



# The Geopolitical and Social Risks of China's High-speed Railway going abroad under the Background of "One Belt and One Road" Strategy

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## ABSTRACT

The "One Belt and One Road" strategy gives a new opportunity for the China's high-speed railway going abroad. High-speed railway, as an important part of infrastructure, will boost the Chinese "One Belt and One Road" strategy, too. High-speed railway in China has realized technology accumulation from introduction, digestion and absorption to indigenous innovation, and has reached the world's advanced level, which has fully capability to go abroad. That China's high-speed railway goes abroad has a significant effect on national economic development and geopolitical politics. However, high-speed rail going abroad will face many risks. This paper will focus on the analysis of geopolitical and social risks, and put forward some countermeasures from the government and corporate levels.

**Keywords:** One Belt and One Road strategy; High-speed railway; Going out strategy; Geopolitical risks

## 1. INTRODUCTION

The "One Belt and One Road" strategy reflects the connotation of the all-round opening-up strategy of China, that is, in the opening direction, east and west are equally important, and sea is same as land. In the target countries, it covers both developed and developing countries. In the opening up way, "coming in" and "going abroad" are in parallel, based on the five perspectives-policy communication, road connectivity, trade facilitation, monetary circulation, and people-to-people exchanges to form a multi-level, multi-field, multi-form of pan-regional economic cooperation paradigm.

"One Belt and One Road" strategy makes the interconnection of infrastructure as a breakthrough in cooperation. China is now studying and begins to construct four high-speed rail lines, namely the Eurasian line, Central Asia line, Pan-Asian line, and China-Russia plus America line. The advancement of the "One Belt and One Road" strategy provides a broader space and historic opportunity for the going abroad of high-speed rail. Therefore, it's likely to form an "Iron Silk Road" in the future. Moreover, the "Silk Road Economic Belt" (SREB) connecting the whole of Central Asia and Europe need just the supports from Eurasian high-speed rail.

In recent years, Chinese leaders have publicized and promoted high-speed railway when they visit the foreign for the implementation of China's globalization strategy of high speed rail. China's High-speed Railway has experienced the technology accumulation from introduction, digestion, absorption to innovation, and has reached the world's advanced level. Therefore, its safety performance and high cost-effective are favored by many countries, meeting the requirement to going out. In addition, China's high-speed railway export is conducive to China's economic strength as well as change in China's geopolitical environment directly by changing geographical conditions to enhance national international image.

Of course, the way of China's high-speed railway export has to be tough and challenging, facing the natural risk, economic risk, technology risk and geopolitical risks. Currently, the literature research on the risks of going out for China's high-speed rail is sparse, while the articles on geopolitical risks are rarer. Therefore, the second part of this paper introduces background of "One Belt and One Road" strategy and China's going outs strategy of high speed rail. The third part analyzes the favorable factors and significance of high-speed rail going out. The fourth part investigates the geopolitical and social



risks. The final section puts forward some countermeasures from the government and corporate levels.

## 2. THE BACKGROUND OF “ONE BELT AND ONE ROAD” AND HIGH-SPEED RAIL GOING OUT STRATEGY

### 2.1 The connotation of "One Belt and One Road" strategy

"One Belt and One Road" (OBAOR) means the "Silk Road Economic Belt" (SREB) and "Maritime Silk Road of the 21st century". "One Belt" refers to the "Silk Road Economic Belt", the SREB starts from China on the east end of the Eurasia continent, and passes through Central Asia, West Asia, South Asia and some other regions via three lines (north line, middle line and south line), and approaches the Caspian, Black Sea, Mediterranean Sea and the Arabian Peninsula to then arrives in Europe and North Africa on the west end of Eurasia. One end of the SREB is the East Asian-Southeast Asia industrial chain, and the other end connects the developed Europe and the developing Africa. Therefore, it is considered to be "the world longest and the most potential economic corridor", and SREB will become the artery on land of economic and cultural exchanges connecting Asia, Europe, and Africa [1].

