

**Contemporary Chinese Political Economy and Strategic Relations:  
An International Journal**

**Volume 4 Number 1 April 2018 ISSN 2410-9681**

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Book Review

Michael Burleigh (2017), *The Best of Times, the Worst of Times: A History of Now*  
reviewed by *István Csaba Moldicz*

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**Special Issue**

**Geopolitics of Belt and Road Initiative and  
China's International Strategic Relations**

**Guest Editor**

**István Csaba Moldicz**

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# Contemporary Chinese Political Economy and Strategic Relations: An International Journal

## Notes for Contributors

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Special Issue – *Geopolitics of Belt and Road Initiative and  
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## **GUEST EDITOR'S INTRODUCTION**

This special issue of the *Contemporary Political Economy and Strategic Relations: An International Journal (CCPS)* covers a selection of papers presented at the International Conference on “The Asian and the Central European Models Tested: Learning from the Past, Sharing for the Future”, duly revised by incorporating critical peer feedback received at the conference and from other reviewers. The conference was organized by the Oriental Business and Innovation Centre (OBIC) at the Budapest Business School, University of Applied Sciences (BBS), Hungary, in May 2017.

The OBIC was established by the BBS and the Central Bank of Hungary in November 2016. The OBIC's overall goal is to improve the competitiveness of the Hungarian economy by contributing to a better understanding of the South-East Asian region. It is the goal of OBIC to employ its cutting-edge knowledge and efficient operation to become a leading institution in oriental business studies not only in Hungary, but in the broader Central European region. Target countries are India, Indonesia, Japan, Malaysia, People's Republic of China, the Republic of Korea, Singapore, Vietnam and many others in the Asia-Pacific region.

The reasons for the establishment were the following. The 2008-2009 economic crisis in Europe brought about a need to diversify trade and investment relations in Hungary. In principle, this need for international diversification, coupled with the evolving international economic environment, can open new prospects for economic relations

and knowledge-sharing between South-East Asia and Hungary (Central Europe), despite the geographic distance. The Oriental Business and Innovation Centre can provide feedback by broadening the economic, political, and cultural knowledge base through strengthening the exchange of ideas, scholars and students

To achieve its objectives, OBIC uses a variety of tools and instruments along the following lines: it promotes courses of Asian languages, as well as intercultural and business training programs at the Budapest Business School. The Centre also sponsors inbound and outbound research mobility grants, and it helps provide opportunities for BBS students to travel to Asian countries as well. OBIC is dedicated to research promotion. It organizes events (conferences, workshops) related to the region in the following fields: international business management, international relations, finance, accountancy, commerce, catering and tourism.

The largest event that took place in the organisation of the OBIC was “The Asian and the Central European Model Tested: Learning from the Past, Sharing for the Future” conference. At the conference, eighteen panels were organized, and more than 60 scholars shared their knowledge related to Asian and Central European development models, geopolitical restructuring, challenges of the higher educational systems in regional and global context, finance and management in the changing business environment, and issues of doing business in diverse environments.

There were a considerable number of papers that focused on China-related questions, and no surprise, the Belt and Road Initiative (BRI) was the most reflected issues at the conference. This special issue of *CCPS* contains selected papers related to Chinese politics, economic development, Chinese culture and regional cooperation in the East Asian region.



China launched the One Belt, One Road (OBOR) or Belt and Road Initiative (BRI) in 2013. Since then the project has hit the headlines and intensive academic research has been carried out to evaluate the effects of the BRI on world trade and world politics. However, plausible scenarios on these effects can be envisioned by assessing the underlying motivations as well.

The first goal of the Chinese project is to hedge against the dynamic American foreign policy of the last fifteen years. America's Grand Strategy of the last two decades included a permanent extension of the NATO, and launching initiatives like the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership. Hedging as motivation became obvious when US Secretary of State Hillary Clinton announced the "Pivot to Asia", and China did not hesitate for long – it started the BRI two years later. In this aspect, there were two basic ideas in the Chinese political discussions: the Chinese version of liberalism emphasizing cooperation, and the Chinese version of realism not avoiding confrontation. Both were wrong in their assumptions. If China was assaulted internationally, that was a clear backlash for the country, and this liberal approach could not be "sold" to the public; the assumption of the realists that Chinese navy was powerful enough in the Pacific Region also contradicted the reality.

How to cut the Gordian knot? Hedging against sea power is to be achieved and maintained by land power. The turn to the Eurasian landmasses is a significant step of the Chinese, and it will influence world politics and world economy for many decades to come, since it is not only about the interests of a rising power (second strategic goal), but also about a new period of globalization.

This approach differs from geopolitics that is a zero-sum game; it heavily builds on geo-economics, which can lead to a win-win situation among the participating countries. In addition to that, domestic pull

factors also reinforce the change in the Chinese strategy; economic development of western China certainly has the potential to contribute to a more balanced economic growth in China, alleviating internal social tensions that go back to heavy income differences between Chinese regions.

