

All (High-Speed Rail) Roads Lead to China

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Transcript has been edited for clarity.

Intro: From the Walter H. Shorenstein Asia-Pacific Research Center at Stanford University.

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Intro: Welcome to APARC, Stanford's premier hub for interdisciplinary studies of contemporary Asia. In today's conversation, we'll be speaking with David Michael Lampton, the Oksenberg-Rohlen Fellow at Shorenstein APARC, and a professor emeritus and former Hyman Professor and director of the China Studies Program at the Johns Hopkins School of Advanced International Studies

A renowned China scholar, Dr. Lampton has written extensively on Chinese politics and has worked for decades on the frontlines of efforts to foster constructive U.S.-China engagement. His current book project is *Rivers of Iron: Railroads and Chinese Power in Southeast Asia*, which focuses on the development of high-speed railways from southern China to Singapore.

In our conversation, we asked Mike more about these kinds of large-scale infrastructure projects and the ongoing Belt and Road Initiative China is currently funding across Asia and other parts of the world. We discussed the reasons China is investing so heavily in these projects, the impact it has for other countries and the potential consequences these decisions will have both for China and other nations.

Here's Dr. Mike Lampton.

APARC: Can you just give kind of a brief overview of what the high-speed rail initiative is and what's the impetus the Chinese government has behind investing in projects like this? What do they stand to gain from building high-speed rail networks throughout Asia?

Lampton: Well, first, we have to say that the Belt and Road Initiative, the acronym being B-R-I, is an overall broad concept that China's leader, President Xi Jinping, articulated in late 2013, both in Kazakhstan and then later in Indonesia. And it was basically just a vision and an impulse that China would help the countries on its periphery. That means Northeast Asia, Central Asia, South, Southeast Asia become increasingly connected; and connected didn't just mean high-speed rail—although that's what I've looked at—but it also meant highways, fiber optics, electric, power grids, information systems, port and maritime routes. So, the vision is connectivity of all sorts and I've been looking principally at high-speed and conventional rail construction in Southeast Asia.

But the purpose of this connectivity, I think, was several. Certainly, it does have some strategic goals that is provide bases and nodes of communication, both maritime and land for China's power projection, including possible military presence. I don't think that was the primary goal, but it was certainly an important one. I think the major goal is to try to make China the hub, and its periphery the spokes, on a wheel that puts China at the center of the Asian economy. And I think the Chinese are and many of the countries on China's periphery believe in sort of what I call the "Field of Dreams" kind of development philosophy. The idea is if they build roads and highways and connectivity, this will drive urbanization, industrialization, modernization, and China will have growing export markets as its periphery grows economically.

And so, I think it was a broad concept, and in many respects I think it was a sound concept, but it still leaves open the questions: What infrastructure do you build before other infrastructure? What countries do you build in before what other countries? How much of China's wealth and investment capacity should be poured into these projects?

And also, there's domestic politics in China. China, as we've just seen, has tremendous health care problems. It has an aging population, and so forth. So, there's a vigorous debate in China over how much money ought to be devoted to this. And then there's the issue of political risk. If you look at countries like Pakistan, where China's heavily invested, that's risky no matter whether you're looking at security, financial risk or, you know, what you might call "acts of God" that happen in Pakistan: floods, earthquakes, and so forth. So, all of this is debatable. It's a little amorphous. But the basic idea is modernization and development with China at the center, and as China's neighborhood gets richer, it will get richer.

APARC: Thank you. So, in talking in that same vein about different risks and things like that: obviously, right now all over the world, the COVID-19 crisis is at the forefront of a lot of people's minds, and that has already caused some disruptions with the labor supply and distribution supply for the Belt and Road Initiative, and some of these high-speed rail projects. So, how might this ongoing pandemic affect the future progress and the political dynamics of the BRI and high-speed rail?

Lampton: Well, of course, every country that's a partner or on China's periphery will have its own internal debate and there are so many countries involved that, of course, specific concerns, worries and debates in each country will be different. But certainly, just starting with the debate in China, as I said, there already has been controversy over whether this is a well-advised set of investments, given the instability of many countries, first of all, and given all the internal needs of China for education, taking care of aging people, social security, broader health care issues, etc.

And then there's always the questions of, do you build railroads, do you build highways, or do you build power lines? And of course, different industries in China have different answers to that, different ministries have different answers. If you're in the electric power world, you want to build dams and grids. If you're in land transportation, you want to build roads and railroads. If you're in the maritime business, you want to build ports and ships.

So, all of this is also highly controversial in terms of the recipient, we might say, or partner countries. They all have a whole series of risks, from their point of view. If they have to borrow a lot of money and then these projects don't generate the kind of returns, will they have debts to China? And what collateral will China have? Will countries like Laos, which are spending a huge fraction of their GDP just on high-speed railroad, have sufficient revenues, or will China now have assets that it can take over for various periods of time? And that, of course, is worrisome economically to Laos, but also in terms of sovereignty.