"One Road" refers to the Maritime Silk Road of the 21st century. China is committed to strengthening the construction of the interconnection with the Southeast Asian nations, and will develop the marine partnership with them and build the Maritime Silk Road of the 21st century jointly. In addition to the land route, "One Road" refers to maritime routes specifically, starting from the southeastern coastal port of China, southward passing through the China Sea into the Indian Ocean, the Persian Gulf, and approaching the East Africa, Europe [2].

"One Belt and One Road" strategy is leading international economic cooperation with the concept of mutual benefit and common development, and winning the speak right in the global and regional economic cooperation for China. Different from the developed countries' high standard and exclusive regional trade arrangements, the construction of OBAOR emphasizes to build jointly and share. Regional economic cooperation aimed to build a community of interests is a new model and will form a diversified international economic cooperation pattern. The Silk Road Economic Belt covers the

economic integration of Southeast Asia, Northeast Asia and Europe, while the 21st century Maritime Silk Road connects the three continents from the sea. Therefore, One Belt and One Road together can eventually form a closed loop. As a result, "One Belt and One Road" strategy has very important significance for improving Eurasian land trade and strengthening economic regional economic integration [2-3].

"One Belt and One Road" will fully rely on the existing bilateral and multilateral mechanisms between China and other relevant countries, providing an outlet for the resolve of overcapacity and the sustainable development of industrial by means of regional cooperation platform. Meanwhile, China's strategy is in line with the strategic interests of Asia-Pacific and Asia-Europe to promote the regional and Eurasian economic integration to realize mutual benefit and win-win development [2].

### 2.2 The background of China's high-speed railway going outside strategy

High-speed rail, according to the definition of the 2008 World Congress on high-speed rail, means the new dedicated line that operating speed over 250 km with a dedicated railway train control system. Since Japan built the world first high-speed railway in 1964, it has developed rapidly.

China's high-speed railway building started in 2004. At the first, the Ministry of Railways decided to introduce foreign high-speed trains and technology. After the digestion, absorption and innovation, China built the first Beijing-Tianjin high-speed rail with independent intellectual property rights in 2008, which has the world-class level. The Shanghai-Hangzhou and Beijing-Shanghai high-speed rail operate officially in 2010 with the highest speed over 400 km, breaking a world speed record. By the end of 2014, China's high-speed railway mileage has reached 16,000 kilometers, and it is the longest in the world. High-speed railway as a safe and reliable, fast and comfortable, large carrying capacity, low-carbon environmentally friendly transport mode, has become an important trend in the world transportation industry [4].

China's globalization strategy of high speed rail began in 2010. After the questioning of intellectual property and the motor car accident, a new wave of going out strategy began in 2013.



Different from the enterprise or the railway department promotion on the China's high-speed railway as before, currently China's top leaders has personally become "iron salesman", and mentioned this "China card" in a variety of overseas visit occasions [5].

China's high-speed railway going abroad strategy includes three aspects: promoting traffic integration, helping the reconstruction of "Silk Road", and using the "right of way" to support the "land power". The strategic layout of China's high-speed railway going out includes spatial layout and industrial distribution (Xu Fei, 2013). Spatial layout involves continuous planning, consultation, and stepping up the construction of the Eurasian high-speed rail, Central Asia high-speed rail, Pan-Asian high-speed rail and China-Pakistan four strategic railway lines, accelerating the construction of in China-Africa railway, and the study of China-Russia plus America high-speed rail [6].

Specifically, the Eurasian high-speed rail starts from London, via Paris, Berlin, Warsaw, Kiev and Moscow, enters the territory of China Urumqi, and finally arrives in Beijing. The Central Asia high-speed rail starts from Xinjiang, Kashi, via Kazakhstan, Uzbekistan, Turkmenistan, Iran, Turkey and other countries through Bulgaria into Europe, and eventually arrives in Germany. Pan-Asian high-speed railway starts from Kunming, passes through Cambodia, Thailand and Malaysia to arrive in Singapore. China-Pakistan railway starts from Xinjiang, Kashi, via Islamabad to arrive in Karachi and Gwadar Port directly into India ocean. China-Africa railway includes two programmable lines. One is starting from Saudi Arabia, passing through Yemen, Dubai to arrive in Ethiopia; or from Kuwait, via Iraq, Syria (Damascus), Jordan, Egypt and Suez canal into Africa. China-Russia plus America high-speed rail starts from the northeast of China, all the way northward via Siberia to arrive in the Bering Strait, and via the transatlantic tunnel to pass through the Pacific to then arrive at Alaska, and eventually via Canada to arrive in American [7].