The second strategic goal is attained by numerous new initiatives. The Asian Infrastructure Investment Bank (100 billion USD), the New Development Bank (100 billion USD), and the funding for BRI (Silk Road Fund: 40 billion USD) serve the strengthening of the renminbi – in other words, China’s position in the international monetary system. There are other (partly successful) attempts as well, to reinforce China’s role in already functioning multilateral institutions, like the IMF. A third aspect is tackled by establishing a global production system centred around Chinese firms through direct investments in BRI. The China-Pakistan Economic Corridor, which is a collection of several infrastructure projects worth around 70 billion USD, is only one of the building blocks. Industrial parks are being built around the world relying on Chinese financial assistance; a similar project is the International Capacity Cooperation, financed through the Silk Road Fund, the China-Latin American Fund, the China-Africa Industrial Cooperation Fund, the China-ASEAN Investment Cooperation Fund etc.

The two strategic goals complement and reinforce each other. There is no doubt about the peaceful nature of the BRI project; however, it is clear that the goals set by the Chinese government can only be achieved if there are mutual benefits to reap. And what about the US? If the United States does not withdraw from the world, implicitly arguing for a new era of isolationism, it could also benefit from BRI, since it means more trade in Central Asia and the Middle East and more peace in these regions.

However, these are the subjective thoughts of this editor; when reading the papers, one might get a more nuanced and balanced view of the BRI.

Judit Sági and István Engelberth analysed the possible economic effects and spill-overs of the Belt and Road Initiative and they concluded that “the initiative is an important platform for the participating parties to strengthen cooperation and synergize their development strategies. By analysing China’s economic performance in response to the Belt and Road Initiative, the authors concluded that the industrial output and the employment data signal the continuation of moderate GDP growth.”

Enrico Cau sets his thorough and very comprehensive analysis in a broader framework focusing on geopolitical and economic consequences, he concludes: “While the implementation of the BRI is already an evolving reality, with many infrastructural works being in the course of implementation, the initiative involves several, material, economic, political and geopolitical challenges, with the last three items being the harder issues to tackle. On the economic side, the huge costs of the BRI initiative and the profitability of several BRI projects represent the major source of uncertainty. The geopolitical challenges offer a much more complicated scenario, ranging from widespread suspicion in Southeast Asia and Central Asia to the need to balance the relations between India and Pakistan in South Asia as well as allay the doubts of the West. In Central Asia, the convergence between the EEC and the BRI may bring huge opportunities for both countries, allowing China to benefit from a privileged access to Russia’s backyard, to consolidate its presence in the region and reach the wealthy European markets.”

Péter Klemensits provides an analysis mainly focusing on the geopolitical consequences of the One Belt and One Road initiative. His assessment is positive when it comes to the general effect of it, as he puts it: “The One Belt, One Road initiative, and the new Maritime Silk

Road, is considered an exceptional enterprise from several aspects and unprecedented in history. The ambitious plan – providing proof of China’s growing global role – mainly focuses on the interests of the world’s most populated country, but promises profit to all participants in the long term. Beijing was right to recognise that in the globalised world only such multilateral solutions are appropriate which allow cooperation and cultural interaction between distant regions.” The distinctive feature of this study is the focus on the New Maritime Silk Road.

Tamás Novák in his paper attempts to consider the Central European consequences of the BRI. The paper delineates the most important aspects of the historical Hungarian economic development path, while shedding light on long-term Chinese investment and trade opportunities in Hungary. To make the One Belt and One Road initiative a success, China needs proper knowledge of the Central European countries’ long-term development needs and goals. This analysis delivers a first assessment of the basic long-term questions of Hungarian economic development. The paper reviews milestones of economic progress after 1990 until the present. It shortly looks into the effects of the economic transformation of the 90s, the main repercussions of the Global Financial crisis (2008-2009), and at the end of the paper a short glimpse is given at how the Hungarian economy could develop, what are the possible development models to be utilized by Hungarian decision-makers. At the same time, it will be clear where Hungarian and Chinese need can intersect each other.

A more theoretical approach is provided by Mikhail Karpov, who looks into analogies between the Chinese economic transformation and the Russian version. He points out similarities and warns of possibility of an economic shock in the case of China. As he puts it: “Despite all clear cultural, institutional, social and demographic peculiarities, systemic megatrends of Chinese transition are very much like those of

the USSR and former countries of the Eastern Bloc in the respective times. Despite almost three decades of impressive economic growth and indeed tremendous infrastructural, social and even mental changes, the Chinese gradual reformers were and are still unable to overcome the historic curse of all integrative, originally non-market party-state models – to cut the leashes of soft-budget constraints and political integration connecting ruling party-state and its “marketers” without institutional disorder, financial upheavals and transitional recession. This apparent inability in China – as previously in Gorbachev’s Soviet Union or other Eastern bloc countries – aggravates fundamental macroeconomic misbalances and paves the way for possible forced “big-bang” deregulation sometime in the future.”