Or look at China's relations with Pakistan. Pakistan is, in many respects, on the IMF basket case in terms of financial stability. And many people in China are worried about loaning so much money to Pakistan.

You go to a place like Indonesia where China is building a high-speed rail, and lo and behold, the proposed route of the high-speed rail goes right through the land of the air force base. And of course, as you might imagine, the Indonesian military, which has historically been somewhat suspicious of China, isn't enamored with the idea that this railroad runs through one of their bases. Now, in that particular case, it looks like they resolved the issue. But what I'm saying is there's a big gap between the general conception that I talked about earlier and then the myriad of problems, political problems, both within China and within the partner countries.

Now, you mentioned the COVID-19, and that just adds a whole new layer and exaggerates what I'm talking about. In China, it really highlights the question, was Xi Jinping paying a lot of attention to Belt and Road, but not paying enough attention to domestic health care? In light of this disease do we need to spend more on health care and less on, you know, infrastructure in Pakistan? So, I think this is going to become a big issue in China. And my guess is that China will not by any means end this program or visibly diminish it. But here and there, I think the standards for making investments abroad are going to go up in China and the reticence and desire for collateral is going to go up in China when it does make investments.

So, I think COVID-19 just highlights the tradeoffs between infrastructure abroad and domestic needs in China. And of course, each of the countries that China is proposing to connect to might be asking after this virus, "How connected to China do we wish to be?" So, this will all play out in the fullness of time, but this virus will not lessen the controversy.

APARC: So, you've spoken to this already, but let's just reiterate for a moment: what are the considerations that the Chinese government has to weigh as they are evaluating where, how much and what kinds of resources they should be allocating towards high-speed rail projects or the larger Belt and Road Initiative?

Lampton: Well, first of all, there are a whole set of economic considerations. So, if you look at China's periphery at 360 degrees, you have some of the richest places in the world: South Korea, Japan, and those are very lucrative markets that you would want to hook up to. You look at Southeast Asia is more lower-to-middle income in character, but its middle class is growing very rapidly and its consumption levels are going up very rapidly. And so, it is a future market. So, some people in China would have a higher tolerance for risk: let's get in early in Southeast Asia, and let's develop those markets and we'll get first mover advantage.

Also, China is trying itself to move up the value-added chain into key future-oriented industries. Certainly information technology is one, artificial intelligence is another, high-value added pharmaceuticals another. But high-speed rail is one of the banner technologies that China has forged ahead very rapidly with and wants to be one of its key export industries. So, one whole set of considerations is with what technologies does China move in to? Which markets? How fast? So, a lot of the decisions are business decisions.

And of course, if you were evaluating the world economy, let's say 60 days ago, you would have said the general picture was growth and the economics were looking good. If you look now in mid-March of 2020, everybody is more in negative about economic growth for at least the next period of time on a global basis. And so, I imagine the economic considerations are going to weigh more heavily in the next year or two than they certainly have for the last three years or so. That's one set of considerations.

Another set of considerations is sort of the political stability in some of the countries China is proposing to go through or is actually trying to. If you go to Pakistan, quite frankly, Pakistan is one of the more unstable regions in the world. China is even considered hiring external security firms, for example, Blackwater, to provide protection for its workers and its building projects abroad. But security is a big

issue. China's going to spend a lot of money in these countries, and its workers are at risk, it has financial risks, security risks, etc. So that's a problem.

Look at the railroad China is building in Southeast Asia—if it reaches southern Thailand, you're going to have to deal with secessionist and rebel movements there before you can get to Malaysia and on to Singapore, which is the objective. So, no matter where you look, there are a set of economic, political, military, security risks. And in a sense, it's kind of amorphous how you weigh the costs against the gains. And then finally—and this is true all over the world—big construction infrastructure projects almost all run at least twice as long as initially anticipated and cost at least twice as much on balance.

Look at a big project like the Boston Big Dig; its initial estimates, I believe, were around 2 to 3 billion dollars, and last I heard, its cost topped out at 17 billion dollars. And that's in the United States in Boston, which you would think you would have a pretty good understanding of what the risks there were. So, what I'm saying is, that infrastructure per se is a big risk in terms of time and expense. You just never know what you're going to find underground when you start digging.

Another whole issue is much infrastructure like reservoirs, hydro plants, railroads, highways displaces people. And in many cases, it's the government and the partner government have to agree with its population on how their citizens are going to be compensated for losing their land, or their homes, or their family cemeteries from over hundreds of years, and levels of compensation have to be agreed upon. And almost always those negotiations turn out to be more expensive than the people promoting the project initially said.

And this would be a final point, that there is a kind of attitude about criticizing China for much of the disruption and cost of these projects. And much of that criticism is justified, and in some cases the Chinese seem to be paying some attention and trying to adjust that the outcomes. But the long and the short of it is: infrastructure is disruptive everywhere. And if you're going to move forward with a more urban, modern, interconnected society, you're going to have to build it.

