



CHINA'S INFRASTRUCTURE DIPLOMACY IN SOUTHEAST ASIA: EXPLAINING ASYMMETRIC BARGAINING WITH FOUR ASEAN COUNTRIES

ÇİN'İN GÜNEYDOĞU ASYA'DAKİ ALTYAPI DİPLOMASİSİ: ASİMETRİK PAZARLIĞIN DÖRT ASEAN ÜLKESİ İLE AÇIKLANMASI

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ABSTRACT

Existing studies on China's infrastructure investment projects have largely focused on its geopolitical and geoeconomic implications by assuming that China will easily obtain support and cooperation from developing countries. However, asymmetric power capabilities of China do not always imply that it would be able to achieve all desired outcomes at any time. Since China's infrastructure diplomacy is essentially based on gaining support from developing countries, possibility of strategic misalignment with them and political risks emanated from intensified strategic competition with other great powers create an opportunity for negotiations between China and each host country in itself. Using an analytical framework from the bargaining theory in international relations, this article argues that Southeast Asian countries are able to increase their bargaining leverage vis-a-vis China. The success of China's infrastructure diplomacy depends on the combination of three factors, such as strategic location, outside option and domestic constraints, affecting political bargaining processes between China and Southeast Asian countries. In this context, the future prospect of regional cooperation is likely to be shaped by the interactions between different development and connectivity plans in Southeast Asia. The increasing China-Japan competition provides economic opportunities but at the same time implies high security risks for individual ASEAN countries.

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ÖZET

Çin'in altyapı yatırımı projelerinin jeopolitik ve jeoekonomik etkileri üzerine odaklanan çalışmaların büyük çoğunluğu, gelişmekte olan ülkelere ihtiyaç duyduğu destek ve işbirliğini Çin'in kolaylıkla elde edebileceğini varsaymaktadır. Ne var ki, Çin'in sahip olduğu asimetrik güç yetenekleri diğer ülkelerle ilişkilerinde her zaman arzu ettiği çıktıları elde edebileceği anlamına gelmez. Çin'in altyapı diplomasisi özünde gelişmekte olan ülkelere politik destek elde etmeyi amaçladığından, söz konusu ülkelerle ortaya çıkabilecek stratejik uyumsuzluk ihtimali ve diğer büyük güçlerle yaşanan yoğunlaşmış stratejik rekabette kaynaklanan politik riskler Çin ve ev sahibi ülke arasında yapılacak müzakereler için önemli bir fırsat yaratmaktadır. Bu makalede uluslararası ilişkilerde pazarlık teorisine dayanan analitik bir çerçevede kullanılarak Güneydoğu Asya ülkelerinin, Çin karşısında pazarlık gücünü arttırabilecekleri iddia edilmektedir. Çin'in altyapı diplomasisinin başarısı, Çin ve Güneydoğu Asya ülkeleri arasında var olan politik pazarlık süreçlerini etkileyen üç önemli faktör olan stratejik konum, dış seçenek ve içsel kısıtların birleşimine bağlı olarak ortaya çıkmaktadır. Bu bağlamda Güneydoğu Asya bölgesel işbirliğinin geleceğinin birbirinden farklı kalkınma ve bağlantısallık planları arasındaki etkileşimlerle şekillenmesi kuvvetle muhtemeldir. Giderek artan Çin-Japonya rekabeti, bireysel ASEAN ülkeleri için önemli ekonomik fırsatlar sunduğu gibi ciddi güvenlik riskleri de barındırmaktadır.

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INTRODUCTION

China has taken a large-scale economic initiatives to use its financial power for increasing political influence at both regional and global levels, especially since the 2008 global financial crisis. Its large amount of investment on infrastructure development embodied in the Belt and Road Initiative (BRI) includes road, railway, port, energy and other infrastructure projects along the regions from Asia to Europe. After China reached 3.9 trillion dollar of foreign-exchange reserve by the end of 2013, it started to fund its financial capital through the China Development Bank (CDB) and China Exim Bank as well as through the newly created international institutions, such as BRICS New Development Bank, the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (Wang, 2014).

While developing countries have paramount infrastructure development needs and remain at disadvantageous positions in terms of power asymmetry of their relations with China, it does not always imply that China would be able to achieve all desired outcomes at any time. Some significant studies in international relations demonstrate that weaker states have some agency in their relations with great powers even though they face power limitations (Keohane, 1969; Long, 2016; Panke, 2012; Womack, 2003). Even if power arises from the asymmetrical relationship, power asymmetry does not always determine foreign policy outcomes. At this point, it is important to examine the specific conditions surrounding the interactions between great powers and weaker states in order to analyze the reasons why great powers may fail to impose their preferences in a given period of time.