The peculiarities of the Chinese culture are being analysed by Dean Karalekas, who points out that “*Guanxi* is central to all social and business relationships, and its value is in the reciprocal obligations of the parties involved. For this reason, it is seen in much of Asia as preferable to the legally binding contracts employed by Westerners. Given this attitude toward contracts, it seems likely that CBSP frameworks built in East Asia would be more fragile than those in the West, as they depend not on institutional continuity but on a web of personal relationships between the heads of the organizations involved. It is therefore unlikely that such mutual-aid agreements would survive intact the replacement of one CEO or top manager, for example, forcing negotiations to begin anew.”

Szilárd Boros first analyses concepts defining and describing the changing power relations of the US and China, and then details and uses one of the geopolitical power indexes. He finds: “On the one hand, the analysed geopolitical power index showed that China has been closing in on the US, but it still lags behind in ‘overall power’. On the other hand, China has opportunities in hard and soft power parameters, where it can

develop rapidly. In the middle term, China has the capability to overtake the US's power." He points out the difference in the two major powers' concept of global order: "... the analysis showed that in politics the two major powers' concept of global order differs. The US aims to preserve the status quo, the global leader position of the country. China on the one hand accepts the present rule-based global order led by the US, but on the other hand China intends to reform it on the basis of multilateralism and more balanced relation with the US."

A very similar approach can be found in the paper of Affabile Rifawan and Novi Amelia, who also focus on the two major powers' relations; however, they have limited their investigation to the Southeast Asian countries.

As it could be seen, one topic can be interpreted very differently, and many approaches can exist all at once. Hence, the OBIC intends to continue its work in line with its principles of "dedicated work, intercultural sensitivity, efficiency, measurable output, knowledge sharing and cooperation", and continue with its conference series this year and in the years to come.

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## **The Belt and Road Initiative – a Way Forward to China’s Expansion**

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### **Abstract**

A new stage of the global development is envisioned by the initiative known as the “new Silk Road” – the Belt and Road Initiative. Enhanced economic relations between China and the rest of Asia, as well as Africa and Europe, are to be attained, with considerable investments into physical infrastructure (i.e. roads, airports, maritime and energy infrastructure). As a result, China’s economy is expected to accelerate, which is going to influence the economic development of the Western Chinese regions, by counter-balancing the dominance of the Eastern coast and via exporting the excess capacities of Chinese companies. Furthermore, China’s changing geostrategic ambitions are reflected by the initiative, which predicts re-balancing the global power in economic terms.

**Keywords:** *Silk Road, governmental initiative, Belt and Road Initiative, economic corridor*

## **1. Introduction**

Typically, rich and more developed nations have been the supporters of free trade in recent times. Just like in the colonial period, when the British Empire ruled the seas of the world or when the United States of America was the leading power of the world economy.

By the beginning of the 21st century, power relations have changed significantly as emerging China is gaining an increasing role in global economy (Yeoh, 2016). With 1.3 billion people and the world's largest economy in purchasing power parity terms, yet China does not have a similarly influential political power in international organisations (e.g. World Bank, International Monetary Fund, Asian Development Bank).

On the opening of the 47th World Economic Forum in Davos, January 2017, the Chinese head of state, Xi Jinping, representing the leading power in world export, clearly took sides for advancing globalisation (World Economic Forum, 2017, January 17). “For many, globalisation is Pandora’s box”, he said. In his speech he expressed that it is not the economic globalisation that is responsible for the world’s problems, but the excessive profit-seeking behaviour leading to international financial crises. He openly warned against the expansion of the protectionist approach, emphasizing that in a trade war, nobody would win (Xinhua, 15 May 2017c).

Given its role as a world leader, it is fundamental to China that the global economy is about to function as freely as possible (World Economic Forum, 2017, January 18). Not by chance, as production for global export was the key to its ascension and previous economic development. The expansion of protectionism would break China’s current development course.

The Belt and Road Initiative (Shepard, 2017) can be perceived differently as from different viewpoints. According to a communiqué by the Foreign Ministry of China, the Belt and Road Initiative “helps to



usher in a new era of globalisation that is open, inclusive and beneficial to all” (Reuters, 26 April 2017). However, questions remain if the initiative becomes “a major international public good”, or if it serves China seeking to dominate the world economy.

This study attempts to analyse the initiative of China in the global economy, in order to reflect its driving forces and the underlying risks, as well as its prospective influences on the global economic and political landscape. But before doing so, the authors will first compare the historical Silk Road with the today's one.

