

THE KRA CANAL: WHAT DOES IT MEAN FOR INDIA?

Why is China attempting to build a canal through the Isthmus of Kra?

How does this impact regional dynamics?

What are India's interests in the project?

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Executive Summary

A canal along the Isthmus of Kra could alter the strategic calculus for states across Southeast Asia, with China expected to benefit the most. In light of recent discussions around building the canal with the help of Chinese investors, this study examines the potential impact and pitfalls of this project from an Indian interests perspective. The following are the key conclusions of this assessment:

1. The Kra Canal is not going to materialise immediately and has several challenges.

Thailand has many misgivings about the project, with divided elite and public opinions. It is a diplomatically, politically and economically risky undertaking. In addition, China is working on less controversial alternatives to address the Malacca Dilemma.

2. The Kra Canal is not necessarily “aimed” at India, and can serve Indian interests.

The Kra Canal is not an economic risk to India and will likely boost trade with East Asia. The potential security threats it poses can be managed through contingency planning.

3. For India to benefit from the canal, it needs to take action immediately.

India must avoid direct involvement in the project. But if it materialises, India should deepen bilateral ties with key ASEAN members, pursue a “sea denial” strategy to address security concerns and invest in port and transshipment capacity.



What is the Kra Canal?

The Kra Canal is a proposed project that could route shipping from the Andaman Sea directly to the Gulf of Thailand. It's in the news thanks to reports of a 2015 MoU between two private entities and the Thai leadership commissioning a feasibility study.

The Kra Canal is a proposed project that aims to directly connect the Gulf of Thailand to the Andaman Sea through the Isthmus of Kra in Thailand, providing an alternative route for shipping that is now concentrated on the Straits of Malacca. If built, the canal would cut travel time from South Asia to East Asia by at least 3 days and 1200 kilometres.

In 2015, a Chinese company reportedly signed an MoU to construct the canal. Since then, there have been concerns about the canal's impact on India. This Slidedoc discusses Thai and Chinese interests in pursuing the canal, the project's feasibility and prospects, and proposes actions for India to maximise its interests.





How far along has the project come?

The Kra Canal is a project often discussed at times of geopolitical competition. Despite the support of Chinese academics and elements within the Thai military, it has not yet secured a green light. A feasibility study has recently been commissioned, but it is not the first and may not be the last.

The idea of a canal through the Isthmus of Kra is more than 300 years old, and has been periodically revived in times of geopolitical competition. The late 19th century, for example, saw competition between France and Britain, the former in support while the latter opposed. The late 20th and early 21st centuries have seen more systematic and technology-backed proposals, with multiple feasibility studies being carried out.

In 2015, an MoU was inked between the China-Thailand Kra Infrastructure Investment and Development company and Asia Union Group, to build the canal. Both the Chinese and Thai governments have since officially distanced themselves from the deal. But many Chinese academics and influential Thai businessmen - who also happen to be retired military officers - have spoken in favour of it.

Most recently, Thailand's National Economic and Social Development Board and the National Security Council have been tasked to conduct a feasibility study (Pakkawan 2018). So far, neither the ruling military junta nor the democratic opposition have taken a clear, decisive stance supporting the canal, or outlining how it would be constructed.



What does Thailand stand to gain or lose?

There are compelling arguments for and against the Canal. It is potentially a very lucrative project, but comes with immense risks for Thailand.

Economics

The canal could aid Thailand's rise as a shipping and financial hub, create employment, incentivise business and boost growth.

National Security

Economic development and employment generation may well lead to increased social and political stability.

Geopolitics

The Kra Canal would significantly buttress Thailand's position as a swing power in Southeast Asia.

Environment

Cutting the maritime travel time by 2-3 days and 1200 km would result in less energy consumption and reduced emissions (Murdoch 2017).

To benefit from the canal, transshipment facilities and an SEZ must be built, bringing the total cost anywhere between \$30-\$80bn. The debt incurred may be difficult to repay – especially given that Singapore would remain a competitor and the canal could adversely impact the environment, hurting tourism.

