

The Construction and Challenges of the China-Laos Railway : China's High-speed Rail Diplomacy in Southeast Asia

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ABSTRACT

This paper examines why the Chinese and Laotian governments promoted the construction of the China-Laos Railway and the problems with the construction of the Railway. The motivation for the Chinese government's eagerness to promote HSR abroad is explained by its economic benefits, geopolitical aspects, and increased Chinese military influence. The construction of the high-speed railway in Southeast Asia is expected to encourage economic integration between China and ASEAN countries, combined with increased Chinese influence. There were three significant reasons why the Lao government agreed to construct the China-Laos Railway. Laos decided to transform itself from a "land-locked" country into a "land-linked" country so that its economy would develop. The railway development would also allow the Lao government to overcome the concerns and oppositions of the Lao people who are dominated by a single party under the country's political system and therefore difficult to oppose the project strongly. In addition, Laos' bargaining power was not strong enough against China, who was free of competition in proposing and constructing the railway project. There are many dilemmas and drawbacks surrounding the construction of the China-Laos Railway. The most significant of these is the financial sustainability of Laos. The debt of the railway construction is too large for Lao's scale of its economy. The bilateral relationship would lead to a long-term unequal relationship in which Laos will be both economically dependent and politically subordinate to China.

KEYWORDS: Chinese Foreign Policy, The Belt and Road Initiative (BRI), High-speed Railway Diplomacy, Laos, China-Laos Railway

I. Introduction

China has been promoting the export of high-speed railway (HSR) as part of its diplomacy. China's overseas expansion of HSR began in 2009 and accelerated in 2013, known as China's High-Speed Railway Diplomacy. China's HSR diplomacy is closely related to its promotion of The Belt and Road Initiative (BRI), in which the Chinese government is pushing exports of HSR globally to Asia, Europe, Africa, and South America. China has been active in constructing high-speed railways in Southeast Asia. The China-Laos Railway (中老铁路) connecting Kunming - Yunnan Province, China - and Vientiane - the capital of Laos - started to operate in December 2021, ahead of other rail projects of the BRI in Southeast Asia.

Among the previous studies on China's HSR diplomacy, Gerald Chan explains China's export of HSR from the concept of "geo-developmentalism." This new concept tries to capture the spirit of China's new, developmental path to promoting mutual benefits with other countries through trade and infrastructure connections. He argues that the development of HSR will have a significant impact on geopolitical, geo-economic, and social relations, and will help form a new order in the region.¹

There are also previous studies on China's HSR diplomacy in Southeast Asia from the perspective of how a nation with power asymmetries can negotiate with a major power like China. David M. Lampton, Selina Ho, and Cheng-Chwee Kuik's *Iron River* provides us with a detailed account of Chinese power and Southeast Asian responses in the pursuit of regional connectivity via high-speed and conventional rail systems. Their main argument is that while China

1 Gerald Chan, *Understanding China's New Diplomacy: Silk Roads and Bullet Trains*, Edward Elgar Publishing, 2018, pp.1-160.

can forge a national consensus on “going global” with its railway systems, its southern neighbors also have the power to shape, negotiate, and affect the implementation of China’s HSR exports and ambitions behind it. *Iron River* engages with the existing literature on how smaller states deal with great power and its economic statecraft and sheds light on the role of domestic politics and agency of smaller states.² Yoon Ah Oh argues that concerning China’s global infrastructure investments in Southeast Asia, most of China’s partner countries are developing countries at a severe disadvantage compared to China in a wide range of capabilities. The significant power asymmetry between China and ‘smaller’ neighboring countries is assumed to make the latter give in to Chinese demands. Yet China’s greater state capabilities do not necessarily result in successful infrastructure projects, and even when agreements are reached, they may not turn out what China initially expected. The Laotian HSR case shows that a weaker state can negotiate better terms with China.³

Referring to these previous studies that provide meaningful suggestions, this paper tries to examine the construction of the China-Laos Railway, adding the perspective of Laos, the partner country that will accept Chinese investment. Despite its power asymmetry with China, Laos was not forced by China to decide on the HSR construction but decided on its own to take the risks. This paper examines why the Chinese and Laotian governments promoted the construction of the China-Laos Railway and the problems with the construction of the Railway. Observing both Chinese and Laotian perspectives, this paper concludes how Laos felt China’s expanded presence in Laos but still decided to accept China’s HSR diplomacy.

Chapter 2 examines China’s HSR diplomacy within the BRI, the

2 David M. Lampton, Selina Ho, and Cheng-Chwee Kuik, *Rivers of Iron: Railroads and Chinese Power in Southeast Asia*, Berkley: University of California Press, 2020, pp.1–307.

3 Yoon Ah Oh, “Power asymmetry and threat points: Negotiating China’s infrastructure development in Southeast Asia,” *Review of International Political Economy*, 2018, 25(4), pp.530–552.

“Pan-Asian Railway” concept in Southeast Asia, and China’s motivation for promoting HSR diplomacy. Chapter 3 overviews the process of the construction and examines why the construction of the China-Laos Railway was agreed upon. Chapter 4 looks into the Laotian government’s decision. Chapter 5 discusses the dilemmas and drawbacks in the construction of the China-Laos Railway. Finally, I summarize the prospects of China’s HSR diplomacy.

II. China’s High-speed Railway Diplomacy

2-1. China’s High-speed Railway Diplomacy and the BRI

How has China’s HSR diplomacy been conducted and what was the relationship between HSR diplomacy and the BRI. The Chinese government started working on the overseas expansion of HSRs in 2009. China began exporting and developing HSRs before its domestic HSR network was fully developed and established. HSR diplomacy can be described as diplomacy to gain China’s economic, political, and military benefits by overseas construction of HSRs and exports of HSR technology.⁴ Chinese leaders have actively sold China’s HSR technology overseas. Premier Li Keqiang had earnestly traveled abroad to promote the advantages of China’s HSR. He praised the advanced technology of China’s HSR, its low cost, and China’s experience in domestic operation.⁵ The Chinese government defined the selling of HSRs overseas as one of its national strategies.