Since China's infrastructure initiatives are motivated by both overall strategic calculations and domestic demands, its vital need for political support from the developing countries provides weaker states bargaining leverage. Besides, even though developing countries also highly need China's infrastructure investments for improving their own national development paths, there is a risk of development misalignment over domestic priorities between them and China (Oh, 2018). However, the possibility of strategic misalignment and political risks resulted from intensified strategic competition over Southeast Asia is more important for future prospect of regional cooperation than merely the misalignment of domestic development priorities. Moreover, China's infrastructure development projects have, in nature, geographically defined and connectivity-oriented characteristics. If the existence of different regional connectivity plans are recognized, it will also be understood that it makes strategic considerations of Southeast Asian countries more important than in the case of only one option would suggest. So, all those major dynamics underlying particular interests and priorities leave a significant room for negotiations between China and each Southeast Asian country by itself.

Southeast Asian countries face both challenges and opportunities with regard to the ongoing intensified strategic competition between the US and China. The most obvious opportunity for the ASEAN states rests on the extending possibility of navigating between the US and China by exercising middle strategies (like hedging and shifting alignment) and extracting benefits from both (Kuik, 2016; Goh, 2016; Ciorciari, 2010). The second opportunity comes from the other regional powers, such as Japan, India, Australia and Russia, that have increasingly involved in the shifting Southeast Asia strategic triangle¹ (Shambaugh, 2018: 99-100). And, the third opportunity is ASEAN's role to recalibrate individual member states' external linkages. However, this intensified competition has become most apparent after the Donald Trump administration has explicitly labeled China as "strategic competitor" and "revisionist power" (White House, December 2017). It means that there would be no longer left any middle space for tactical attempts of Southeast Asian countries unless the competition can be successfully kept from becoming adversarial. So, managing the competition to ensure peaceful coexistence rather than adversarial polarization of the region is the principal challenge for both great powers and regional states.

¹ According to David Shambaugh, the regional chessboard has been complicated as the Southeast Asian strategic triangle created a four-level set of interactions

China's increasing influence has some different modes. China exercises its influence predominantly in contexts of convergent rather than divergent preferences in Southeast Asia (Goh, 2014). In order to convert its power resources into influence over Southeast Asian states' strategic decisions to bring estimated outcomes favourable to itself, China uses the most common tools particularly coercion, inducement/payment and persuasion. China's influence can be exercised in an instance where there may not be clear resistance and even when the interests or preferences of China and its targeted Southeast Asian countries converge. Southeast Asian countries may be aligned with China's preferences because they owe instrumental calculations, such as the prospect of access to Chinese economic resources or the lack of other potential large external supporters. China's infrastructure diplomacy in Southeast Asia within this broader context is much more appropriate to the mode of "buying influence" for generating deliberate collective outcomes (Kastner, 2014). Chinese influence in such a convergent context of regional development as a mutual benefit has been exercised primarily with multiplier effect to intensify and mobilize similar preferences and to overcome collective action problems. Yet, it also results from costly political choices made by Southeast Asian leaderships in their relations with China (Ravenhill, 2010).

Although there has been a noticeable gravitational shift towards China and China's influence is growing in the region, neither should it be overestimated. China's infrastructure diplomacy requires a clear examination of Southeast Asian countries' reactions and decisions and the range of contexts of existing convergent and divergent preferences. Using an analytical framework from the bargaining theory in international relations, this article argues that Southeast Asian countries are able to increase their bargaining leverage vis-a-vis China's infrastructure diplomacy in Southeast Asia.

1. China's Infrastructure Diplomacy in Southeast Asia

1.1. Theoretical Framework

Southeast Asian countries' critical need for infrastructure investments provides a great opportunity for China's infrastructure diplomacy. Yet, there are some difficulties to be overcome in this bargaining situation. China and a host country has to decide how they engage in so-called cooperative bargaining. Even when they engage in a mutually beneficial initiative, conflicting interests over the terms of the deal exist. In other words, China and host countries have a common interest in cooperating, but having conflicting interests over exactly how to cooperate creates a cooperative bargaining situation (Nash, 1950). It is important to ask when and how bargaining can be expected to produce successful outcomes. To reach an agreement is likely when China insists on making investment but a host country's cost of accepting this agreement is low. Providing support for China's infrastructure projects can be used as a bargaining leverage by a host country for gaining additional benefits at the expense of strategic and political risks associated with intensified competition. This outcome can be expected when China offers no less favourable terms than threat credibility of a host country.

In bargaining theory, the bargaining power is mostly analyzed in terms of threat credibility of each party or their "fallback positions"² (Kuik, 2016: 504). It mainly refers to a situation of non cooperation between the parties where they obtain default benefits. In this case, each party can threaten the other by using their fallback positions as disagreement payoff for walking away from a deal. The bargaining theory suggests that redistributive gains from cooperation are based on which party has higher threat credibility or stronger fallback position. This bargaining process is affected by several factors that determine ultimate outcomes (Muthoo, 2000).

In infrastructure negotiations, China and a host country can come to a disagreement on many different issues. Strategically, China's grand design of infrastructure projects may not be aligned with the host country's own national interests under the shadow of future strategic and political uncertainty. Economically, high-priority sectors and projects of the host country may be different than China's own

² Fallback position refers actor's seek to offset longer-term risks that might arise by making contradictory acts.

infrastructure development priorities. Or more specifically, the type, scale, locations, technologies, project costs and financial risks may possibly be a source of disagreement. Each country's credible threats or fallback positions reflect its long-term benefits for not accepting that specific infrastructure project. The following three prominent factors significantly matter in China's infrastructure diplomacy in Southeast Asia. 1) significance of strategic location of the host country for China 2) outside options for the host country 3) domestic constraints that avoid the host country from making large concessions to China. If the threat credibility or fallback position of a host country has been strong, the project terms offered by China would be changed in favour of a host country or even the project agreement would be failed.