The industrial layout covers seven kinds of different formats of rail traffic, for example, overloads, high-speed, urban rail, intercity, normal superconducting maglev, low-temperature superconducting maglev, and high-temperature superconducting maglev. As Fei Xu (2014) suggested, in the

implementation of China's globalization strategy of high-speed rail, China prefers the Pan-Asian high-speed railway, China-Pakistan railway, and Africa railway, as it can open up the channel to the south quickly, and connect the African continent. Next, the construction of the channel to the West can get through the Eurasian continent, and gradually China selects the "Central Railway" and "Eurasian Railway" into Europe. Later, the construction of the channel to the north can get the American continent. Finally, China should plan and study the China-Russia plus America high-speed rail to take active participate in the construction of high-speed rail of the US East coast [6].

### **3. THE FAVORABLE CONDITIONS AND SIGNIFICANCE OF CHINA'S HIGH-SPEED RAIL GOING OUTSIDE UNDER THE BACKGROUND OF "ONE BELT AND ONE ROAD" STRATEGY**

#### **3.1 Favorable conditions and possibilities**

In the unremitting efforts of several generations, China's high-speed rail went through a period of time from manufacture to create, from exploration to break, and from pursuit to lead. China has become the world the fastest growing in high-speed rail, the most comprehensive in system technology, the strongest in integration, the largest in the construction, the longest in operating mileage, the highest in operation speed, and the cost-effective country. From the current state of China's high-speed rail, China has the obvious technological and policy advantage, and has full capability to go abroad to create a high-quality and advanced "China's high-speed rail" brand in the world [8].

The first is technology advantage. Although the original nation of high-speed rail technology is Japan, Germany and France, China has conducted independent research and innovation on the basis of introduction, digestion and absorption of the technology. Nowadays, the track technology, train construction and control technology, bridge technology, public works technology, and communication signal technology in China has been in a leading position in the world [4]. Whether is on the track structure, subgrade engineering, tunnel engineering, bridge engineering, traction power supply, train control and



operations management technology of high-speed railway or on the key technology of EMU, high-speed rail security system, and the large-scale comprehensive passenger transport hub technology, China's high-speed rail has the ability to going outside. In particular, China's railway overcome a variety of complex geology and climate problems, and have a mature experience on the construction and operation under different geological and climatic conditions, which is unique in the world [9].

The second is the price advantage. China's high-speed railway construction has low-operating-cost and high safety, and industrialization reduce construction and operation costs greatly. The cost of high-speed rail construction is 0.50 million dollars per kilometer in foreign, while China is only 0.33 million dollars. The "7 • 23" accident brings a negative effect on China's high-speed rail, but the safety of China's high-speed rail technology have gradually been recognized by the world due to no major accidents in the operation mileage up to 93,000 km. Therefore, high cost-effective is only an important competitive factor [9].

The third is broad international demand for high-speed rail. The world, especially in Asia, is setting off a new round of infrastructure construction and is developing or upgrading the existing railway, while many foreign countries speed up the pace of building high-speed rail. For example, Australia is upgrading infrastructure actively, and has been on the feasibility study of the first high-speed rail. According to high-speed rail construction planning of transportation department in Thailand, it will complete the four-speed railway construction over the next seven years. United States, Russia, Malaysia, Singapore, Brazil, Turkey and other countries are actively planning the development of high-speed rail, too. The broad international market brings a good opportunity for China's globalization strategy of high speed rail [8].