Concerning the construction of HSRs in China, China’s first HSR entered into operation just in time for the opening of the 2008 Beijing Olympics. Its HSR technology is modeled after that of Japan,

4 Xie Zhihai 謝志海, 中国の高速鉄道外交 (China’s high-speed rail diplomacy), 共愛学園前橋国際大学論集 (Kyoai Gakuen University Collection of Theses), 2020, no.20, p.72.

5 *China Daily* 中国日报, 李克强总理高铁推销“奏效”: 中国铁路收益创新高 (Premier Li Keqiang’s high-speed railway sales pitch “works”, China’s railway revenue hit a high record), March 30, 2015.

France, and Germany. Following the global financial crisis, Beijing announced major domestic economic stimulus measures. China's HSR and related infrastructure such as stations and roads were constructed by these measures. As of the end of 2013, the total length of China's HSR network had reached 11,028 km, making it the longest in the world.⁶

China Railway Group Limited (CREC, 中国中铁) and China Railway Construction Corporation Limited (CRCC, 中国铁建) are responsible for the construction of China's domestic railway and HSR. Both are major state-owned enterprises (SOEs) under the jurisdiction of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). CREC and CRCC both were established in 2007. In August 2022, CREC and CRCC were ranked 35th and 39th respectively in the "Fortune Global 500," an annual ranking of companies worldwide published by Fortune magazine in the United States.⁷ Simultaneous with the rapid growth of HSR in China, both have grown rapidly and become global companies. Furthermore, the China Central Rolling Stock Corporation (CRRC, 中国中车) was founded in 2015 to strengthen China's international competitiveness. CRRC has become one of the world's largest companies in HSR construction. Meanwhile, regarding the national organizations and their jurisdiction over China's railway and HSR, the Ministry of Railways was replaced by the China Railway Corporation (CRC, 中国铁路总公司) after the Wenzhou railway accident in 2011. The CRC was restructured in June 2019 to become the China State Railway Group Company, Ltd. (China Railway, 中国铁路).

Announced in 2013, the BRI advocates the construction of two huge economic and trade zones: the "Silk Road Economic Belt" which links northwest China to Europe via Central Asia and Mongolia, and the "21st century Maritime Silk Road" which links

6 *Gansu Daily* 甘肃日报, 中国高铁总里程占世界一半 (China's total mileage of high-speed railway accounted for half of the world), March 6, 2014.

7 *Fortune*, Global 500, <https://fortune.com/ranking/global500/2022/> (Accessed, March 5, 2024).

China's coast to Southeast Asia, South Asia, the coast of the Arabian Peninsula, and the east coast of Africa. The promotion of the BRI has also strongly encouraged China to export infrastructure technology and HSR overseas. China has also advocated the establishment of the Asian Infrastructure Investment Bank (AIIB) which was launched at the end of 2015 with 57 founding countries/regions.

Thus, the fact that the newly established SOEs have grown into global giant companies in such a short period symbolizes China's rapid spread of domestic HSR networks. Along with the promotion of the BRI, the Chinese government has aggressively marketed overseas outlets and acquired orders for the construction of HSRs, spreading China's HSR technology overseas.

2-2. The Pan-Asian Railway Network

Having quickly spread its domestic HSR network, China promoted exports of HSRs globally to the African continent, Europe, South America, and Asia. In particular, China is focusing on constructing HSR systems in Southeast Asia, where there is much demand for infrastructure improvement and related economic development.

China has been focusing on the construction of a so-called "Pan-Asian Railway" in Southeast Asia. The "Pan-Asian Railway" aims to build HSRs connecting the southwest area of the Chinese mainland to multiple destinations across Southeast Asia, specifically from Yunnan Province - China - via three routes: Central Route, Western Route, and Eastern Route, passing through Bangkok in Thailand, Kuala Lumpur in Malaysia, and Singapore respectively. This "Pan-Asian Railway" concept was originally conceived by countries such as the United Kingdom and France and was later proposed by Malaysian Prime Minister Mahathir in 1995, not by China.⁸ While Southeast Asian countries had their plans of building HSRs, Beijing's promotion of HSR diplomacy with the BRI's support in the 2010s quickly gave momentum for these plans to materialize.

The Central Route of the Pan-Asian Railway will run from Kunming to Mohan and Vientiane in Laos. From Laos, the Central

8 Lampton, Ho and Kuik, *Rivers of Iron*, p.3.

Route would then cross the border into Bangkok, Thailand, stretch to Kuala Lumpur, Malaysia, and finally reach Singapore. This Central Route is more advanced in planning than other routes. In December 2021, the China-Laos High-speed Railway started to operate, connecting Yunnan Province to Vientiane. The railway would need to be extended from Vientiane to the border town of Nong Khai in Thailand, but Thailand and China are in the process of renegotiating the reduction of the railway section and its operating speed.⁹

The Eastern Route and Western Route of the Pan-Asian Railway have been planned, but the construction of the railways has not progressed. The Eastern Route is envisioned to run from Yunnan Province to Hanoi and Ho Chi Minh City in Vietnam, passing through Cambodia and on to Bangkok. Vietnam has historically kept its distance from China, and in recent years suffered territorial claims on the South China Sea with China. It is unlikely that China would build an HSR in Vietnam. Regarding Cambodia's HSR, China has not been putting as much effort into the project as it has in other locations. This may have stemmed from the fact that the construction of HSR in Cambodia is not of priority and high value for China, given the missing piece connecting China and Vietnam. It would also require the construction of an international railway between Cambodia and Vietnam, but there is no existing route connecting these two. In 2018, the Cambodian and Vietnamese governments agreed to consider the construction, but no concrete progress has been made since.¹⁰

The Western Route runs from Yunnan Province, across the border, through Mandalay and Yangon in Myanmar, and leads to Bangkok. China has consistently had a strong influence over

9 *Nikkei* 日本経済新聞, 延伸しない「一帯一路」鉄道 中国・タイ, すれ違う思惑 (The BRI railway not extended, China and Thailand have a mixed view), January 13, 2022.

