrastructure upgrading plans

A goal of the Thai state for several decades has been to improve trans-border connectivity as well as obtain within-border upgrading of the country's railways. This goal has received considerably more attention since the turn of the century. As in other countries in the region, transport in Thailand mostly takes place by road and this is costlier and more fuel-intensive than rail transport. In the 2010s, Thailand had just over 4,000 km railway tracks, almost all of them single track and very old. The average speed of freight trains was 39 kilometres per

hour (kph) with passenger trains averaging 60 kph (Pichet 2015). This put the upgrading the railways high on the policy agenda.

The Infrastructure Development Master Plan 2015-2022 targeted increasing the operating speed to 60 kph for freight and 100 kph for passenger trains. It was planned to expand the amount of passenger trips from 45 to 75 million per year and freight transportation by rail from 2.5% to 5%. The Plan gives high priority to developing a double-tracked rail network that will start with diesel locomotives but later become electrified (NESDB 2016; Interview, Ministry of Transport Official, Bangkok, February 2016). Another priority project is standard rail development, which in contrast to the present metre gauge has a so-called standard gauge of 1.435 metres and allows for HSR transport. It is here the Sino-Thai Railway project comes to the fore and where a competing Thai-Japanese HSR project connecting Bangkok and Chiang Mai also fits in. As mentioned previously, the 873km Sino-Thai line is linked to Nong Khai and the border with Laos in the North, from the Map Ta Phut harbour in the South on the Gulf of Thailand.

Sino-Thai negotiations on a possible HSR-line date back to the Abhisit Vejjajiva government (2008-2011), when the first negotiations on a possible joint venture took place. During the Yingluck Shinawatra government (2011-2014), a set of mega-projects with a total value of 2 trillion baht ($62 billion) were listed in the Infrastructure Development Plan 2014-2020 and much emphasis was put on getting the private sector to invest through public-private partnership arrangements. Of the total planned investments, 83% were reserved for rail, of which the HSR accounted for 783 billion baht with double-tracking costing 403 billion (World Bank 2014, 15).

The Yingluck government decided to borrow two trillion baht, mainly on the domestic financial market and through a government bond issue. In April 2012, the governments of China and Thailand signed an MoU on Sino-Thai railway co-operation. By then, China had conducted field geological surveys on two HSR projects along the Bangkok-Chiang Mai and the Bangkok-Nong Khai routes. In November 2013, co-operation on the latter route became linked to an agricultural product barter deal covering up to 50% of the construction costs. By then, Premier Li had already visited Thailand and addressed Thailand's parliament, where he pitched the HSR plan as part of a broad roadmap for Sino-Thai co-operation. Other themes included energy, water conservancy, education, and financial collaboration (*China Daily* October 12, 2013). He also promised to import one million tons of rice and to consider importing more natural rubber. The visit came a month after President Xi had launched BRI in Kazakhstan.

Subsequently, Yingluck went on a roadshow to promote her government's infrastructure mega-projects, including the Sino-Thai rail project. However, the domestic bond issue met strong resistance from the opposition Democrat Party and became part of a cocktail of anti-government street politics and judicial actions to bring down her government. Even though the off-budget loan bill passed the Senate in November 2013, the Constitutional Court in April 2014 found it unconstitutional, thereby aborting the whole infrastructure plan (*Bangkok Post*, March 29, 2013; *The New York Times,* March 12, 2014).

However, the military regime that came to power following the May 2014 coup repackaged the mega-projects and restarted the negotiations with China. The regime came up with a 2.4 trillion baht Masterplan for Infrastructure 2014-2022, which set aside 393 billion baht for the Nong Khai-Bangkok-Map Ta Phut HSR line (BoI 2014, 5-6; Interview, NESDB Official,

Bangkok, February 2016). Soon after, to stimulate the slowing economy and restore declining foreign investment, the total infrastructure investment was expanded to 3.38 trillion in the Infrastructure Development Master Plan 2015-2022, with 495 billion set aside for double-track rail development (NESDB 2016; BoI 2014).