The Canal would physically divide the South of Thailand from the North. This impinges on Thailand's territorial integrity. It could also fuel the existing insurgency by Malays in the south. Unsustainable debt burden owing to the canal could also comprise Thai sovereignty. All of this could lead to greater political and social instability.

A shift in trade away from the Straits of Malacca could lead to frictions among ASEAN states. Debt owed to China could increase Thailand's dependence on it and risk embroiling it in the growing Sino-US competition (Bloomberg 2018).

There are fears that increased shipping would adversely impact marine ecology and potentially pose an existential risk to tourist sites such as Phuket.



What does China stand to gain or lose?

China has much more to gain from the construction of the Kra Canal and is also less exposed to risk. However, some concerns remain.

Economics

The Canal would save time and energy and potentially cut costs for Chinese trade. Its construction would be a mega project for Chinese companies, capital, labour and materials.

Security

A canal along the Isthmus of Kra would ease China's so-called Malacca Dilemma and afford better control over the waterways. In addition, it offers Beijing an option to deploy naval assets quickly into the Indian Ocean if needed. It could also potentially improve China's surveillance capability in the region.

Geopolitics

Constructing the canal would buttress China's claims of being a provider of global public goods, especially if funded by the AIIB, enhancing its credentials as a global power working through multilateral institutions. Strains in ASEAN due to the economic effects of the canal may also increase China's ability to deal with countries bilaterally.

Massive investment would be required to make the canal competitive enough to lead to major shifts in shipping routes. There is also a risk that the project would become a casualty to Thai politics after it has begun.

The Kra canal would arguably be at just as much risk of being blockaded as the Straits of Malacca. As a result of which China is looking at alternative routes, such as the Kyaukpyu project via Myanmar, CPEC and the ECRL via Malaysia, along with diversification of energy sources.

There is a risk of Chinese involvement and funding adding to the "debt trap" narrative. Strains within ASEAN may also prove to be a double-edged sword as they provide an opportunity for external balancers, such as India.

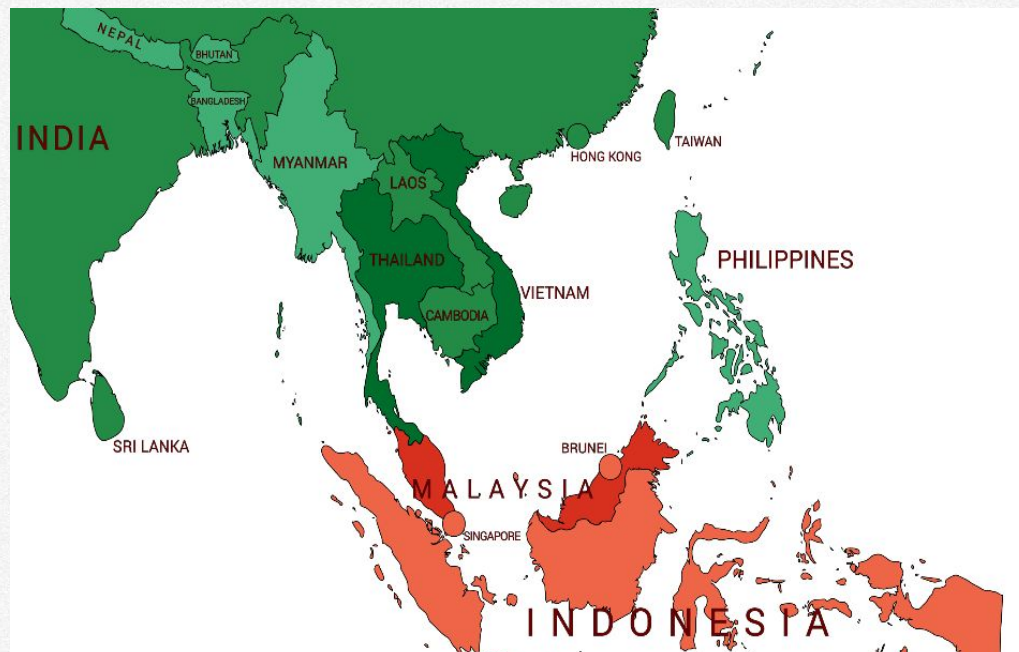


How would the canal affect SE Asia?