10 Ikari Tomoko 碓知子, ASEAN の高速鉄道の現状 (Current status of high-speed railway in ASEAN), 運輸総合研究所レポート (Japan Transport and Tourism Research Institute Report), 2019, pp.1-3.

Myanmar ever since the latter's military regime, and plans were underway to construct an HSR connecting Myanmar's border town of Muse and Mandalay with Chinese capital and technical capabilities. Nonetheless, due to changes and instability in the political situation in Myanmar, including the democratization of Myanmar since 2011 and a coup d'état by the Myanmar military in February 2021, the HSR construction plan is far from being realized.

After the Central, Eastern, and Western Routes linked up in Bangkok, the Malaysian government awarded a contract with China in 2013 for constructing an HSR connecting Kuala Lumpur to Singapore, a distance of 350 kilometers in one and a half hours. Yet, in 2018, the Malaysian government and its new Prime Minister Mahathir aimed to reduce debts and reviewed major infrastructure construction contracts with China which were signed during the previous Najib administration. The new Malaysian government also halted an HSR project won by China (*Reuter*, January 3, 2021).

The concept of the Pan-Asian Railway in Southeast Asia has made significant progress only on the Central Route, the railway line between Yunnan and Laos.¹¹ Also, China is often forced to drastically change or cancel its construction plans due to changes in the political or economic situation of partner countries, such as the cancellation of the HSR in Malaysia.

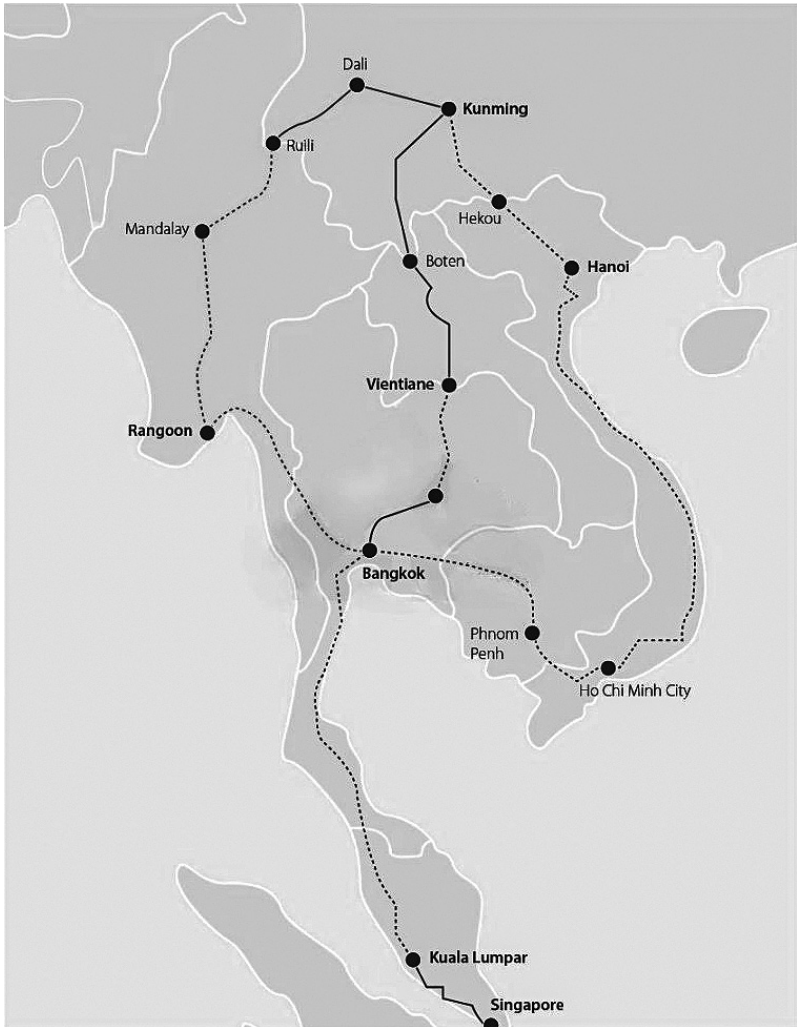
2-3. China's Motives for Promoting HSR Diplomacy

In this section, we will consider the motives and reasons why China has been eagerly promoting HSR overseas by focusing on its governments. Western and Chinese scholars have made the following arguments on China's motives.

Firstly, Chinese motives are based on its economic development. Exports of specialized HSR technology mean that China has made dramatic progress in the development of high-value-added and high-

11 In addition to the "Pan-Asian Railway" Initiative, HSR construction is also underway in Indonesia. China won the bid to build an HSR between Jakarta and Bandung, outbidding Japan in 2015. Although its completion had been delayed significantly, it finally started to operate on October 18, 2023.