The fourth is policy advantages. China is promoting a new round of reform and opening up. The Chairman Jinping Xi has put forward the "One Belt and One Road" strategy and foreign economic cooperation initiatives. The main contents of "One Belt and One Road" strategy are communication, road connectivity, trade facilitation, monetary circulation, and people-to-people exchanges, while road connectivity is the

priority and railway is a top priority. At present, many countries take a positive attitude to the OBAOR strategy and look forward to establish the strategic docking with China. The Ministry of Railways has set up coordination groups about the foreign cooperation projects with America, Russia, Saudi Arabia, Venezuela, Laos and Myanmar, and organized the domestic enterprises to explore the overseas market on the railway project contracting and equipment export, and participated the bilateral, multilateral and regional railway cooperation broadly [10]. The advancement of the "One Belt and One Road" strategy provides a broader space and historic opportunity for the high-speed rail going out, and it's likely to form an "Iron Silk Road" in the future.

Finally, China's leaders attach great importance to the high-speed rail going out. High-speed rail project has become one of the key areas of cooperation that China leaders promote. The prime minister Keqiang Li has proclaimed China's high-speed rail five advantages including perfect equipment and technology, mature operational experience, quality guaranteed, high cost-effective, and a good reputation on the international market. In addition, high-speed rail going out has been written into the government work report, and the foreign ministry and the embassies and consulates also promote high-speed rail to going outside. Hence, each China's foreign diplomats is the high-speed rail "propagandist" [11].

### **3.2 The significance of China's high-speed railway going outside**

China's high-speed rail not only becomes a huge engine to promote the society and economy development rapidly, but also becomes an important support for safeguard the national security. High-speed rail going abroad is a great strategic initiative to strengthen the cooperation between China and other countries in the world and is a practical action which turns the China's high-speed rail technology advantages into shape the country image to improve the economic efficiency and enhance the strength of diplomacy. High-speed rail "going out" not only turn the economic, technical advantages into political and diplomatic power, but also improve national security and safeguard national interests.

The first is economic significance. China's high-speed railway export will promote national economic development, for it will



be able to promote the export of goods, technology, services and other aspects including both high-end and low-end, and promote the development of industries including machinery, metallurgy, construction, electricity, electronics, information and other related industries rapidly. It is estimated that, each 1 km high-speed railway construction will create more than 600 direct jobs. In addition, it can change China's export structure fundamentally. One is to promote China export products from low technology and low value-added turn to high-tech, capital-intensive manufacturing products. Another is to promote Chinese exports from goods trade to turn to technology and services trade. High-speed rail going outside is to export the products as well as the technology [12].

The second is political significance. Railway, as an important transportation, can change the state geopolitical environment by changing geographical conditions. China's high-speed rail provides the most important transport infrastructure for the integration of the Eurasian economic and the Silk Road Economic Belt. High-speed rail is also an important means for China to use the land power strategy based on geo-economic hedging the American sea power strategy. Once it completed, it can change the current sea power economic times into the land and sea power economic times. In addition, China's high-speed rail going outside is conducive to the "iron triangle" relationship with India and Russia in the future. The future China-Pakistan Railways can make China into the Indian Ocean directly and reduce the excessive dependence on the Malacca Strait, and China-Pakistan Railways extended to Iran can change the geopolitical structure in the Middle East, and China-Pakistan railways into Iran and Europe is conducive to bargaining with the Customs Union to contribute to the achievement of the strategic bundling with India. High-speed rail development and open to the west is the specific way for China to rise peaceful, which is a strategic industry that can change the international and domestic political and economic basic pattern in the 21st century [13].

The third is social and cultural significance. China's globalization strategy of high-speed rail is conducive to improve the level and image that participate in international economic activities to reshape the international division of labor. High-speed railway going out to take active participate in the construction of the global railway can enhance the mutual

trust and achieve mutual benefit. On the other hand, it can help to promote the international cultural exchange and integration, letting the world to know the new dimension of ancient civilization, and understand the development extent of China modern industrial civilization. The different regional culture complementary and integration through the high-speed rail can bring a new connotation [8].