1.2. Strategic Location of Host Country

Strategically important locations provide players favourable positions in bargaining process. If the significance of strategic location of a host country is high, its bargaining leverage in the negotiations will be increased. China employs infrastructure as a key foreign policy tool for supporting its long-term strategic goals to expand its influence at regional and global levels (Leverett and Wu, 2017). Although China's geopolitical vision for the BRI is comprehensive and certainly includes long-term project planning, the current Xi government is very sensitive about its visible and quick outcomes in terms of number and scale of implemented projects. Since most of the development projects take time to be completed, China needs to launch projects very carefully for making progress. Besides, China's need to resolve its industrial overcapacity and create overseas markets for its steel and construction-material firms also shorten its time limitation. In this sense, China should be very attentive in project selection process and strategic prioritization. For instance, it could prioritize railway networks and transnational pipe-lines according to their functions as a hub or gateway for other countries.

Strategic location provides host countries to obtain additional advantages in the bargaining process with China. In the context of transnational network development, it gives some countries an opportunity to manipulate their geographical importance for holding up a multi-country project. Especially with regard to pipelines and power-grid projects, strategic location of a host country becomes more pronounced. It is also important for high-speed rail industry, because it is a high-cost infrastructure development. Geographically, high-speed rail needs regional urban centers that are reasonable distances apart. Without certain conditions, which make strategic location important, high-speed rail project as a type of transportation technology cannot be reached long-term commercial efficiency and viability (Amos and Bullock, 2010).

Strategic location is also important in considering the possible misalignment of routes between China and host countries. The preferred geographic locations and routes for rail lines by China, for instance, largely affect the decisions of host countries on the attractiveness of the projects. The best solution for China is to connect Kunming all the way to Singapore. This project is likely to strengthen China's strategic and political influence by physically integrating mainland Southeast Asia through Chinese technology. In development priority of a host country, however, investing in its urban transportation networks or upgrading trunk road and rail corridors that connect the main cities is more important than the route passing through a vast land area far from major cities and industrial centers (Oh, 2018: 542). Economic statecraft in host countries should make cost-effective calculations for their domestic economic developments and rationally decide high-priority areas.

1.3. Host Country's Outside Options

The existence of attractive outside options provide a host country an opportunity to increase its bargaining leverage. In bargaining theory, a player can gain favourable position in the negotiations for better terms, if it makes a credible threat of 'exit' (Binmore and Shaked, 1989). However, for Albert Hirschman, the outside or exit options of the player are not necessarily to be implemented. It provides an opportunity of sharing surplus in avoiding 'exit' for each side. The possibility of bargaining failure leads two sides to come into compromise in the bargaining range, otherwise at least one side will suffer

utility loss. The great power can give much more concessions to a host country to avert its 'exit' (Hirschman, 1970).

Within the context of infrastructure development, the credible outside options as an alternative source of funding for the infrastructure projects provided by some other great powers or international financial institutions create bargaining opportunities for host countries. For instance, Japan has been increasingly become an alternative source of funding in Southeast Asia. Its financial capability for infrastructure development in the region can be considered as a major bilateral donor of concessional loans as well as a major shareholder in ADB. From 1994 to 2015, ADB financially supported around 6.6 billion dollar for the Greater Mekong sub-region program, a comprehensive development program including mainland Southeast Asian countries and the Yunnan and Guangxi provinces of China, with 84% going to transportation and energy projects (Asian Development Bank, 2016: 106).

Most recently, Japan has mobilized its financial and diplomatic resources to counter China's infrastructure development initiatives in the region. Japan has demonstrated its serious commitments in an attempt to strengthen the relations with Southeast Asian countries diplomatically. After coming to power, Prime Minister Shinzo Abe visited every Southeast Asian country in 2013. It was also announced that Japan will devote 110 billion dollar for supporting infrastructure development in Asia over the next five years in 2015 (Ministry of Foreign Affairs of Japan May 21, 2015). More importantly, Japan has launched its own BRI-type initiative named as the Partnership for Quality Infrastructure (PQI), which reflects the cost-competitiveness of China's infrastructure technology by emphasizing the 'quality' rather than the 'quantity' of infrastructure.

1.4. Host Country's Domestic Constraints

Domestic constraints can provide a bargaining advantage for a host country. It might be based on legally binding rules, interest groups or social movements. By linking domestic and international level, Putnam argues that domestic ratification constraints in the legislature provides an opportunity to the executive branch for increasing its bargaining leverage in international treaty agreements (Putnam, 1988). Domestic constraints become more influential when the political cost of ignoring them is substantial. Since domestic constraints increase the possibility of opting out of the bargaining process, a government can strategically obtain concessions from the other side. However, domestic constraints can be either a facilitator or an obstacle in the bargaining process.