Map : The Pan-Asian Rail Network



Source : *ASEAN Briefing*, “Laos enhancing cross border railway connectivity with Malaysia, China”, August 23, 2023.

tech products based on state-of-the-art technology. To date, China has introduced advanced technologies from Japan, Europe, and the United States, and has invested heavily in research and development. Based on Western technology, China has achieved the world's largest HSR network. With its HSR network already in place and completed, there is not enough niche for further development at home. The overcapacity of China's domestic manufacturing industry was also a serious problem. In addition, if HSRs can be exported overseas, other industries involved in the construction and assembly can also export and develop. With the opening of HSRs, Chinese companies and workers can expect new employment, development, and growth in real estate development, construction of transportation networks such as highways, roads, and bridges, and the opening and management of service facilities besides the expansion of tourism.¹² Thus, China discovered the need to find overseas markets for HSRs and related technologies.

Secondly, some suggest that China has aspired to improve the geopolitical aspects of China's HSR projects. Gao Bai states, "HSR will promote the economic integration of Eurasia and improve China's position in the new political and economic order. It could become a geopolitical game-changer that also allows China to control the region's energy and resources and helps establish China's land power in Asia."¹³ Wu Zhengyu argues that "if a nation can gain hegemonic power in Eurasia, it will also gain the resources and the means that are necessary to challenge the existing hegemony, the United States."¹⁴ The construction of HSRs is not only a large-scale project requiring a large number of investments, but also a project that could significantly change the

12 Hong Yu, "China's eagerness to export its high-speed rail expertise to ASEAN members," *The Copenhagen Journal of Asian Studies*, 2014, 32(2), pp.22-24.

13 Gao Bai 高柏, 高铁与中国21世纪大战略 (High-speed railway and China's 21st-century grand strategy), 社会科学文献出版社 (Social Sciences Academic Press), 2012, pp.1-156.

14 Wu Zhengyu, "Toward land or sea? The high-speed railway and China's grand strategy," *Naval War College Review*, 2013, 66(3), pp.53-66.

economies of the countries and regions concerned, involving large-scale infrastructure development such as roads, stations, and housing. HSR projects led by China will have a strong influence on the country for a long period afterward and the impact is not small from a geopolitical point of view.

Thirdly, some have pointed out that the export of HSRs will help to improve China's national defense capabilities. Some, especially within the Chinese military, argue that more emphasis should be placed on the military objectives of the BRI. Qiao Liang of China's National Defense University argued that "with the promotion of the BRI, the construction of People's Liberation Army (PLA) facilities overseas should also be reinforced so that the PLA can also protect Chinese interests overseas in the near future."¹⁵ Major General Xiao Yuqing also clarified that "HSR diplomacy will also improve China's military logistic capabilities, and China's military presence along the BRI will increase, especially in Central and Southeast Asia."¹⁶ It was also pointed out that the construction of HSRs in Southeast Asia, which is land-locked with China, is also aimed at China's initiative to secure alternative land transportation routes in case of "contingencies" in maritime transportation routes such as the South China Sea and the Strait of Malacca.¹⁷

The Chinese government emphasizes that the BRI and HSR diplomacy are for the further growth of the Chinese economy. At the same time, due to the large geopolitical scale of the project, it will bring about significant changes in the region and increase China's military influence in the country and the region. China's involvement in HSR construction and its infrastructure and the

15 *China News* 中国新闻网, 乔良: 一带一路战略要考虑军事力量走出去问题 (Qiao Liang: The BRI strategy should consider the issue of military forces going global), May 12, 2015.

16 *Guangming Daily* 光明日报, 整版报道中国高铁走出去战略高峰论坛 (Full-page report on China's high-speed railway going global strategy summit forum), January 1, 2014.

17 Murray Hiebert, *Under Beijing's Shadow: Southeast Asia's China Challenge*, Washington: Center for Strategic & International Studies, 2020, p.182.

large flow of Chinese capital will increase China's presence.

III. The China-Laos Railway

The China-Laos Railway - the Central Route of the Pan-Asian Railway - was the first HSR to be opened, undertaken by China in Southeast Asia, and the first modern HSR to cross the border from Yunnan Province. This chapter summarizes the process of the construction and examines why the construction of the China-Laos Railway was agreed upon and launched by considering the domestic situation of Laos.

3-1. The Process Leading to the Construction

The China-Laos Railway was originally conceived by the Laotian side many years ago. The railway was based on the part of the Pan-Asian Railway initiative between Kunming and Singapore, and the Greater Mekong Subregion (GMS) initiative prepared by the Asian Development Bank (ADB). The construction of the China-Laos Railway began in December 2016 and opened in December 2021. The total construction cost is approximately \$5.986 billion, with the total cost of the project superseding 30% of Laos' GDP, making it one of the largest projects in Laos. The railway connects Kunming in China's Yunnan Province to Vientiane, the capital of Laos, via the border town of Boten, with a total length of approximately 1,000 km. The Laotian section, surrounded by mountains and rivers, is approximately 422 km long, and 167 bridges and 75 tunnels have been newly constructed. The Laos section has 33 stations, among them 10 are passenger stations and passes through the ancient capital, Luang Prabang.¹⁸

The construction is mainly led by China, and the stations and rolling stock closely resemble those in mainland China. The

18 *Nikkei* 日本経済新聞, ラオスで「一帯一路」鉄道開通 総額6780億円は中国依存 (The BRI railway opens in Laos; Total cost of 678 billion yen depends on China), December 2, 2021.

construction and operation of the HSR are being handled by China-Laos Railway Corporation, which is a joint venture between the Lao Railway Corporation and three Chinese companies: Boten-Vientiane Railway Company Limited, Beijing Yukun Investment Corporation, and Yunnan Investment Holdings Group Co., Ltd. The Chinese side holds 70% of the capital and the Laotian side 30%. The Laotian side is responsible for 30%, but approximately 65% of the funds were borrowed from the Export-Import Bank of China,¹⁹ which means Chinese capital is supporting the construction.