However, the implementation of China's globalization strategy of high-speed rail will not go smoothly, and will face a variety of natural risks, economic risks and operational risks. This paper will focus on the analysis of the geopolitical and social risks and put forward the countermeasures from the government and corporate levels.

#### **4. THE GEOPOLITICAL AND SOCIAL RISKS OF CHINA'S HIGH-SPEED RAIL GOING OUTSIDE**

Political risk refers to the adverse effects on multinational enterprises due to the change of political situation and regime, ethnic and religious conflicts, war, rebel and other political events. Different from traditional commercial risks, it is subject to the social, political and economic influence of the host country, which is more complex and unpredictable. In addition, political risk is widespread, and it can not only occur in the third world and the political instability countries, but also the highly industrialized countries. High-speed rail as an infrastructure project is more affected by a variety of political risks due to the huge amount of capital, long cycle and being related to the national economy of the host country [14].

Against the particularity of high-speed rail project and the political situation of the countries concerned, the political risks mainly include political violence risk, regime change and default risk, third-party states intervention risk and social risk.

##### **4.1 Political violence risks**

The political violence risk is the tangible assets of investors which were damaged due to the war, revolution, rebellion, coup, strike or terrorism of the host country. The risk of political violence is bur-stability and unpredictability. Except that the foreign investors' investment property are damaged, or



detained, the local businesses or government may reject to perform the contract with the war or riot as a pretext [15].

The countries in Western Asia and Africa, the internal religious conflicts and political instability, as well as non-traditional terrorist nuisance, are the main trouble for cooperation with these countries. In Africa, in addition to the internal political turmoil, Western society slander China "neo-colonialism". Pakistan's internal security situation is not optimistic, and bloodshed occurred frequently. According to statistics, there are 1717 terrorist attacks occurred in Pakistan in 2013, and 2451 people were killed and 5438 injured. High-speed rail is widely distributed and the line is very long, so it is more vulnerable to terrorist attacks [16].

#### 4.2 Regime change and default risks

The regime change and default risk refer to the possibility that foreign investors suffer property damage due to the host government violation or refusing to honor the investment agreement signed with the multinational investors. This risk mainly exists in these countries like Myanmar, Thailand, Indonesia, the Philippines and Malaysia with regime change, political parties taking turns in power, strong domestic NGO, and likely being affected by the third States [15, 17].

As the policymaker about high-speed rail is the government, so the political system and process of a country is bound to affect the fate of the high-speed rail. For example, the high-speed rail construction in Thailand, China Prime Minister Keqiang Li signed the "The long-run Planning in Sino-Thai relations" with the Prime Minister Yingluck in October 2013, and reached a cooperation agreement known as the "rice-for high-speed rail", that is, China take participate in the high-speed rail construction in Thailand, while Thailand exports the agricultural products to cover part of the cost. However, due to the subsequent military coup in Thailand, and Yingluck Prime Minister stepping down, many projects promoted by Yingluck government are determined to be unconstitutional and was subsequently suspended. The "Rice-for high-speed rail" program will be re-evaluated and faced with the risk of being suspended, meaning a lot of work that China have done in vain [17]. In addition, Singapore's regime staggered replacement, political parties taking turns in power, government policy changes in the future increase the risk of default, too [18].

#### 4.3 Intervention risks from third-party state

The third-party state intervention risk is the third country in addition to the host and the capital country to discourage the foreign investors develop in the host countries, by the means of applying pressure, threats, signing an agreement and developing legal to lead the interests of multinational corporations suffering a loss or threat. It is also a risk more frequently recently, and has the direct impact on the world economy and political situation of hegemony led by the US. This risk that China's enterprises faced includes three categories. One is that the third country government take sanctions directly mainly from the United States. If the enterprise carries out economic exchanges with Iran, Sudan, North Korea and other countries that is called as "axis of evil" by US, it may face the potential losses including unable entering the United States market and the economic blockade. Another type of intervention risk is the default of the host government, in the pressure of the third country intervention or lure, such as the Japan as a spoiler in the Sino-Russian oil pipeline project. The last one is due to the host country dependent on the third, and the political turmoil in third countries spread to the host, thus affecting foreign companies [15, 19].