A reduced and delayed rail project

In late July 2014, the military junta decided to go forward with the two HSR projects, including the Bangkok-Nong Khai route. During a Bangkok GMS Summit in December – in which Chinese Premier Li participated – an MoU on the railway project and a purchase agreement on rice and rubber were signed. The former was a government-to-government agreement that on the Chinese side would share railway construction between CREC and CRCC. By then the project had been scaled down from HSR to a MSR. The standard double-track rail lines would be constructed for a maximum speed of 250 kph and thus allow for a later shift to a high-speed train. In June 2015, Thailand's deputy Prime Minister Pridiyathorn Devakula claimed it was a Chinese decision to downscale to MSR to better support cargo transport (*South China Morning Post,* June 26, 2015).

The project was a top priority for Prime Minister Gen Prayuth and another Deputy Prime Minister Somkid Jatusripitak, who was in charge of the junta's economic policy. At a lower level, the Ministry of Transport, Finance Ministry, National Economic and Social Board (NESDB) and the State Railway of Thailand (SRT), were involved in an inter-ministerial group and participated in negotiations. On the Chinese side, the NDRC co-ordinated negotiations, which have also involved the CRC and the two construction SOEs – CREC and CRCC. NDRC Vice Chairman Wang Xiaotao served as the chief negotiator (NDRC 2017).

His Thai counterpart was Minister of Transport Arkhom Termpittayapaisith, appointed in August 2015.

Co-operation under the "EPC- F" model meant the project would adopt Chinese technical railway standards with a standard gauge of 1.435 metres and incorporate a mixture of passenger and freight rolling stock. The Thai side would be responsible for land acquisition, environment impact assessment, civil work , mechanical and electrical work for building services, concrete sleepers for tracks and ancillary works. China would conduct the feasibility study and the detailed design for the project, including the mechanical and electrical work for signalling and telecommunication systems, power supply, trains control and track work. China was also responsible for tunnelling and long span bridges as well for establishing a technology transfer and staff training centre, which would train at least 800 Thai staff (Prasert 2015, 67-68). In short, China was generally in charge of high-tech, complex tasks, while the Thai side was in charge simpler, low/medium-tech tasks. Whereas it was decided to use Chinese track systems, the original MoU did not specify the rolling stock but it was implicit that it would be from China (Interview, former Ministry of Transport Official, Bangkok, February 2016).

The MoU also led to the formation of a Joint Committee on Railway Co-operation (hereafter the Joint Committee). During 2015, the Joint Committee held nine meetings, but there was almost no progress. Negotiations were difficult and stalled on several issues – construction costs, financing costs and interest rates, burden sharing, rice/rubber-for-rail deals, technology transfer and land development rights. All were major issues for the Thai negotiators.

During the January-March 2016, the negotiations on financing and risk sharing continued, with Thailand's negotiators starting to backtrack. Among other things, they suggested reducing the project outlay by having only a single railway track on the Nakhon Ratchasima-Nong Khai section, and they wanted the Chinese to take a majority stake in the project (*The Nation*, February 15, 2016; Can 2016; Interview, Ministry of Transport Official, Bangkok, February 2016). Abruptly, in March 2016, Prime Minister Prayuth stated at a meeting in China that Thailand would stop the joint venture talks and in build the 253 km Bangkok-Nakhon Ratchasima section with full Thai financing. He startled observers by declaring that the remaining part of the railway would be suspended, at least for the time being. Despite this, the project continued to involve the Chinese, since the plan was still to contract Chinese construction firms to build the line, buy Chinese-made trains, and use Chinese system technology (*The Nation*, March 31, 2016).

To put additional pressure on Beijing, the Thai government accelerated its negotiations with Japan on the Bangkok-Chiang Mai line (see below) and decided to speed up two other planned standard gauge HSR lines: Bangkok-Hua Hin and Bangkok-Rayong. Further, the Thai government divided the Bangkok-Nakhon Ratchasima MSR line into four sections with different starting dates – starting with a first project of just 3.5 km, followed by a second of 11km, and then two projects of 119 km each (*The Nation*, July 30, 2016; Parameswaran 2016). Concurrently, Sino-Thai negotiations continued and at the 14th meeting of the Joint Committee in September 2016 an agreement was reached on the first phase of the Bangkok-Nakhon Ratchasima track with a total cost of 179 billion baht. Thailand would bear the total construction cost with China possibly providing funds for technical systems and rolling stock (*The Nation*, August 24, 2016; *The Nation*, September 21, 2016). However, the finance conditions were not agreed upon. The construction of the 3.5 km section did not start as

planned in 2016, although the 179 billion baht was included in the budget for FY2017 (*Bangkok Post*, October 22, 2016; *The Nation*, November 1, 2016).