The Malacca Straits are primary choke points in Asia. If blocked, nearly half the world's shipping fleets would need to travel via the Straits of Sunda between Sumatra and Java instead, affecting energy prices. (US EIA 2017) Malacca's estimated peak capacity will be reached by 2024, if current trends continue (Ibrahim 2009.)

The Kra canal would ease pressure on Malacca and reduce shipping times, especially for bulk shipments such as oil tankers. Container ships do not stand to benefit as much. Due to these factors and the shift in trade patterns that would occur, its benefits are unevenly distributed. This is visualised based on GIS calculations of shipping route changes. (Chen & Kumagai 2016).

The Kra canal does not benefit all ASEAN member-nations equally. However, greater crowding in the straits of Malacca means that an alternative route will have to be found. Whether the Kra canal is that route is uncertain.



GIS-based estimates of the economic impacts of the canal, by country. Positively impacted countries are in green and negatively impacted countries in red. Data from Chen & Kumagai 2016.



How would SE Asia React?

While most ASEAN member-nations appear uncertain as to whether the Kra canal will ever materialise, others are already planning to deal with its effects. Malaysia, Indonesia, Singapore and Vietnam are planning to improve internal connectivity or build new port facilities.

Positively Impacted Countries

Vietnam approved a massive new port facility off its northern coast in 2017. It stands to benefit massively from the increased shipping volumes that a Kra canal would create. (Ong-webb 2015)

Cambodia and the **Philippines** both stand to gain from the spillover effects of the Kra canal. (Sulong 2013, Chen & Kumagai 2016)

Laos relies extensively on its neighbours for port facilities. The construction of the Kra Canal is likely to incentivise such projects and thus benefit it as well. (Sulong 2013)

Negatively Impacted Countries

Malaysia will face a major shift in trading patterns – from Southbound to Northbound. There is also a risk of the Malay insurgency spilling over from Thailand along its land border. (Rehman et al 2016)

Singapore has a decisive edge as a logistics and financial hub, which is unlikely to be significantly challenged. It is also investing in new facilities. Though it may suffer some reduction in shipping volumes, it is unlikely to face an existential threat. (Pepinsky 2016)

Indonesia is relatively sheltered from changes in shipping routes and both the positive and negative effects. To deal with them, it may invest in internal and regional connectivity projects. (Su 2015)



Implications for India

In order to capitalise on the economic benefits of the Kra canal, India needs to manage possible security implications.

Economics

India stands to gain significantly due to increased ease of shipping if the Kra canal is built. Nearly 40% of India's trade passes through the Straits of Malacca. The Kra Canal would save costs and energy and increase volumes of trade, with one estimate pegging the potential increase in GDP at \$18 billion by 2030 (Chen & Kumagai 2016).

Security

The canal creates a security imperative for India. It could facilitate easier PLAN deployments in the Indian Ocean, effectively expanding Chinese presence, influence and capacity in the region.

Geopolitics

The Kra canal could lead to divisions among ASEAN members. This would require a rethinking of India's focus on the centrality of ASEAN as part of its approach to the Indo-Pacific.



Recommendations for India

India needs to enhance sea denial capacity, while investing in shipping infrastructure and connectivity with ASEAN.

Economics

Take advantage of potential increases in volume of trade heading towards East Asia. Focus on inland connectivity, port development along India's eastern coast and building greater transshipment capacity. India should also look to work with like-minded partners, Japan and the US, on regional connectivity projects.

Security

India should pursue a 'sea denial' strategy vis-a-vis China in the Indian Ocean. A key component of this is strengthening defense infrastructure along the Andaman Islands. In addition, investments should focus on high-end surveillance equipment and asymmetric weaponry, such as high-endurance drones, nuclear attack submarines, anti-ship missiles, etc. In addition, India should deepen its maritime security cooperation with the US and Japan.

Geopolitics

Avoid direct involvement in the Kra canal project. If pursued via a multinational fora where India has a strong voice, i.e., AIIB, then use it as leverage. Should the project move forward, India must shift its engagement to bilateral ties rather than emphasising the centrality of ASEAN. Thailand should be engaged to publicly declare the non-military nature of the Kra canal.



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