Domestic constraints have some variations and take different forms in infrastructure development. Host government's fiscal regulatory laws, domestic business or political interest groups, nationalist sentiments or public oppositions can play a role in the negotiation process. Strong restrictions on state budgetary laws, for instance, complicate a host government's ability of adjustment of loans, repayment conditions and allocation of government funds with regard to investment projects. When the government regulations associated with foreign-ownership restrictions and strong domestic business interests are concerned, domestic constraints on infrastructure projects become much more significant. Local business groups may have relatively strong capabilities to lobby for more opportunities in the participation of infrastructure projects before the government.

Moreover, public oppositions in most host countries can be another important domestic political constraint for dealing with a great power. Infrastructure development has always a potential to create social and political tensions due to the issues of land acquisition, internal displacement or negative environmental impact. Construction projects are vulnerable to outside externalities that cause to decrease public support over time. This problem can be managed if a host government is able to respond sufficiently according to the public demands. However, a lack of transparency over the process would increase the possible complications rather than contributing to solve the problem.

Regarding domestic constraints in general, one of the major political risks for China's infrastructure investment is raised by anti-China sentiments among the public in some China's neighbouring countries. The increasing perception of making large concessions to China by host governments can help to

increase nationalist backlash. Strengthening mutual trust in host countries towards China's initiatives play a vital role in developing infrastructure projects. Although the promising opportunities through economic partnerships with China are highly recognized by the most citizens of host countries, there are also some considerable sense of suspicion about China's growing influence in the region. Given the fact that anti-Chinese sentiments are still alive in the region, it would not be wrong to suggest that China-led infrastructure development is partially considered with political risks by host governments.

2. Southeast Asian Countries and Asymmetric Bargaining

2.1. Indonesia

Indonesia's almost all infrastructure sectors, including energy, aviation, road, rail and port, need to be improved rapidly for its sustainable domestic economic development (World Economic Forum, 2016). Under the government of Susilo Bambang Yudhoyono, who was in power from 2004 to 2014, infrastructure development had become a top economic priority, and after him President Joko Widodo has kept this economic priority for to be pursued. Indonesia's Jakarta-Bandung high-speed rail project is one of the early achievements in China's infrastructure diplomacy in Southeast Asia. It also illustrates Indonesia's ability to obtain favourable financial terms by using its bargaining opportunities especially with regard to outside option and domestic constraints. In 2015, a joint venture between China Railway Group Limited and four Indonesian SOEs won the contract for the 5.5 billion dollar project to build a high-speed railway from the country's capital city of Jakarta to a major industrial city of Bandung.

Indonesia's strategic location can be considered in terms of its key place in the BRI strategy, its maritime country position and its economic growth as being the region's largest economy. Since the symbolism of exporting Chinese high-speed rail for the first time in the region is significant, Chinese government paid high attention to reach an agreement with Indonesia. However, one of the most important challenges for China was related to Indonesia's own development priorities. Although Indonesia was seeking infrastructure investment for railways, it primarily preferred to improve traditional railways between Jakarta and Surabaya rather than to invest transit infrastructure between Jakarta and Bandung that are relatively close to each other (Salim and Negara, 2016).

Indonesia also had a credible outside option when the negotiations was going on. Japan conducted a feasibility study for launching a campaign to win the bid for the Jakarta-Bandung rail line project. The project was initially expected to be given to a Japanese consortium, but China won the bid after offering more generous terms. China accepted to undertake most of the project costs and more importantly the risks by not requiring government guarantees for loans and opting a Public-Private Partnership (PPP) for financing. On the other hand, after losing 5 billion dollar contract to China to build Indonesia's first high-speed rail, Japan managed to secure a 15 billion dollar contract with India to construct a high-speed rail between Mumbai and Ahmedabad in the same year (Abdi, 2016).

With regard to the Jakarta-Bandung high speed railway project, Indonesia's strong fiscal rule, as a domestic constraint, did not allow the government to provide any funding or loan guarantee (Watanabe, 2015). Indonesia's strict fiscal discipline has been started to be implemented successfully in reducing the government's debt burden since 1998 Asian financial crisis (Carter and Diop, 2016). The financial crisis caused serious political and social upheavals in Indonesia and led to create strong political norms of limiting government borrowing. Even though Indonesia was able to put its strong fiscal policy as a leverage on the negotiations with China, it was not entirely a free ride agreement. For example, it was obliged to make some arrangements on sharing the administrative opportunity costs of the project.

Moreover, the Jakarta-Bandung railway project also brought existing challenges for China's infrastructure initiatives in Indonesia more apparent (Suryadinata, 2017). From the beginning of the project, as Chinese and Japanese companies sent special envoys to lobby the Indonesian government, the commercial project became highly politicized. The local media started to report the project as "national project" and criticised that China's investments in Indonesian infrastructure development are driven by an interest in controlling strategic locations (Herlijanto, 2017). The growing concerns about

the reliance on Chinese loans came to the point that opposition parties accused Joko government of wanting to “sell” the country to China (Negara and Suryadinata, 2018). In addition to loan controversy and political oppositions, land-clearance issues and land conflicts made the progress of the project slow down.