During the first half of 2017, three more committee meetings were held. Chinese discontent with Thailand's positions and the constant delays led to the non-invitation of Gen Prayuth to the huge Silk Road Summit in May 2017. Prayuth reacted by using his junta-granted executive power to over-rule technical and legal problems related to public procurement, site clearance, land use, the work of Chinese engineers and the use of Chinese construction materials in Thailand. After approval by both the Cabinet and the National Legislative Assembly in July, the Joint Committee concluded two minor contracts worth 5.2 billion baht at its 20th meeting in mid-August 2017 (RTG 2017). The contracts covered detailed design work and supervision by Chinese engineers (Hunt 2017; *Xinhua* August 19, 2017; *The Strait Times*, November 16, 2017). Subsequently, Gen Prayuth participated in the BRICS summit in September 2017, where Thailand was invited as observer country and where the contracts were signed (Pongphisoot 2017a). The construction work of the first 3.5 km, which was a Thai responsibility, was planned to start "soon" but was soon postponed as an environmental impact assessment report was delayed; repeated delays are quite normal in Thai infrastructure projects. The Department of Highways was allocated the construction work and a ceremony for the commencement of the piling work took place on December 21, 2017 (*Reuters*, December 21, 2017).

The invitation to public bidding for the subsequent sections did not take place as planned during the first half of 2018. At the June 2018 24th Joint Committee meeting, the first 253-km phase was divided into 14 separate contracts. During the following meeting one of these contracts ("contract 2.3") worth 38.5 billion baht and covering tracks, electronics, machinery

and procurement of train carriages was discussed. The planned bidding rounds, planned for later in 2018, did not take place and by mid-February 2019 "contract 2.3" was still under negotiation. The intention was to have all remaining contracts ready by May 2019, so that construction could start in June, although this seems unlikely for while the 3.5 km segment is still under construction, further delays of the first phase of the project may be expected (*Xinhua*, June 2, 2018; *Bangkok Post* August 16, 2018; *Bangkok Post*, February 15, 2019).

China's rail diplomacy and local challenges

As part of BRI, the Sino-Thai rail project was of particular interest for the Chinese government because Thailand was seen as an important player in the fast-growing Mekong area and because it was placed strategically in the middle of the central Pan-Asia Railway Network line. The country was also targeted because Thailand normally acted as "middlemen" in China's dialogue with ASEAN and because Thailand is not a party in the on-going South China Sea conflict.

Against this background, the Thai junta had expected that China would care more about foreign policy than narrow commercial interests. Therefore, the expectation was that Beijing would forego profit in order to serve broader strategic objectives and would be somewhat liberal in the financial terms it sought for the project. However, during the negotiation process, the Chinese were much more business-oriented than the Thais had expected (*The Nation*, March 28, 2016; Crispin 2016).

One particularly contentious negotiation issue was the total construction costs, where China reportedly provided prices well beyond the estimated 400billion baht. There was also

disagreement on financing costs, where the Thai side wanted a "friendly rate" of no higher than 2% on a Chinese loan from the Chinese Exim Bank, while Chinese negotiators argued for a 2.5% interest rate (*The Nation*, May 18, 2015, The *Wall Street Journal*, March 25, 2016). A further contentious issue was burden sharing, where the financing and shareholding structures were changed back and forth during the meetings. Thailand had expected that the Chinese would take a substantial stake of about 60-70% but, as mentioned above, the first phase from Bangkok-Nakhon Ratchasima ended with full Thai ownership.