And so, I think the United States would be well advised to remember its own history and the role infrastructure played here, whether it was the transcontinental railroad—Leland Stanford played an enormous role in that—in the role of our government in the Internet, or the role that our government in the Eisenhower Interstate Highway system. We are now in the comfort of our own relative economic stability, this current problem notwithstanding, and we shouldn't forget that we haven't always been a fully connected society, and that our government played a major role in accomplishing that.

APARC: So, in following through with this idea of risks and weighing the costs and benefits, what are the potential consequences for China if the BRI and high-speed rails can't be completed, or if they can't be efficiently coordinated with other participating countries and governments?

Lampton: Well, you're going to find China getting criticized for being a new imperialist. If you think about the role that the British played in building railroads in Burma and India and the role that the United States played when it wanted to build its infrastructure across the American continent and displacing Native Americans, there is no way that an outside power can so rearrange in terms of infrastructure another other society without fanning the flames of indigenous nationalism and without fanning the flames of resentment.

And so, I think the first reaction you're going to see is a lot of domestic politics and all these partner countries are going to impart revolve around how to get the Chinese to involve local populations more in terms of construction, to not bring in Chinese construction workers, but hire more local people. You're going to see a lot of debate in these societies and resentment against the Chinese who want to secure their investments. So, they'll demand development rights along the highways, or in this case, the high-

speed rail road. That means that their merchants and their factories that will supply their merchants are arrayed along these new lines of communication and commerce. So, I think the first thing China's going to see externally, and is already seeing, is some resentment against the degree of intrusion that something this massive represents. And ultimately, the leaders in these partner periphery countries are going to have to convince their own people that the pain and dislocation from these projects in the end was somehow, "Worth it." And so, it's going to be a big political job over a long period of time for domestic political leaders in these countries to convince their people to go along.

APARC: Right. So, we've been focusing, obviously, on China and China's role in this initiative and the decisions that they're making about high-speed rail and the BRI. But on the flip side of that, what are some of the challenges or the fateful decisions that other countries have to consider as they're deciding whether or not to participate in the BRI and expanding Chinese-backed infrastructure projects?

Lampton: Well, I think there are several. One is they have to decide, first of all, do they want China to do it or would they prefer Japan to do it, or the Republic of Korea, or France, or Germany or some consortium of that. How dependent do they want to be on China, now, in the case of high-speed rail? And every technology and every kind of infrastructure has its own peculiarities, but I think most people would agree that Chinese high-speed rail may not be the absolutely best, but it's very close to it. And it's a lot cheaper than the Japanese, and the Japanese tend to take longer building projects.

So, the first thing you're going to have to decide is who do you want to do what? What's the tradeoff? Cost, quality, length of time to construct? That's a whole big set of issues. And China has a good case to make with its countries nearby, because for those countries, their natural markets are China and they want to hook up with China as much as China wants to hook up with them. So, I would say China has a leg up on this. But all of these countries have a choice to make.

I would say, for example, Vietnam is very reluctant to get too dependent on China. And my guess is they would pay a premium. But the issue would be, how big of a premium would they be willing to pay to get at least some balance with Japanese construction in their country? Thailand feels the same way, and probably some of their railroads and infrastructure will be built by others, and then some will still be built by China.

In this connection, the United States needs to think about getting more involved, either wholly itself and it through its private companies principally, or in consortia with other countries, whether it be France, the Republic of Korea, Germany, Japan and so forth. We have to ask ourselves, do we want to let China build out the infrastructure that will focus Asian economic activity exclusively on the People's Republic of China? So, we have a big choice to make there as well.

I think there are other choices that people have to make: how indebted do they want to become? Is high speed rail for Laos a reasonable technological decision right now? But, if you don't build it in Laos you're not going to get to the countries south of Laos, because Laos is a pretty indispensable route, or at least the most cost-effective route at the present time. The question of desirable levels of debt for each of these countries is important.

And then finally, increasingly, as the United States and China are having more and more difficulty in their own bilateral relationship and as more and more strategic competition characterizes the U.S.-China relationship, each of these countries has to decide—particularly key technologies like 5G—whose technology they're going to buy. And the U.S. doesn't want these countries buying China's technology; we see it as a strategic issue. And therefore, as we get more polarized with China, they're going to find it more and more difficult to walk the balance line between Beijing and Washington in strategic terms.

APARC: Well, thank you so much, Dr. Lampton. I really appreciate that. This was a very excellent and illustrative conversation.

Outro: Thanks for listening. If you enjoyed this conversation and want to hear more from our researchers, please like, subscribe, and make sure to follow us online at our website, on Twitter, and on our Facebook page. You can also sign up for our newsletters at aparc.fsi.stanford/newsletters. Until next time, this is APARC.