2.2. Thailand

Thailand represents a unique case in many respects within the context of infrastructure development in Southeast Asia. Thailand's infrastructure sector is a highly competitive market with active private and foreign participation. In addition to this, the Thai military government, which came to power after coup in 2014, has been supporting infrastructure development mainly due to the political reasons. Since the government itself has faced a legitimacy crisis, it needs large-scale and politically visible public work projects for stimulating domestic economic development (Baker, 2016). In this context, while the military government in Thailand has increasing infrastructure spending, the rail development has been made its top transportation infrastructure priority (Wongcha-um, 2017). Although China's commercial interests in Thailand are limited due to low market capacity for Chinese firms, the geopolitical and economic incentives to build the link are compelling.

Thailand is at the center of ASEAN with bordering three of world's fastest-growing economies. As being a significant geographic location of land and sea in Southeast Asia, both east-west and north-south transportation systems will converge in Thailand. This gives Thailand an opportunity to become the transportation hub of ASEAN as well as a hub for aviation and shipping in Southeast Asia. China considers Thailand as becoming the fulcrum of Maritime Silk Road. The strategic location of Thailand has become significantly important in considering China's overall connectivity plan after the two possible routes initially suggested for overall pan-Asia rail network were dimmed. The pan-Asia rail network under the BRI strategy was also designed with an eastern route through Vietnam and with a western route through Myanmar. Yet, in the past few years, the deteriorating bilateral relations between China and Vietnam over the South China Sea dispute and Myanmar's foreign policy shift away from China under civilian governments left the central line going through Laos and Thailand as the only viable route. In this sense, Thailand can be regarded as a crucial country in China's quest to secure access to the rest of Southeast Asia. China's willingness to expand connectivity between Laos and Thailand can also be seen in its financing of the fourth Laos-Thailand Bridge.

The Sino-Thai high-speed railway project that was started in 2017 will connect Nong Khai on the Thai-Laos border with Bangkok and then continue to the country's eastern industrial base. The original project plan is to extend the Nong-Khai-Bangkok line to the Malaysian capital of Kuala Lumpur and finally to Singapore in order to complete the pan-Asia route. The level of significance of the Thai project for China can be understood from the participation of the vice chairman of China's National Development and Reform Commission, which is a key organization for China's top economic planning agency, as a head negotiator (Bangkok Post May 25, 2017).

Although Japan does not directly involved in the process of Nong-Khai-Bangkok line as a competitor, it offers alternative routes for the Thai government. Another high-speed rail line between Bangkok and Chiang Mai, Thailand's second largest city, was planned to be built by using Japan's high-speed rail technology. There is a possibility of overlapping tracks with the Thai-Chinese railway due to the fact that both rail lines start from Bangkok. However, Japan reluctantly seeks separate tracks for some safety and management reasons (Bangkok Post March 27, 2017). Chinese companies already started to work on another railway line from the Nong-Khai to Map Tha Phu on the eastern seaboard of the Gulf of Thailand. It is interesting to see that two different high-speed rail technology exist side-by-side in the same country reflecting both competitive and potentially cooperative characteristics. Thailand envisions that China builds rail links running north-to-south while Japan develops an east-to-west transportation corridor.

Japan is by far the biggest investor in Thailand and the commercial ties with Japanese companies has been well-developed. Japan's industrial interests are mainly concentrated around Greater Bangkok and on the eastern seaboard and the port of Laem Chabang. In this regard, Thailand and Japan signed a memorandum of understanding (MoU) on a joint investment in a double-track line linking Bangkok and Kanchanaburi to Laem Chabang where Thailand's main container port is located. Thailand is also aspiring to get Japanese financial support for building two east-west corridors. The first one would run from Kanchanaburi on the Myanmar's border to the eastern province of Aranyaprathet on the Cambodia border. This 'lower east-west corridor' is planned to be connect with the coastal city of Dawei in Myanmar, where Japanese companies are collaborating with the Thailand and Myanmar governments for constructing Asia's biggest Special Economic Zone. The second rail line, 'upper east-west corridor', starts from Mae Sot in Tak province in the border of Myanmar to Mukdahan province bordering to Laos (Economic Research Institute, 2010). This rail line would eventually run through Laos to the Vietnamese coast.

In terms of domestic constraints, China's demand for property development rights created an important obstacle for Thailand's highly competitive infrastructure sector. Thailand's politically influential business groups are likely to be concerned to provide China exclusive land development rights and related business opportunities along the route. For example, the country's top conglomerate of the Central Group has two core companies that are Thailand's major property and retail developers as well as among the most well-established property developers in Southeast Asia (Yabushita and Suehiro, 2014).

2.3. Myanmar

Myanmar's strategic location is mainly defined by its access to the Bay of Bengal. The Kyaukphyu-Kunming gas and oil pipelines were all completed in 2017. However, although there was the initial signing of memorandum of understanding (MoU) between China and Myanmar in 2011, the Sino-Myanmar high-speed railway project could not be constructed. The railway MoU expired in 2014 without construction ever beginning, and Myanmar officially declared that there is no standing agreement between China and Myanmar in the rail sector in 2016. So, the purpose of China to complement the gas and oil pipelines with the same route of high-speed rail line seems to be suspended.