Thai expectations concerning burden sharing and concessional interest rates were influenced by the financing conditions given by the Chinese side in negotiations on railway projects with Indonesia and Laos. In Indonesia, China was in strong competition with the Japanese over the $5 billion, 142 km Jakarta-Bandung HSR project. China entered a joint venture consortium and lending from the China Development Bank made up 75% of the line's funding, which was given with a 10-year grace period and a 2% interest rate for a dollar-denominated loan (Salim and Negara 2016, 8). However, Thailand did not benefit from the same fierce rivalry. Moreover, as argued by Crispin (2016) – and consistent with the information on the Exim Bank presented above – China was increasingly becoming profit-oriented and thus unwilling to give concessionary interest rates. In Laos, the Chinese provided the capital and took a 70% share in the $6 billion, 427km Vientiane-Boten (Chinese border) standard gauge, single track, medium-speed line (*Vientiane Times,* December 3, 2015). However, Laos is a poorer country that could not fund the project on its own and the Chinese concessionaires also obtained privileges for so-called "spatial development" along the railway lines and the loan repayment was linked to mining revenues (*The Nation*, May 2, 2016). In contrast, Thailand has chosen to find alternative funding and avoid Chinese demands for collateral (*The Nation*, August 14, 2017; Interview, NESDB Official, Bangkok, February 2016). The Thai side did not want to

involve the Chinese constructors in land development. The relevant land was actually land that the king long time ago gave for free to SRT. That land was legally only open for leasing arrangements and not owner rights (*The Nation* February 6, 2016; *The Nation* February 26, 2016; Interview public official February 2016).[7]

The on-going negotiations on financing and burden sharing are heavily influenced by the expected economic viability of the MSR project. The financial return from the line is not obvious. In contrast to the Japanese HSR project, which runs between Thailand's two main cities the population density is much lower along the Sino-Thai line. Among academics and public officials with transportation expertise there are strong doubts regarding this line's financial and economic viability (*The Nation*, March 16, 2016; *The Nation*, June 22, 2017). This doubt is consistent with the findings of research on HSR in China, where high ticket prices and limited demand in the less developed areas in western and central China double-tracking projects in addition to a HSR project. The negotiations on Japanese involvement in railway upgrading started in February 2015 when Prime Minister Shinzō Abe invited Gen Prayuth to Japan. During meetings, a joint venture model was suggested and the two leaders signed a memorandum of intent concerning three railway routes – Bangkok-Chiang Mai HSR plus two East-West projects. While China is Thailand's main trading partner, Japan has a much greater commercial interest in infrastructure development and especially in supporting infrastructure development that involves the greater Bangkok Area, the Eastern Seaboard and other Japanese economic strongholds in Thailand. The Japanese rail industry is well placed to get substantial orders. Moreover, the junta prioritised the Eastern Economic Corridor in an area with several Japanese investment clusters (Prasert 2015; BoI 2016, 5; *Bangkok Post*, January 4, 2017). Nevertheless, the Bangkok-Chiang Mai HSR project is still under negotiation with financing a major issue after a Japanese study estimated total costs of 400-

500 billion baht. Following a feasibility study by Japan International Co-operation Agency showing that the passenger load would be only one-third of the original estimate, in October 2018 Japan underlined that it was not interested in a joint-venture model (*Bangkok Post,* October 24, 2018). Meanwhile, the Thai side was conducting a feasibility study of a medium-speed train service and invited Japan to become involved in the Bangkok-Rayong HSR project (*The Nation*, December 27, 2017; *The Nation*, February 10, 2018).

Overall, Thai officials had difficulties negotiating with the Chinese, who have been seen as less generous and less willing to take on risk than the Thai side had expected. Conversely, the Chinese had difficulties with what they considered as ever-changing conditions and offers from Thai negotiators and political leaders (Interview, Ministry of Transport Official, Bangkok, February 2016). Still, after several delays, a deal was made on the first phase and the design work and engineering contract was signed. Even through the project has changed from the early "loan-and-build" HSR project to one based on an EPC model, the first step is not necessarily a bad deal for China. As Thailand is funding the project, China takes on minimal risk if the project is not financially viable. Further, the Chinese SOEs will avoid competition on delivery of railways, system technology and rolling stock, and China will still be invited to take a stake in subsequent phases. Conversely, by having Nakhon Ratchasima as the terminus, the Thai side still has some leverage over China, as the line makes little sense for China if the full route to Nong Khai is not constructed.

Economic diplomacy versus economic statecraft

China's rail diplomacy in Thailand pre-dates the military regime, but negotiations did intensify during the second round of HSR diplomacy and the BRI campaign. Chinese

preferences and behaviour during the negotiations on the Sino-Thai rail project are consistent with the pattern revealed in the preceding sections of this article, that is, that for China the project is predominantly about economic diplomacy. There are several reasons for this assessment.