For example, the United States proposed "Asia-Pacific rebalancing strategy", and increased the military assistance to Southeast Asia. In September 2014, Chief of Naval Operations revealed that Malaysia invited the P-8 "Poseidon" patrol aircraft to take off from Malaysia's easternmost region. This situation will have a potential threat on the bilateral relations. Even though Malaysia and China relations have been friendly, as a strategically sensitive core area and weaker country, its foreign policy is often subject to the United States and other major powers [20].

#### 4.4 Social Risks

Social risk refers to the losses possibility of foreign business interests due to nationalistic obsession, ethnic conflicts, deteriorating law and order, religious beliefs conflict and other social problems in the host country. Social risk is mainly derived from the political and economic profit motive of social organizations and individuals, and adding with a certain



psychological and emotional factors. Some of the host nationals even harm other nations' economic interests to express their protect and support for their own ethnic economic interests. However, some of these issues are caused by the Chinese enterprises themselves, while some China's companies ignore the protection for the local environment and ecological. For example, that the extractive industries did not do deep development not only destroyed the local ecological but also waste the resources; some companies bring the "vices" abroad and do not attach importance to production safety, or aggrieve the labor rights, and so forth [19].

## **5. POLITICAL RISK PREVENTION ABOUT CHINA'S HIGH-SPEED RAIL GOING OUTSIDE**

With the promotion of "One Belt and One Road" strategy, the quickly process of the China's high-speed going outside, the possibility of the political risk that China multinational enterprises suffered is also increasing. Reasonably to circumvent the political risk and minimize the losses need to establish a more comprehensive, more systematic prevention system. The section below will discuss how to avoid the political risk from the perspective of government and company to provide effective measures for China's high-speed rail going outside.

### **5.1 The prevention mechanism of political risks from government level**

#### **5.1.1 To establish public information service platform and improve overseas investment service system**

The company should collect a lot of political environment information about the target countries, and conduct a systematic analysis in the decision-making stage of overseas investment and management. However, high-speed rail going outside involves a number of countries and regions, and political risk assessment needs a huge amount of money, which needs the government to establish and improve the overseas investment service system and provide the necessary capital, information, legal and other conditions for transnational high-speed rail construction [17].

At present, many developed countries have built political risk assessment agencies such as the Standard and Poor, the

Moody's Investors Service in the US and the British's "European currencies" magazine. They are all highly influential organizations in political risk assessment. China's domestic credit rating agencies have developed about 20 years, but they take a little attention on the political risk rating. Therefore, it is necessary for government to build a political risk information platform, to establish effective monitor and warning systems, and to use the internet, newspapers and other media to release the political risk assessment reports of related country and region to provide comprehensive, multi-angle, deep-level, professional, accurate and authoritative information for the "going out" of China's high-speed rail and other industry. Moreover, in the process of overseas investments, it should track the political situation changes, update the information timely, alarm the risk accurate and timely, and gain the time for foreign investment companies [19, 21].

Southeast Asia, Central and Eastern Europe and Africa are the key areas for China's high-speed railway export, and political situation in these countries is very complex. The related countries' domestic political situation is closely related to the smooth promotion of "One Belt and One Road" strategy, thus political risks have become the biggest risk of China's enterprises going out. If China is lack of the understanding of geopolitical risks, it will affect the effects and persistent of "High-speed Rail Diplomacy" directly [22]. At present, the Chinese network is publishing two analyzing articles a weekly and analyzes and assesses the political risks about more than 60 related countries, and it will have great significance for the globalization strategy of China's high speed railway [23].

#### **5.1.2 To establish and improve overseas investment insurance system**

The overseas investment insurance system is that the state provides the direct protection for foreign investors facing political risk in the host country by the ad hoc or designated insurance agencies. Once the investment interests of overseas investors suffer the loss due to the host political risk, the insurance agencies will compensate. This approach not only has a clear legal basis, but also can avoid conflicts between the states as a result of private investment. The overseas investment insurance system has been rapidly popularized in many countries, and has become a essential and most important legal measure to deal with the political risks of foreign investment.