On the other hand, Japan as an outside option, has recently shown strong interest in investing Myanmar's infrastructure development. Although China has a geographical advantage over Japan, the Abe government has adopted a new strategy to increase its participation in infrastructure building in the long term. It has already provided Myanmar new loans for various fields including the construction of roads, power plants, ports, train stations and so on. The Thilawa Special Industrial Zone and the Special Economic Zone are particularly important initiatives that Tokyo promotes industrialization, connectivity and economic development in Myanmar (Er, 2016).

Moreover, the political transition that started in Myanmar in 2011 had serious negative impacts on China's bilateral relations with Myanmar. The military government that ruled the country for almost half a century was replaced by the civilian government under the leadership of Thein Sein. In the military government period, Myanmar's foreign policy became overdependent on China contrary to the financial sanctions and political isolation imposed by Western countries. The growing Chinese influence in Myanmar through this period led significant political oppositions toward the ruling government as well as China.

The increasing public resentment, as a domestic constraint, over China's large-scale projects has created some important implications. Especially China's energy projects and natural-resource development efforts have been criticized by local residents in a sense of making concessions toward China at the expense of local communities (Chan, 2017). As a result, the 3.6 billion dollar Myitsone hydropower project and the 1 billion dollar Latpedaung copper mine operation, both have either investment or management ties to China, was suspended by the Myanmar government in 2012. Actually, Myanmar

case shows how the domestic political transition can be influential on the overall distribution of bargaining advantage in China's infrastructure diplomacy.

2.4. Malaysia

Malaysia is a crucial country for China's quest to complete pan-Asia railway network. As a gateway to Singapore, Kuala Lumpur-Singapore high-speed railway has a great potential for creating multiplier effect for future regional trade. In 2010, the Malaysian government under Najib Razak decided to launch high-speed rail as a key project for revitalizing Greater Kuala Lumpur. Malaysia and Singapore came to an agreement in 2013 and established a Joint Ministerial Committee for looking into the project's technical aspects. In 2014, Malaysia made an announcement that the terminus would be located in Bandar Malaysia. According to their plan, the railway is expected to be completed by 2026.

As Japan lost the bid for Jakarta-Bandung rail line in Indonesia, the lobbying activities in getting the contract for Kuala Lumpur-Singapore rail line has been hastened. Japanese Prime Minister Shinzo Abe proudly offered Shinkansen's technology to the leaders of Singapore and Malaysia at the ASEAN meeting in Kuala Lumpur in 2015. Although Japanese technology involves an excellent safety record, longer life spans for equipment and rolling stock and lower maintenance costs, the bid offered by the consortium was one of the highest prices (Sim, 2016). China, however, actively engaged in lobbying Malaysia by linking its railway bid with key investments in Malaysia through political connections (Ahmad, 2017). In November 2015, for instance, Chinese Premier Li Keqiang met with Malaysian former Prime Minister Najib Razak on his first visit to Malaysia as a Chinese Premier. During that visit, the Chinese government agreed to purchase Malaysian government bonds and invest in infrastructure. In the same month, state-owned China General Nuclear Corp paid over 2.3 billion dollar for the power assets owned by 1MDB (1Malaysia Development Berhad). After those efforts, China managed to win the bid for the East Coast Rail link project and Chinese firms reached at a dominant market share in the rail sector in Malaysia by supplying some 80% of the rolling stock in the use.

Nonetheless, the most important domestic constraint for China's infrastructure initiatives in Malaysia is growing anti-Chinese public sentiments across the country. The troubled state-owned investment fund 1MDB corruption scandal has damaged Chinese image in Malaysia. Former Prime Minister Najib was the chairman of 1MDB's advisory board when the state fund borrowed billions of dollars to buy local and foreign power plants, and consequently landing the state fund with as much as 11 billion dollar in debts. Furthermore, after returned to power in May 2018, Malaysian Prime Minister Mahathir Mohamad warned against "a new version of colonialism" when he was making a trip to Beijing. This statement definitely has a worsening impact on Malaysian public opinion about China and in turn the relations between two countries. However, there are recent signs that Malaysia intends to ease tensions with China. As Malaysia's Foreign Minister Saifuddin Abdullah declared, China is willing to reduce 20 billion dollar price tag and revive the East Coast rail link project. According to Saifuddin, Malaysia is making progress with the aim of reaching a smaller project size and cost (Shukry and Raghu, 2019). This means that renegotiations are still going on between China and Malaysia over the cancelled infrastructure projects.