First and foremost, China did not want to bear a disproportionate share of the costs of rail infrastructure provision, take big risks or forego financial returns to obtain the deal. Next, massive over-capacity in the Chinese rail and associated industries in combination with weighty concerns about profitability imply that overseas markets are needed to absorb this over-capacity and support the companies. Moreover, and related, China saw the Sino-Thai project as part of a broader economic co-operation that could support the process of upgrading and internationalising the Chinese economy. Thus, Premier Li at the 5th GMS summit in December 2014 where the Sino-Thai MoUs were signed – stated that:

> China will take active part in establishing manufacturing, technological and industrial parks in the five countries, especially along the railway that will soon be jointly constructed by China and Thailand, and will establish factories for production in local regions with its advanced capacity and help the neighbouring countries boost employment directly (Li 2014).

Finally, even though the central line of the Pan-Asia Network railway ends at the Gulf of Thailand, it will, when finalised, improve market access for the South-western part of China and help reinvigorate the border regions, especially Yunnan.

Though China does not want to take big risks, this does not rule out an element of geo-economic strategy involved in the Thai case. The rail project is part of China's positioning itself as a regional provider of infrastructure and China has a strategic interest in presenting its economic power in a non-threating manner. Moreover, China can use infrastructure connectivity projects to make alliances and raise its profile as a responsible regional power. In doing that, it challenges the traditional and dominant infrastructure provider, Japan, although in the case of Thailand, Japan is competing on complementary rail routes. Furthermore, following Norris (2016) China is in better position to use statecraft in government-to-government negotiations, with state-linked institutions and corporations involved and not competing with each other. Finally, for a while, the 2014 Thai coup significantly improved relations between China and Thailand. Whereas Western countries, in particular the USA, condemned the military coup, downgraded its political ties and reduced military aid, China accepted the military junta without condemnation, declared it would not interfere in Thailand's internal affairs and intensified collaboration with the junta.

On the Thai side, the Sino-Thai rail project predated the military coup, but the Junta gave it high priority and decided finally to push it through by decree despite considerable criticism and bureaucratic foot-dragging. The Sino-Thai project is just one part of a huge infrastructure package that the military regime prioritised in order to mitigate low economic growth rates and stagnating investments. While low population density, among other reasons, puts the financial viability of the Sino-Thai project into jeopardy, the project may in the context of the other mega-infrastructure projects compensate for low levels of private investment. Still this requires that project be fast-tracked, but this would be unusual as slow and delayed implementation of infrastructure projects in Thailand has been the norm.

Moreover, the Thai model of accumulation has for long been connected to waves of foreign investments. The shift from global production chains to China-driven regional production chains has led to Thai "charm offensives" to attract Chinese investors in a range of sectors. However, China is still more of a trading rather than an investment partner. While China is Thailand's largest trading partner, followed by Japan, the latter continues to dwarf China as an investor. During 2015-2017 inward FDI from China amounted to just 18% of Japan's FDI flows into Thailand (Ministry of Commerce, 2017; Bank of Thailand, 2018). Hence, even though the junta is to some extent driven by macro-economic rationality, the persistent priority given to the Sino-Thai rail project is probably motivated more by domestic politics than by foreign policy concerns.

In relation to domestic politics, the Bangkok-Nong Khai-line will run through the Northeast, which is one of the poorest regions in Thailand and the region where Thaksin Shinawatra and "the red shirts" have an electoral stronghold. Hence, an obvious reason for pushing the project is for the junta to show that it "cares about the Northeast." This could backfire, however, if environmental effects and land issues becomes contentious. Furthermore, military governments have problems with output legitimacy, so the junta has to show that something "is done" to solve economic stagnation and help farmers. The regime used public procurement negotiations and bartering on the project to guarantee prices for rice and rubber producers and to resolve stockpiling problems. However, as negotiations went on, the agricultural barter deal faded out.