We will take a look at how the HSR was completed. In 2001, China and Laos began negotiations on the construction, but progress was slow. In the 2010s, when China launched its HSR diplomacy and the BRI, the plan started to move forward. Nonetheless, the construction did not advance as smoothly as originally planned. In April 2010, it was decided that Laos and China would work closer together on the project. In July 2011, China's HSR derailed in Wenzhou. Criticism and suspicion rose against China's HSR technology and its management system, as well as the cover-up incidence, and contestation intensified internationally. Liu Zhijun (刘志军), the director of the Ministry of Railways, was arrested for bribery, and China's Ministry of Railways was reorganized.

Laos and China renegotiated the terms of construction before the actual construction began. The Lao side negotiated a lower interest rate on Chinese loans. In 2015, China and Laos finally agreed to reduce the interest rate from 3% to 2.3%. At the same time, Laos was to pledge five mines in mineral potash.²⁰ It was also decided to reduce the maximum speed of the railway. Because nearly 80% of

19 Yamada Norihiko and Suwa Kazuyuki 山田紀彦, 諏訪一幸, ラオス・中国鉄道は何をもたらすのか? 両国にとっての意義 (What will the Laos-China railway bring?: Significance for both countries), IDE スクエア: 世界を見る眼 (IDE Square: Eyes on the World), 日本貿易振興機構アジア経済研究所 (Institute of Developing Economies, Japan External Trade Organization), 2021, p.3.

20 *Radio Free Asia*, "Laos and China come to terms on the loan interest rate for railway project," January 4, 2016.

Laos is mountainous and sparsely populated, Chinese railway experts suggested that the maximum speed be reduced from 200 km/h to 160 km/h and that the maximum speed for cargo be set at 120 km/h.²¹ Furthermore, the HSR construction required the relocation of populations living in the planned route and compensation for them. This was time-consuming for the Laotian side. The construction finally began in December 2016.

China was an impatient player at the negotiating table.²² For China, the Laos route was the shortest section of the overall Pan-Asia Railway network under the BRI. In addition to the Central Route through Laos and Thailand, the Pan-Asia Railway envisions an East Route through Vietnam and a West Route through Myanmar. However, the territorial disputes between China and Vietnam over the South China Sea and Myanmar's change of policy toward China under its civilian regime made the East Route and West Route less feasible. This made the construction of an HSR through Laos more important for China.

Laos owed a large debt to China for the construction and opening of the HSR, yet the construction proceeded. In addition, Chinese laborers came to Laos in large numbers for construction, and China took the lead in all of the construction works, bringing with them the construction techniques they had developed through HSRs in China.

3-2. China's Expectations for the Construction of China-Laos Railway

Many scholars in China emphasize the significance of the China-Laos railway construction from the scope of China's foreign policy. The first is the perspective of the "community with a shared future for mankind (人类命运共同体)" between China and Laos. It is about building a world of shared prosperity and promoting common

21 *Belt and Road Portal* 中国一带一路网, 中老铁路解局: 为何这么难, 为何仍要建? (The China-Laos railway explained: Why it's so hard, and why it's still being built), April 20, 2018.

22 Oh, "Power asymmetry and threat points," p.544.

development of all countries where each country has a chance to develop.²³ In April 2019, China and Laos agreed to forge ahead with the efforts to build a community with a shared future between China and Laos and work together for a new era of bilateral relations.²⁴ Some argue that the declaration of the top leaders of the two countries is important for Chinese diplomatic strategy, especially because the China-Laos Railway construction is symbolic and important for the “community with a shared future for mankind” between the two countries.²⁵

The second argument concerns the framework of the BRI. The China-Laos Railway composes an important part of the China-Southeast Asia trans-regional railroad initiative, which will not only strengthen logistical ties and bilateral relations between China and ASEAN countries, but also alleviate the problem of poor communications between the two sides. It is argued that the construction of the China-Laos Railway can improve connectivity between China and the Southeast Asian countries under the BRI.²⁶

Thirdly, some argue that the railway construction will strengthen China’s influence in Laos, thereby increasing the geopolitical and strategic value of itself and emphasizing the value and significance of Laos. Stronger relationship with a major economic power like

23 Ministry of Foreign Affairs of the People’s Republic of China, “Forging ahead on the new journey toward a community with a shared future for mankind,” March 27, 2023.

24 The Second Belt and Road Forum for International Cooperation, “Xi Jinping holds talks with general secretary of the central committee of the Lao People’s Revolutionary Party (LPRP) and President Bounnhang Vorachith of Laos,” May 1, 2019.

25 Liu Ying 刘盈, 中老战略命运共同体: 进展, 挑战及强化路径 (The China-Laos strategic community of shared future: progress, challenges and tactics). 亚太安全与海洋研究 (Asia-Pacific Security and Maritime Affairs), 2021, no. 2, pp.91-109.

26 Tao Qiang 陶樯, 一带一路倡议下中老铁路国际联运通道物流发展探讨 (Tentative study on the development of logistics on the China-Laos international railway corridor). 铁道货运 (Railway Freight Transport), 2017, 35(10), pp.20-24.

China through railway construction and infrastructure development will further attract countries outside of the region to Laos and accordingly raise the country's standing in the international community. They argue that Laos can truly make the leap from a "land-locked" country to "land-linked" country, once the planned Lao domestic railway is built and connected to the China-Laos Railway.²⁷ Although some of the discussions in China regarding the Railway project touch on its problems, most emphasize the benefits and praise China's involvement in Laos.