3. Development Prospect for Future Regional Cooperation in Southeast Asia

3.1. Implications of China-Japan Competition

The evolving China-Japan competition over regional infrastructure development obviously creates strategic opportunities for Southeast Asian countries to gain additional benefits from both sides. This strategic opportunity does not only reflect individual states own particular benefits, but also imply providing public goods which are essential for future governance of regional cooperation. Japan's willingness to involve deeply into Southeast Asia cannot be seen merely as a strategic response to the growing Chinese influence, but the logic of market sharing also stimulates Japan's temptations to make business in the region (Ciorciari, 2009). Contrary to China's growing influence in the region, Japan tends to improve its relations with ASEAN more enthusiastically (Shoji, 2012: 69). This relatively new

tendency of Japanese foreign policy creates some remarkable expectations in Southeast Asian elites for taking more strong independent steps towards regional institution-building initiatives (Lin and Katada, 2017: 1-2). It is expected that China-Japan competition may prompt Japan to “think big” on regional development and play a larger role in regional and global governance (Funabashi and Ninomiya, 2015). One of the most recent survey report shows that the perception of trust on Japan in Southeast Asian elites is slightly higher than any other country, including the US and China. As the most trusted major power, Japan is the only major power in the survey to receive “positive views” as the top response in all ASEAN member states (ISEAS, 2019: 29).

Japan's infrastructure investment in Southeast Asia began since the late 1970s with its multinational companies. The Japanese government formulated its vision for infrastructure connectivity across Southeast Asia in the 1990s. In Japan's “Comprehensive Asia Development Plan”, there are three major initiatives, which aim to construct production networks among different countries, for infrastructure connectivity (Economic Research Institute, 2010). First, the East-West Economic Corridor starts from the seaport of Danang in central Vietnam through Laos and Thailand to the port of Mawlamyine in Southeast Myanmar. Second, the Mekong-India Economic Corridor connects Ho Chi Minh City, Phnom Penn and Bangkok to the port of Dawei in southern Myanmar and potentially goes more beyond. And third, the Maritime ASEAN Economic Corridor is an attempt to consolidate port development, marine economic development and information, communications and technological networks connecting Brunei, Indonesia, Malaysia, the Philippines and Singapore. The most important feature of Japan's interconnectivity plan is that it links ASEAN's industrialization with infrastructure development by focusing on promoting ASEAN's economic integration and narrowing the development gap. It can be understood that large urban centers are central in establishing economic corridors across different developing countries for promoting industrialization and regional integration in Southeast Asia.

When looking at different regional development and connectivity plans of the two countries, it can be seen that China and Japan have divergent strategic and economic considerations. Tokyo mainly concentrates on East-West corridor for region's future trade and energy by connecting Myanmar, Thailand, Laos and Vietnam through high-speed rail line and other infrastructure initiatives. Beijing, however, aims to build a North-South corridor, which Pan-Asian Railway Network takes place as a central idea, within the broader context of BRI in order to improve its access to Southeast Asia and beyond. China's investment on transportation facilities in neighbouring countries as the extension of its domestic railway network and technology is planned to be a part of Eurasian Railway Network under the BRI and expected to be laid the transit foundation for future EU-Asia trade (Zhao, 2018: 7). So, even though both China and Japan have similar motivations and goals for future regional development and connectivity, they have also different priorities and conflicting interests.

Moreover, the increasing competition between China and Japan also implies some security risks for the region. Abe's new strategy of ‘Proactive Pacifism’ in the region reconsiders Japan's increasing engagement with Southeast Asia as a priority for protecting the long-term maritime security interests (Dalpino, 2016). In security realm, strengthening the US-Japan alliance for promoting a new network model to cooperate militarily with third countries in the region supports the idea of maritime domain awareness (Kawashima, 2017). Although Japan's diplomacy toward ASEAN includes large-scale investment initiatives for stimulating Japanese economic growth as well as regional development, the strategic and security considerations of Abe administration has gained a momentum in recent years.

In addition to infrastructure development, the competition between China and Japan over the reorganization of regional financing has been also increasing. This competition has been facilitated with the establishment of AIIB by China in 2014. In terms of foreign direct investment both the US and Japan are still the larger providers in the region. Although its contribution to financial regionalism has been controversial, ADB has provided development loans to low and middle-income countries in Southeast Asia since 1966 (Katada, 2017). After achieving a large capacity of financial resources, China has sought to increase its influence in the regional financial regime in comparison to its counterparts. In this regard,

China created the AIIB as a bargaining instrument for promoting institutional reform in global financial regime. The AIIB is identified by China as a multilateral development bank and its role is defined as supplementary to the existing multilateral financial institutions.

Given the fact that both Chinese and Japanese activities primarily concentrate on market expansion and economic benefits, their infrastructure investment initiatives can be regarded as promising and welcoming dynamic for regional development in Southeast Asia. However, there is also another possibility that the increasing competition between the two countries may evolve into intensified geopolitical rivalry leading to negative economic consequences. This may damage market-driven logic in reallocating economic resources, and more importantly cause unexpected security consequences. This possibility is certainly a great challenge both for the interests of individual ASEAN countries and the future development of regional cooperation.

3.2. ASEAN's Unifying Role

Although it has been focused on the bargaining processes of each host country in a bilateral basis, it is also necessary to emphasize the possible bargaining situation within the multilateral negotiation settings in international organization. In multilateral frameworks, weaker states can sometimes gain favourable positions by "punching above their weight" through utilizing a one-state one-vote principle (Panke, 2012: 313). With this principle, even if weaker states are at a disadvantageous position in terms of their power resources and capabilities, they can find an opportunity to influence the bargaining processes and outcomes especially when certain conditions of institutional design or issue-specific characteristics are available. In this context, the possible role of ASEAN as a unity for incorporating into the bargaining processes over infrastructure development with China needs to be taken into consideration (Goh, 2011; He, 2014).