In terms of foreign policy, Thailand is the USA's oldest ally in the region and a signatory to one of five formal US treaty alliances in the Asia-Pacific region. Thailand has generally followed a strategy of balancing the USA and China, showing a flexible and pragmatic

approach in specific circumstances (Pongphisoot 2016; Hewison 2018). During the Asian Economic Crisis of 1997-1998, China supported Thailand. This stood in contrast to the USA, which chastised Thailand and backed IMF austerity measures. Later governments prioritised collaboration with China. This accelerated in the aftermath of the military coup, when the Western countries downgraded relations (Storey 2015). The December 2014 rail deal was a headline part of this closer relationship between China and Thailand. In relation to the deal a junta spokesman stated that the "railways are a very important issue…. This is fundamental and will reinforce our cooperation with China" (cited in Parameswaran 2014). Concurrently, Thailand turned to China for military equipment (Tow 2016 43-44). Hence, the Sino-Thai negotiations on the rail project took place in context where China stood out as a favoured and reliable partner (Pongphisoot 2016; 2017a).

Even if foreign policy objectives were not the main driver behind the Sino-Thai rail project, the project had foreign policy implications. The non-invitation of Prayuth to the Silk Road Summit in May 2017 and his follow-up on this is a clear illustration. Hence, with a more malleable Donald Trump in the White House, the junta sought to get Thai-USA relations back on track. Overall, it appears that Thailand has used its traditional "bamboo bending in the wind" approach to its superpower relations. In its rail upgrading negotiations, the Junta has sought to balance its regional partners – Japan and China (Pongphisoot 2017b; Hewison 2018).

CONCLUDING REMARKS

The article has sought to answer the following questions: What are the driving forces behind the SREB initiative; what are the rationales behind Sino-Thai rail project; and, how can the

process and outcome of Sino-Thai negotiations be understood? The main issue motivating these questions is whether China's economic diplomacy seeks commercial goals and, in a neo-mercantilist manner, broader national economic goals or whether BRI and related overseas projects are aspects of geo-strategy, where economic statecraft serves foreign policy objectives. The article has argued that BRI, HSR diplomacy and the Sino-Thai rail project are driven predominantly by economic and commercial rationales. Chinese rail diplomacy is a case of economic diplomacy and moreover seems to be a case of what Brautigam and Tang (2012) term "the developmental state abroad." Even though the Chinese party-state, as suggested by Jones and Zou (2017), is characterised by conflictual fragmentation, this does not rule out that President Xi in cases with limited conflicts of interests can significantly moderate this trend through leading small group co-ordination and strong signaling, and thereby can ensure that strategic internationalisation policies are followed by central state actors and leading SOEs.

The BRI initiative reflects China's emerging economic power. It is a new round of the ongoing opening of the Chinese economy, in which China seeks to obtain more flexible arrangements to accommodate its expanding economic interests. Rather than prioritising a rebalancing towards a consumption-driven economy, the Xi administration is supporting technological upgrading, nurturing national champions to become internationally competitive, fostering Chinese standards, stimulating China-centred regional production networks, ensuring resource access and exporting domestic over-capacity in the form of capital-intensive goods and capacity expansion abroad. In addition, the huge infrastructure gap in Central and Southeast Asia opens business opportunities for Chinese construction companies and equipment manufacturers. Through BRI and regional and bilateral

infrastructure diplomacy initiatives, the Chinese leadership also promotes the internationalisation of state-owned railway constructors and train producers.

The Sino-Thai railway project is part of the land-based BRI. China hopes to be able to build the central line of a Pan-Asia Rail Network from Kunming to Singapore. Thailand is geographically located in the middle of the line and hopes to become a regional hub by expanding railway projects. Despite China's eagerness to promote first high-speed, then quasi-high-speed rail, the Sino-Thai project demonstrated the limits to China's willingness to take on economic risks and forego financial return in order to serve wider economic and strategic goals. The project has been delayed several times and only a small 3.5 km of the first phase of the line is under construction (March 2019).

BRI is a vision rather than a strategy and we should expect that overseas HSR projects will meet setbacks and need adjustment when new opportunities arise. As argued by Gonzales-Vincente (2011), local contingencies play an important role in China's overseas operations. This is the case for Thailand and elsewhere along the Pan-Asia Railway Network (Chan 2016, 14-18; Pavlićević and Kratz 2018). Along the central Kunming-Singapore line, the Sino-Laos MSR project got the green light in November 2015 and the five-year construction phase commenced in December 2016. Despite complicated tunnel drilling, the project is moving forward despite protests by local peasants over the lack of proper compensation and activists having raised concerns regarding the national debt burden (*The Nation*, February 7, 2018). For the Kuala Lumpur-Singapore HSR, the two countries issued a joint tender for project in December 20, 2017 but the incoming government led by Mahathir Mohamad wanted to cancel the project. However, in September 2018, the two countries agreed to a

face-saving two-year suspension up to May 31, 2020 (*The Strait Times*, December 20, 2017¸ *The Strait Times*, January 31, 2019).