However, it is necessary for China to establish a unified and sound overseas investment insurance system to protect the interests of China's multinational investors [24].

The major capital-exporting countries have established their own overseas investment insurance system successively. For example, the United States uses a type of bilateral investment protection, Japan adopted a unilateral type and Germany adopted a compromise mode. Chinese overseas investment insurance business is primarily through China's Export and Credit Insurance Corporation, but there are some issues in the Sinosure system so that the type of insurance can not meet the needs of today's overseas investors and the investors being suitable for insuring are limited strictly.

In the future, the government should learn from the management experience of the western developed countries. On the basis of China's Export and Credit Insurance Corporation, China should allow and encourage other insurance companies to participate in overseas investment insurance business, promote the commercial and policy insurance, develop new foreign investment insurance as soon as possible, reinsure the political risk in the global scope to disperse the risks further, establish the funds of overseas investment risk, and enhance the overall ability of multinational corporations to resist risks [21,24].

### **5.1.3 To provide economic diplomacy support and prevent political risks through international law**

The China government should make full use of diplomatic means to establish friendly and cooperative relations with relevant countries, and to provide substantial protection mechanism for Chinese overseas enterprises to give flexible, pragmatic diplomatic efforts and support if necessary. In May 2013, Prime Minister Keqiang Li proposed to establish the China-Pakistan economic corridor and carry out the cooperation on infrastructure, information communication, energy and electricity during his visiting Pakistan. After the propose of "One Belt and One Road" strategy, the construction of China-Pakistan Economic Corridor got more attention. President Jinping Xi signed 51 cooperation agreements when he visit Pakistan in April 2015, and the investment program involves energy infrastructure, valued at \$ 46 billion (almost three times as Pakistan currently foreign investment), which

will promote the construction of China-Pakistan economic Corridor and China-Pakistan high-speed railway greatly [16].

International law prevention mechanism includes the bilateral or multilateral investment protection agreement to prevent political risk [24]. The State Treaty is also an important and feasible way to avoid the political risk of foreign-invested enterprises, as it can reduce the political risk greatly. China should give full play to the role of consultation mechanisms and strengthen the economic diplomacy efforts of Commerce Ministry, Foreign Affairs Ministry and Embassy to promote the signing of judicial assistance, investment protection, social security and other bilateral or multilateral agreements to create a favorable foreign investment environment [21].

Meanwhile, Chinese government can establish the relationship of mutual trust with the world major countries by the regularly or irregularly communication, and enhance the country soft power. Furthermore, the consultation and meeting between countries or political leaders can solve the dispute in the event of political risks [19].

## **5.2 The prevention mechanism of political risks from enterprise level**

### **5.2.1 To establish the internal risk management mechanism**

Foreign-invested enterprises should establish a risk management department composed by the corporate management and professional risk management team to collect the data of foreign direct investment, economic development level, international balance of payments situation, and political stability of the host country, then to analyze and assess the data [17].

A comprehensive, the objective assessment of political risk can prevent and mitigate the losses effectively. To develop a set of prevention and emergency treatment plan advance is also an effective measure to resolve the significant political risk. During the warning and management of risk, the enterprise can take advantage of non-governmental professional organizations such as accounting firms, stock exchanges, security companies and related industry association to play an effect of positive guidance, communication and supervision in the risk management mechanisms [19].



### **5.2.2 To take initiative part in overseas investment insurance and seek legal protection to shift the political risks of host country**

To participate in overseas investment insurance is an effective way to avoid the political risk and reduce losses through the overseas investment insurance system, but it is not very perfect for China. Within the international community, there are three laws and regulations to prevent and disposal the political risks. One is the settlement mechanism against the investment disputes between the host country and other countries, which is established in accordance with the International Center for Settlement of Investment Disputes (ICSID) Convention. The second is political risk insurance mechanism according to the Multilateral Investment Guarantee Agency (MIGA) Convention. The third is trade dispute settlement mechanism based on the WTO Agreement [21].