ASEAN can play a role for increasing economic opportunities for individual ASEAN member states. Japan's deepened economic involvement in Southeast Asia is likely to improve as a strategic option for ASEAN countries in the future. ASEAN-Japan cooperation entails relatively few negative aspects for ASEAN as a group, in contrast to the balancing and hedging efforts that its individual ASEAN countries must employ in order to maximize their economic and political gains from both Washington and Beijing. Moreover, China's need for ASEAN's legitimizing role for its foreign policy actions still remain important for the region (Zheng, 2005).

ASEAN can also play a role for reducing security and political risks in Southeast Asia. Japanese and Chinese economic activities in ASEAN, like their US counterpart, serve to support their respective political and strategic interests. The Abe administration's search to change the Japanese Constitution Article 9, which allows Japan to participate on security cooperation in the region, will boost Japan's relations with some states that dispute China's claims in the South China Sea (Andre, 2018). So, with regard to individual ASEAN member countries responses to China-Japan competition, one has to look more closely at how the complex security-economic dynamics of US-China relations and China-Japan relations impact on its respective national interests (Goh, 2018).

It can be argued that some Southeast Asian countries are more concerned about China-Japan competition than others in terms of negative effects of great power rivalry in the region. Especially, ASEAN as a unity could face some significant challenges in managing great power competition due to its limited ability and differences among all small member countries. The main concern is that worsening competition between China and Japan may lead to a split in ASEAN integration or at least erode its unifying role (Singh and Teo, 2017).

China-Japan infrastructure competition has helped to deepen the already existing different policies among Southeast Asian countries towards China. The South China Sea dispute is a pronounced example of how Japan attempts to use its diplomatic efforts for influencing the decisions of Southeast Asian countries. Although Japan is not a claimant country in the South China Sea, its major concern is related to the dispute over Diaoyu/Senkaku islands with China. In order to prevent China's assertiveness on

sovereignty issues, Japan advocates ASEAN's unity of its policy over South China Sea. For instance, Cambodia supported Beijing in playing a blocking role within ASEAN, after the Permanent Court of Arbitration (PCA) made a judgement on the South China Sea dispute. Japan attempted to change Cambodia's position by using its infrastructure diplomacy. During the 11th Asia-Europe Meeting Summit in Mongolia in July 2016, Prime Minister Abe held a summit meeting with Hun Sen. Abe made a commitment to support Cambodia's infrastructure development in strengthening Mekong connectivity and developing industrial human resources (Ministry of Foreign Affairs of Japan July 16, 2016).

CONCLUSION

It is reasonable to assume that China's need for political support from developing countries in enhancing its legitimate actions is the foundational rationale for explaining asymmetric bargaining between China and the Southeast Asian countries. The analytical framework of asymmetric bargaining helps to explain the main conditions and mechanisms of China's infrastructure diplomacy in Southeast Asia. The success or attractiveness of China's infrastructure diplomacy depends on the combination of three factors, such as strategic location, outside option and domestic constraints, affecting political bargaining processes between China and Southeast Asian countries. Political support of Southeast Asian countries for China's infrastructure initiatives is only possible when the additional benefits generated from those factors exceed the costs associated with intensified strategic competition in the region.

It is also understood that Southeast Asian countries have some bargaining opportunities despite their limited power capabilities. China's economic initiatives as instruments for buying influence from its neighbouring countries is central for China's infrastructure diplomacy. However, the asymmetric power relationships between China and Southeast Asian countries do not necessarily imply that China gets what it wants without persuasion. The diplomatic tools for coercion or for inducement/payment have some limits with regard to the specific context. China sometimes has to make concessions to weaker Southeast Asian countries in order to achieve its desired long term strategic outcomes.

Although strategic locations and domestic constraints of Southeast Asian countries are relatively more influential in some particular cases, Japan's role as an outside option within the region affects all in a significant level. In this sense, Japan likely continue to be a rational strategic option for Southeast Asian countries in the future development of regional cooperation. The increasing China-Japan competition creates economic opportunities for ASEAN countries, but at the same time implies some security risks for the region. In this context, the best solution for future regional cooperation should be to take both China and Japan closer to the ASEAN baseline. Otherwise, the future regional development will continue to be get stuck inbetween the diplomatic efforts of 'buying influence' and 'selling security' of great powers.

Thus, the reactions of Southeast Asian countries to the China's growing influence can be characterized by asymmetric power relations. Whereas the relationships between China and Southeast Asian countries are reframed by asymmetric patterns of interactions, the intensified strategic competition between China and the US over the region provides a significant agency for the weaker states. Furthermore, some other outside options, like Japan, helps them to diversify their foreign policy preferences. Another available possibility for the Southeast Asian countries in the shifting regional context is to pursue ASEAN way consensus-based multilateral framework for collective action, but their success is not guaranteed.

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