The Western line of the Pan-Asia rail network construction is still ongoing in Southwest China along the Kunming-Dali-Ruili line with a completion data in 2022. The subsequent section through Myanmar drew local protests and the Thein Sein government in 2014 let the MoU with China expire. However, the stalled project was reactivated in the China-Myanmar Economic Corridor agreement that was signed by the Myanmar government in September 2018 (*Asia Times*, February 21, 2019). The Eastern line faces difficulties in Vietnam because of anti-Chinese feelings that intensified due the South China Sea conflict. In addition, competition from Japan is seen in Vietnam. Still, Vietnam lent diplomatic support to BRI and in November 2017, the two countries signed an MoU on promotion of a re-activated "Two Corridors, One Belt" framework and the BRI (Rodgers 2016; Hiep 2018). Cambodia's leader Hun Sen has endorsed BRI but a planned north-south railway project involving CRC has not been realised (Chheang 2017). In Indonesia, the Jakarta-Bandung HSR line, which had a ground-breaking ceremony in January 2016, ran into land procurement problems but the project started in 2018 and completion is expected in 2021 (*Asia Times* October 20, 2017; *The Jakarta Post*, February 26, 2019). In short, there are some progress but also many stumbling blocks for China's rail diplomacy in Southeast Asia (see Pavlićević and Kratz 2018).

Even though the Chinese promotion of the Pan-Asia Rail Network is driven predominantly by economic logic, there are also domestic political and foreign policy dimensions. President Xi is committed to the BRI project and the Kunming-Singapore rail project, of which the Sino-Thai project is a part, is supposed to provide fertile ground for broader regional and

bilateral co-operation. Furthermore, China seeks to be a responsible regional power and to match Japan's developmental profile with infrastructure provision in Southeast Asia. In brief, China hopes that its infrastructure diplomacy can propel the country's rise as a friendly regional power.

Similarly, the project is also from the perspective of Thailand's military junta a signal to "a powerful friend." When the junta seized power, negotiations on the Sino-Thai rail project intensified, but the timely construction of the line has been far from assured. For Prime Minster Prayuth, the project was part of a broader infrastructure bonanza to boost economic growth and the junta wanted to break ground as a show of power and to demonstrate that it can "get things done." By decree a range of legal bottlenecks was cleared, but the bidding and procurement process will be difficult and the project may lead to civil society protests over a lack of transparency, the passage through designated farmland and the modest technology transfer.

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NOTES

[1] While there is no single standard, high-speed generally refers to railway speeds higher than 200 kph. HSR is a system made up of: railway infrastructure, rolling stock, communication/control and operating processes.

[2] The project is MSR with trains running up to 180 kph but adopting Chinese railway standards and have standard-gauge double-track lines designed for a maximum speed of 250 kph. The project is part of a regional HSR line linking China with parts of Southeast Asia. In this article, we refer to the Sino-Thai railway project after December 2014 as MSR.

[3] Lieberthal and Oksenberg (1988, 137) argue that there is no "unified, hierarchical chain of command" in place and that decision-making in China could best be described as "fragmented authoritarianism."

[4] Regional rebalancing through OBOR is difficult to implement, not least for West China. China' first big data report on the OBOR has central Henan and southern Yunnan Provinces on the top-ten list, but the remaining eight are the already rich Eastern and South-eastern provinces: Guangdong, Zhejiang, Shanghai, Tianjin, Fujian, Jiangsu, Shandong, and Beijing (Scio 2016).

[5] The national savings rate in 2015 was still high at almost 48% of GDP. Savings are through "financial repression" still channelled from households to corporate actors (see Setser 2016, 11).

[6] On the process of technology transfer, reverse engineering and the successful development of local technological capabilities, see Liu, Liu and Shaodong (2016).

[7] The Chinese ambassador to Thailand in July 2016 felt the need to declare that China had never sought such development rights (*China Daily*, July 26, 2016).