Furthermore, the Yunnan Province borders Laos and has long been involved in projects with Laos. As part of its "bridgehead (桥头堡)" strategy, the Yunnan Province has continued to invest in the development of the Lao PDR region to strengthen economic ties with Laos. The term "bridgehead" is originally a military term meaning a fortress to keep and control the front line, yet Beijing uses it to mean a regional gateway and a geopolitical base.²⁸ The Chinese government has believed that poverty in neighboring countries has hindered the development of Yunnan and that the province's economy can be developed if Yunnan involves itself in building infrastructure with cross-border neighbors. Yunnan was also hoping that the opening of the China-Laos Railway would allow the province to develop as a land gateway to Southeast Asian countries and create more jobs.²⁹

27 Wei Jianfeng 韦健锋, 中老铁路与老挝地缘战略价值的提升 (China-Laos railway: Improving Lao's geopolitical strategic value), 东南亚南亚研究 (Asia-Pacific Security and Maritime Affairs), 2017, no.4, pp.14-19.

28 Tom Miller, *China's Asian Dream: Empire Building Along the New Silk Road*, Zed Books, 2017, p.98.

29 People's Government of Yunnan Province 云南省人民政府, 桥头堡总体规划点亮云南发展路 (Bridgehead master plan lights the way for Yunnan's development), January 30, 2013.

IV. The Laos government's Decision on the Construction

The China-Laos Railway is the most expensive and most controversial project in Laos. Many Western researchers and media have questioned why Laos decided to undertake such a costly and risky project, despite its underdevelopment and its modest population of about 7.3 million. Many have feared that Laos might fall into the so-called “debt trap”, in which overinvestment can lead the host country to become indebted and cannot repay.³⁰ These concerns include the fact that China's expansion into Laos is undesirable in Western terms of democratization and human rights, as it makes Laos' policy more China-oriented.³¹ There was also opposition and reservations within the Laotian government on the large debt. Why did the Lao government decide to go on the China-Laos Railway, despite opposition and doubts? Three reasons could be pointed out by observing domestic politics in Laos.

Firstly, the political leaders of Laos believed that it was of paramount importance for Laos to develop its economy through the construction of the railway to ensure the ruling party's legitimacy and survival. The Lao government decided to launch the railway after considering various factors, including the country's independence, heavy debt, and other social and economic risks. The Lao People's Revolutionary Party (LPRP) has been calling for a shift from a “land-locked” to a “land-linked” country for the sake of national development. At the same time, Lao leaders believed that the construction would simultaneously ensure the survival of the party. They saw the future sustainability of the nation and the party as key to the economic integration of China and the ASEAN.³²

30 The following paper points out this problem. Wanjing Kelly Chen, “Sovereign debt in the making: Financial entanglements and labor politics along the Belt and Road in Laos,” *Economic Geography*, 2020, pp.1-20.

31 Dragan Pavličević & Agatha Kratz, “Testing the China threat paradigm: China's high-speed railway diplomacy in Southeast Asia,” *The Pacific Review*, 2018, 31(2), pp.151-168.

Laos lacked basic transportation infrastructure to date, and many major highways had not been paved yet. Laos also has almost no railways, except a very short line of about 5 km connecting the outskirts of Vientiane and the border city Nong Khai in Thailand. Laos had to build a railway network almost from scratch. The government drew up a total of five railway plans, among which the China-Laos Railway was a top priority. During a ceremony held in December 2016 in Luang Prabang, a senior Lao official said that “the development of the railway network is an important solution to transform Laos from a land-locked to a land-linked country.”³³

For the Lao government, the development of its economy and raising the standard of living are the top priority. Laos has a small population of approximately 7,338,000 (in 2021, Lao Statistics Department) with a modest size of economy. Laos has been taking advantage of its geographical features of mountains and rivers to generate hydroelectric power and export it to neighboring countries, but the country decided on its necessity to build a railway for further economic development. A senior Laotian official said, “historically, the countries prosperous were those along rivers or near the sea. Laos, however, is landlocked, poor, isolated, and mountainous. Laos has the Mekong River, but it is located upstream and is also susceptible to seasonal increases and decreases in water volume, so there is little hope for the development of a river transportation network. The only way for Laos to connect itself to the sea is to connect to China, Vietnam, Myanmar, Cambodia, and Thailand. The only way left for us is to take action ourselves and develop a railway network.”³⁴

Furthermore, the Laos government believes that many economic opportunities will be created, once a railway network is developed across Laos. Trade and investments will increase as Laos gains

32 Cheng-Chwee Kuik, “Laos’s enthusiastic embrace of China’s Belt and Road Initiative,” *Asian Perspective*, 2021, 45(4), pp.747–748.

33 *Xinhua*, “Construction of China-Laos railway officially commences,” December 25, 2016.

34 Lampton, Ho and Kuik, *Rivers of Iron*, pp.2–3.

direct access to the huge markets of China and neighboring ASEAN countries. Laos' productivity will also diversify, and there will be more opportunities to change its economic structure. Increased people-to-people exchanges will also boost the travel industry and related fields, and Lao culture will gain further popularity.³⁵ Thus, the Laos government believed that a massive infrastructure project could be the catalyst for a dramatic change in the economy of isolation and mountainous without any sea.

