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### China eyes California's high-speed rail system

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In the 19th century, laborers from China helped build railroads spanning California and linking the U.S. coasts.

In the 21st century, the Chinese may be back -- not for backbreaking labor, but with financial and technological muscle.

The People's Republic of China has more miles of track for high-speed trains than any country in the world, while California has none. But the Chinese want in on the state's fledgling high-speed rail project. They're eager to help bankroll and build the system and, eventually, provide the trains to operate on the tracks.

China's not alone. Eight nations have agreements with the California High-Speed Rail Authority to share information about high-speed rail -- and each wants a piece of California's business.

"Other countries want to be a part of this because they know high-speed rail can be profitable," said Jeffrey Barker, the authority's deputy executive director. "Their ultimate interest is operating the system."

But experts suggest that China's economic might -- and government-backed companies -- give it an advantage.

"China is cash-flush, and its highly subsidized industries are bankrolled with surplus government funds," said **Usha Haley**, a professor of international business at Massey University in New Zealand and an expert on China's worldwide business strategies. "They're investing in infrastructure around the world ... and if they're bidding in an open-bid process, China will get that bid."

California and America are squarely in China's sights, said Christopher Barkan, director of the Rail Transportation and Engineering Center at the University of Illinois at Urbana-Champaign.

On a tour of China's largest rail manufacturer last summer, Barkan met with a Ministry of Railways official who prominently displayed a map of the United States on his office wall.

"They are extremely interested in the U.S.," Barkan said. "We're the largest untapped market for high-speed rail in the world."

Billions needed

Because the U.S. lacks both technology and expertise in high-speed rail, foreign involvement from countries where high-speed trains already operate will be inevitable in California.

"It's technology like the trains, signals, electrification that we don't have in the U.S.," said Barker. Those components represent about 15% of the cost for the state's high-speed train system.

California expects to spend about \$43 billion over the next decade to build the backbone of an 800-mile high-speed system linking the state's major cities.

California voters approved a \$9.9 billion bond measure in 2008 to help pay for high-speed rail, and rail officials say they expect the federal government to contribute between \$17 billion and \$19 billion over the

coming decade.

The state must find \$14 billion to \$16 billion from other sources -- both foreign and domestic.

It's too early to know what Chinese or other foreign investment might look like. California is still forming its business plan for high-speed rail, and construction won't begin until mid- to late 2012 in the San Joaquin Valley, between Madera and Bakersfield. Test runs could begin as early as 2015.

Barker, of the state rail authority, said bidders may put up billions of dollars in either cash or construction of needed technology, or offer to provide trains at no cost, in exchange for the long-term rights to operate the system as a business. Or they may find other ways to contribute to the cost.

Competition is expected, Barker said: "We want as many entities as possible offering financing or incentives, the best technology for the lowest cost."

"We've made it clear from Day One that we expect anybody -- foreign or American -- to bring financing to the table," he added.

China's state-supported companies have a leg up in that kind of competition, said Haley, who also is a research associate with the Economic Policy Institute, a liberal think tank in Washington, D.C., because they might be willing to sacrifice profit for prestige.

Billions of dollars are at stake in California and elsewhere in the U.S.

But Haley, who researches and writes about China's global business strategies, said the prize for the Chinese is as much political as it is economic.

"Money almost does not matter," Haley said. "It would be a huge feather in their cap to build and operate high-speed rail in the U.S. and have Chinese technology be what moves that."

"It's a chess game on a global scale," Haley said.

Barkan, the engineering professor, agrees up to a point.

"There is a prestige element," he said. "California is obviously an attractive first customer, and landing that first U.S. contract will bring enormous visibility to whatever company or consortium wins it."

That opens the door to future sales in the U.S. and around the world.

"Unless the Chinese are purely driven by national pride, though, they've got to expect to make money eventually," Barkan said.

Gearing up

The Chinese are already jockeying to establish themselves in anticipation of high-speed rail in America.

Last month, General Electric announced an agreement with CSR Corporation Limited, China's largest manufacturer of high-speed trains, to invest \$50 million in a joint venture to build trains in the U.S.

GE is a major manufacturer of diesel-electric locomotives.

The CSR-GE collaboration would create "the first U.S. manufacturer ready to supply high-speed trains for the two proposed true HSR corridors in Florida and California," GE officials said in a statement.

By establishing a joint venture in the U.S. and doing final production and assembly here instead of China, GE and CSR would meet "Buy America" standards established by the Obama administration as a requirement of federal stimulus funds given to states for high-speed rail systems.

Even before signing that deal, however, Chinese officials made no secret of their interest in high-speed rail in the United States. In September, the 21st Century Business Herald in Guangzhou reported that Wang Zhiguo, the Chinese government's vice minister of railways, said the ministry expects to organize bids by several Chinese companies for American high-speed train projects.

But other foreign companies are preparing for what is likely to be a spirited competition. They include:

Alstom, a French company that built and maintains French high-speed trains. Alstom announced in November a partnership with several other companies to compete for high-speed rail in Florida.

Siemens, a German builder of high-speed trains and other products worldwide. The company has a manufacturing plant in Sacramento building locomotives for passenger trains, and in October won a contract to build electric locomotives for an upgraded Amtrak fleet in the Northeast.

South Korea's Hyundai Rotem, which has built high-speed trains for Korea and elsewhere. In July, the company announced its first production of U.S.-made rail cars for transit systems at its plant in Pennsylvania

While American companies may lack the overall know-how on high-speed rail, Barker of the state rail authority said the U.S. can provide "everything from people to raw materials to computer components" needed to build the system.

Whoever wins the bidding, Barker said, the project will mean business and jobs in California -- as many as 100,000 construction jobs for the first segment in the Valley, the rail authority estimates.

"On everything we do, we're looking for it to be extremely localized," Barker said. "This is going to be built by people here, and a lot of the federal money comes with 'Buy American' strings, whether it's the concrete or the steel or the trains."

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