ICSID and WTO (trade dispute settlement mechanism) is mainly to provide legal protection for overseas investments political risk, while MIGA provide economic security. The overseas investment insurance that internationally accepts includes four basic types of prohibiting exchange insurance, nationalization or expropriation risks, war risks and business interruption insurance, thus overseas companies can shift the political risk to insurance institutions by insuring. China has begun to carry out overseas investment insurance business since the end of 2002, giving a good channel [19]. In addition to their own countries' overseas investment insurance agencies, foreign investors can also choose the private insurance agencies abroad.

### **5.2.3 To implement localization strategy and establish a harmonious relationship with host country**

Localization strategy mainly refers to the foreign multinationals to adapt to the local investment environment, to integrate into host country market, to undertake the necessary social responsibility actively, and to take the development objectives of enterprises consistent with the strategic objectives of the host country [17].

The successful construction and operation of high-speed rail project cannot do without the support of the host country.

Multinational companies should be familiar with the economic, political and social culture and respect for law and social customs of the host country to establish a good image of Chinese brands.

In the procurement of building materials, it should satisfy the local procurement as far as possible under the same situation to stimulate the economic growth in the host country. In the process of engineering construction, firm should hire a certain amount of local suitable staff and help to solve the employment problem of the host country. In addition, high-speed rail operation management and technical training on local staff can help them improve the technological and management level. China may take the high-speed rail project as the carrier to strengthen the all-round cooperation with the host country to establish a good image of China's high-speed rail overseas [25].

In addition, enterprises should participate in local social welfare and help the region to improve the education and health conditions to practice the corporate social responsibility. By this way, it not only can enhance the understanding and recognition of corporate, but also can resolve and mitigate nationalism and xenophobia to achieve the "win-win" and reduce the probability of political risks.

### **5.2.4 To implement the follow-up compensation strategy jointly**

Although the proposed various management strategies can reduce the political risk in the investment effectively, it still cannot eliminate completely. However, the multinational corporate can still take some remedial strategies to minimize the adverse effects of political risk even though the risk has occurred.

After suffering the political risk, the enterprise should keep in touch with the government to seek the help of government and to transfer the personnel and property. Firstly the government and enterprises should negotiate with the host government actively to protect China the multinational corporate. When the communication fails, the government can lawsuit to the International Tribunal or the host country court, asking the host country to compensate in accordance with international conventions and regulations. If the project has been insured,



firm should negotiate with insurance companies actively and ask the compensation for the loss of investment [17,19].

## 6. CONCLUSIONS

The "One Belt and One Road" strategy brings a new opportunity for the China's high-speed going outside, as China's high-speed rail went through a period from manufacture to create, from exploration to break, and from pursuit to lead. From the current state of China's high-speed rail, China has the obvious technological and policy advantage, and is fully capable to go abroad to create a high-quality and advanced "Chinese high-speed rail" brand in the world.

In addition, Globalization strategy of China's high-speed railway initiative to strengthen the cooperation between China and other countries in the world, is a practical action which turn the China's high-speed rail technology advantages into shaping the country image, improving the economic efficiency and enhancing the strength of diplomacy. High-speed rail "going out" not only turns the economic, technical advantages into political, diplomatic power, but also improves national security and safeguards national interests.

However, High-speed rail as an infrastructure project is more affected by a variety of political risks, due to the huge amount of capital, long cycle and be related to the national economy of the host country. For a long time in the future, the neighboring diplomatic strategy will adapt to infrastructure construction and overseas investment service system including bilateral investment treaties and free trade agreements, and the public information service platform that promote overseas investment, thus supporting services are indispensable contents of China's globalization strategy of high speed rail.

At the same time, companies also need to strengthen the internal risk management mechanism to take the initiative participate in overseas investment insurance and seek legal protection to shift the host country political risk. The construction of these related systems have a overall significance on China's high-speed rail project going outside, the implementation of "One Belt and One Road" strategy, the development of domestic economy, and the promotion of China influence.

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