Secondly, Laos has been a one-party state since 1975 ruled by the LPRP, a political system that does not allow opposition parties or public opinion to oppose the project, which is one of the reasons why the HSR construction advanced. There is no opposition party in Laos. The mass media, including newspapers and television, are all government-affiliated, and there is almost no media coverage that criticizes governmental decisions. This does not mean that there was no opposition to the HSR construction in Laos. Within the Laotian government, there was a shared concern that the railway construction was risky and posed several problems. These concerns included the possibility that Laos would pledge its undeveloped mineral resources as collateral for a loan from China or give up its mineral mining rights to a Chinese company to repay the loan and that in addition to the huge amount of repayment, the project would provide little benefit to the general public. In addition, many Lao people were opposed to the construction because their homes and workplaces might be subject to eminent domain. The government's explanations and compensation for the habitants were insufficient.³⁶ Nevertheless, all these doubts were discussed only within some powerful political circles in Laos. The construction of the railway was pushed by the mainstream Laotian political circles. In other ASEAN countries such as Thailand and Malaysia, discussions are public, and government ideas and decisions can be delayed or changed. In Laos, once a decision is made by the party,

35 Ibid, p.95.

36 *Radio Free Asia*, "Clearing for Lao-China railway begins, but questions about the project still remain," January 4, 2017.

that is the end of the debate. And bottom-up individual and group opinions and interests are often sacrificed in favor of larger propositions such as social stability. Opposition from the public is unlikely to be discussed in the public.

Thirdly, China was free of competition in proposing and constructing the railway to Laos, and therefore Laos' bargaining power was not strong. The lack of competing countries also contributed to the early completion of the China-Laos Railway. Laos is a recipient of international development assistance. Although there are many development aid agencies in Vientiane including the Asian Development Bank and the World Bank, there was no direct competition for financing the HSR. Laos has a modest economy and a small population, additional funds are needed to build more bridges and other infrastructures. There would be a large possibility that the construction of the railway would not be profitable in terms of cost and benefit. Laos lacked bargaining power against the major power China. The Beijing government once pressured the Lao side, saying that if Laos refused to build the Central Route of the Pan-Asian Railway, China was free to choose alternative routes - the Eastern Route or the Western Route.³⁷ Assumably the Chinese government took advantage of its resources, technology, and skills of aggressive selling and negotiating which have made the Lao government feel that "cooperation with China is the only opportunity for Laos". The China-Laos Railway was drafted by the China Railway Corporation and Yunnan Province and approved by China's National Development and Reform Commission (NDRC). China played a major role in the construction because Laos has none of the technology, skilled labor, or experience.

The Laos government has so far acknowledged and accepted the situation of a power differential with China. The Laos government considers the connectivity with China and ASEAN countries to be of utmost importance for national development, despite the risks involved. In addition, leaders of the LPRP believed that a strong cooperative relationship with China would strengthen the party's

37 Lampton, Ho and Kuik, *Rivers of Iron*, pp.2-3.

legitimacy as a ruling party. Lao leaders decided that it was worth the risk to build and operate the China-Laos Railway, even though they understood that they would be saddling future generations with a large debt.

V. Dilemmas and Drawbacks

There are many dilemmas and drawbacks surrounding the construction of the China-Laos Railway. The most significant of these is the financial sustainability of Laos. The debt of the railway construction is too large for Lao's scale of its economy. The spillover effect of the railway may turn out limited, given the Lao's low level of development and lack of skilled labor and technology. Besides the large construction costs, Laos would also have to shoulder operating and maintenance costs for bridges, tunnels, rolling stock, and other equipment. In the near future, new roads and other ancillary infrastructure will also need to be built. Laos will need to secure a huge amount of money, but without sufficient financial resources of its own, it will inevitably have to receive support from outside sources.

The actual operation of the Laotian HSR after the opening of the China-Laos High-Speed Railway has been sluggish. Although the Chinese and Laotian state media emphasize the benefits of the construction, its operation continues to struggle. China's "zero-COVID policy" had sharply reduced demand for international logistics. As of 2022, there was only one passenger HSR service per day and the volume of cargo transport was said to reach only 20% of the original plan.³⁸

The use of Laotian mineral resources by the Lao government as a guarantee for loans for the construction is also a major concern. If the revenue from the railway project is low and Laos is unable to repay its debts, China, as the lender, would obtain the mineral

38 *Nikkei* 日本経済新聞, 一帶一路象徴：中国ラオス鉄道 (The BRI's symbol: China-Laos railway), October 27, 2022.

mining rights in Laos as an additional means to ensure repayment. Chinese capital is already involved in the management of mining and hydropower - Laos' main industries - but the possibility cannot be ruled out that these management rights and the rights to develop new mines will be transferred to China in the future to repay Laos' debt. The Laotian economy has been closely tied to the Thai economy in the past, but since the opening of the railway, ties to the Chinese market have been strengthening and surpassing that of Thailand. The more the economic benefits of the HSR are enhanced the deeper Laos' dependence on China.

On the other hand, Laos' debt to China is also a difficult issue for the Chinese side. In recent years, the attitude of Western countries toward China has become increasingly severe. There are no signs of easing in the U.S.-China confrontation, and Western countries are strongly opposed to China's military threats against Taiwan and its handling of human rights issues in Hong Kong and Xinjiang. If Laos were to default and China acquired development rights tied to the HSR, Western countries would become more critical of China. In case Beijing ignores such criticism, other developing countries will be aware of the risk of incurring debt from China and will be wary of the dangers of relying on China for HSR construction and infrastructure development. This will prevent China from expanding its infrastructure construction projects in developing countries.

Anti-Chinese sentiment in Laos is also a significant drawback surrounding the construction of the railway. Anti-Chinese sentiment and wariness toward China remain strong among the Laotian people, which stands in the way of strengthening cooperation between China and Laos. In addition to the dissatisfaction during resettlement caused by the HSR construction, anti-Chinese sentiment among the Laotian public remains strong concerning Chinese investments. The Laotian public criticized inadequate compensations for individuals and communities adversely affected by resettlement, land acquisition, and project construction during the construction of the railway. Many families displaced by the HSR construction suffered hardship due to inadequate or delayed compensation payments. The Lao government's negligence, coupled

with the harassment of residents by land investors and security forces, has caused resentment among the Laotian population. In addition, rampant corruption, such as politically connected individuals taking advantage of advance information to purchase land, has increased the frustration of residents.³⁹

Apart from the construction of the HSR, China has also invested in all sectors of the Laotian economy. Chinese private investments have increased their presence in the past decade, especially in northern Laos. The Laos government has granted concessions to Chinese investors in various businesses, including rubber plantations, banana plantations, and casinos. The lack of institutional regulation and government control has created a structure in which only a few Chinese businessmen and the privileged Laotians benefited, while the majority have not, and many Laotians have harbored anti-Chinese sentiment toward Chinese capitalists.⁴⁰ Chinese companies have also been conducting illegal logging and other forms of overexploitation in Laos, which has harmed the environment. The Lao government has begun to strengthen supervision of the timber trade, but crackdowns have not been successful. Other problems include Chinese investors purchasing land at low prices and investing in agriculture, and an increasing number of Chinese people starting new businesses in Laos. The influx of Chinese companies, capital, and people have caused friction between Laotian society and the people.

Despite these problems, the Laotian authorities are generally optimistic about the Chinese-supported railway project. Until now, the Laos government has controlled and suppressed anti-Chinese sentiment among the Laotian people, but there is a possibility that anti-Chinese sentiment among the people will explode in the near future. China will need to carefully explain to Laos at multiple levels that the construction of the HSR and economic cooperation will not only benefit China. The success or failure of HSR diplomacy will

39 Oliver Tappe, "On the right track? The Lao People's Democratic Republic in 2017," in *Southeast Asian Affairs 2018*, ISEA - Yusof Ishak Institute, 2018, p.176.

40 Oh, "Power asymmetry and threat points," p.545.

depend on how China can ease the wariness of its partners.

VI. Conclusion

This paper examined why the Chinese and Laotian governments promoted the construction of the China-Laos Railway and the problems with the construction of the Railway. The motivation for the Chinese government's eagerness to promote HSR abroad is the economic benefits, and some observers point to political and geopolitical aspects as well as increased Chinese military influence. China has made dramatic progress in the development of high-value-added and high-tech products based on cutting-edge technology. The HSR construction can create new jobs for Chinese companies and Chinese workers including related sectors of construction, transportation, and real estate.

The Chinese government has been touting the project as an economic development booster not only for the partner country but also for China itself. HSR construction is a large-scale project that can transform a local economy with the construction of roads, stations, housing, and other large-scale infrastructure, and can lead to China gaining strong influence over the country for a long period. The construction in Southeast Asia will encourage economic integration between China and ASEAN countries, resulting in more Chinese influence. From a Chinese perspective, China could be a geopolitical game-changer in Southeast Asia in the long run, and its military influence in the region will also increase. An offshore Chinese military base was built in Republic of Djibouti at about the same time that the Ethio-Djibouti Railways was opened in Africa. In Southeast Asia, some observers point out that China's military presence will also increase in the near future. China's growing geopolitical influence and China's increasing military influence will make other countries wary of China. Contrary to such ambitious observations and expectations, the Chinese government claims that the HSR is only intended to promote mutual economic development. It will be more important for the Chinese government to carefully

explain the economic benefits of HSR construction to the partner country.

From the perspective of Laos, where the China-Laos High-Speed Railway was constructed by accepting Chinese investments, three major reasons could be pointed out why the Lao government decided to build the China-Laos High-Speed Railway despite the large amount of debt it would incur. In the first place, Laotian leaders considered the construction essential for the development of Laos despite the risks involved. The Laos government believed the country should move from a “land-locked” country to a “land-linked” country in Southeast Asia to develop its economy. In the second place, Laos was able to overcome some of the concerns and opposition because the country’s political system is dominated by a single party, the LPRP, which makes it difficult for Lao people to oppose the project. All the various arguments were discussed only within the Lao leadership group. Bottom-up input from the people is often sacrificed in the name of social stability. Last of all, Laos’ bargaining power was not strong, China was free of competition in proposing and constructing the railway to Laos. One could argue that the resources, technology, and aggressive selling and negotiating skills offered by the Chinese government have made the Lao government feel that cooperation with China is the only opportunity for Laos.

This bilateral relationship would lead to a long-term unequal relationship in which Laos will be both economically dependent and politically subordinate to China. Laos is neither a China’s local government nor a dependency on China, yet Laos has become economically dependent on China and politically subordinate in several cases. For example, when the issue of China’s illegal reclamation in the South China Sea became an annual issue at ASEAN Summits, Laos consistently came to support China’s claims. Laos, which does not face the South China Sea, came to support China’s claims but is at odds with Vietnam with which Laos has strong historical ties.

China’s high-speed railway construction technology had imitated that of Japan, Germany and France in the early years but has since

developed dramatically. The concerted effort by the Chinese government, state-owned enterprises, and local governments alike to sell high-speed railway overseas has steadily gained momentum. Although it became the first of its kind to open in Southeast Asia, the China-Laos railway appears to have difficulty in profitability than originally planned. Laos has only a small population and economy, and it is difficult to expect that increased flow of tourists and logistics from China would come to Laos dramatically.

In general, Western countries including Japan often criticize China's foreign activities and its investments and tend to ignore China's recent achievements. It is far from productive and wise to wait and see whether the construction of the high-speed railway fails, in ways that the China-Laos railway does not generate the desired revenues and Laos finds itself in a difficult situation. The China-Laos railway project and China's high-speed railroad diplomacy should be fairly judged from the viewpoint of whether it can truly contribute to the economic development of Laos and Southeast Asian countries in a way of enriching the local economy.

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