## **2. The Historical Silk Road**

The Silk Road was probably the best-known and undoubtedly the longest trade road of human history. It was established during the Han dynasty, somewhere between 2nd century BC and the 2nd century AD. According to Chinese traditions, “the father of the Silk Road” was an envoy named Zhang Qian who left for the West in the 2nd century BC in order to find allies against the nomad Xiongnu (Huns). (The well-known Great Wall could not withhold their incursions). Although the envoy was not able to ratify the military alliance, he brought back new knowledge with him from his journey, from previously unknown areas. The Chinese sent other envoys and they started to build trade relations towards the West. At the beginning of the Common Era, the Chinese traders were delivering large amounts of silk to Western Asia, which became a highly popular product in Europe and in the Roman Empire as well. An established road system connected China to Europe via Central and Western Asia and to Africa via South Asia (Barton, 2015). These main directions characterise the Chinese initiative in the 21st century.

The historical Silk Road was not a road with a definite starting and end point, but more of a system of roads with more important centres

and junctions. The reason behind this is its evolution, since the road was born as a consequence of the slow fusion of older trade ways. The denomination “Silk Road” refers to this, since the expression we use today was used neither in the Antiquity, nor in the Middle Ages.

The expression was coined by the German geographer, Ferdinand von Richthofen in 1877. Then it spread around the world and took roots in many languages, even in Chinese. The Silk Road is actually a denomination of an economic, geographic, historic and cultural complex, where thousands of envoys, soldiers, traders, monks travelled, fought, traded, went on pilgrimages without assessing the scene of their life from an appropriate geographical and historical distance (Lee, 2016).

Thereby they could not recognise in the roads – that for them were connecting only two neighbouring cities – the difficult system which connected Europe (mainly the Mediterranean) to the outermost parts of Asia. Even though it concerned a myriad of regions with completely different cultural background, it formed an immense, cohesive, organic block (Felföldi, 2009: 29-35). The current Chinese intentions – on the one hand the conceptions, on the other hand the already functioning roads – show us the same: a system of relations with more important routes, hubs, and junctions.

Obviously, silk was the determinant product of the trade between East and West. Its demand is demonstrated by the fact that along the trade way it had “commodity-money” function – it was the most renowned currency. But the Silk Road was the venue of the trading of other products too, such as porcelain, tea, spices, gems and semi-precious stones, products of glass, non-ferrous metals and precious metals, arms. The products did not flow only from the East towards the West; the caravans tried to deliver back the most demanded products of Europe, such as garlic, castor oil or most often gold. This vast system

had a network on the sea as well. The so-called Maritime Silk Road was an integral part of the continental network. This conception can parallel today's conceptions. China seeks to create the conditions of a Maritime Silk Road, but it faces even bigger difficulties than in establishing the infrastructure for the continental routes.

The historical Silk Road was not permanent for centuries. Natural disasters and processes, changes in the political-military-imperial relations changed quickly the routes used by traders and voyagers. As a consequence, the exact length of the Silk Road is not known.

The history of the Silk Road is an outstanding chapter of the cultural history of mankind. It had been the main artery in the circulation of products, cultures, languages, arts, religious and philosophical ideas, information and innovation between Asia and Europe for almost two thousand years up to the 14th century (Felföldi, 2009). When the current Chinese administration makes statements about the utility of its plans they often mention this aspect – obviously an updated version of it, too. They emphasize that the new road can be useful to everybody, since it would not only accelerate the circulation of products, but also speed up the circulation of people and innovation and contribute to learning new cultures, thereby improve the cooperation between peoples.

The Silk Road functioned until the end of the Middle Ages, and its disappearance is the consequence of several factors. The so-called “Pax Mongolica” provided safe circumstances for trading. But in 1368 with the fall of the Yuan dynasty the probably biggest continental empire of the world fell apart and the vacuum of power led to instable relations in Central Asia.

The imperial fleet led by Cheng Ho arrived in Africa after reaching the Arabian Peninsula between 1405 and 1433 which resulted in the start of the Chinese sea trade towards the West. The several plague epidemics in the middle of the 14th century discouraged lots of traders from taking

these risky journeys. From the end of the 14th century the expansion of the Ottoman Turks in Western Asia blocked the trade roads towards the Mediterranean. The historical Silk Road was doomed to disintegrate in the Age of Discoveries. Its most important momentum was the discovery of the maritime route from Europe to India by Vasco da Gama in 1498 with by-passing of Africa.

Centuries later, the New Silk Road is formed geographically similarly to its previous historical form. Like before, the goal is to connect Asia, Europe and Africa on the continental road and on the maritime road as well. Although in the emergence – emphasizing that the current system is being under – the essential difference is that the origin of the modern route is artificial. It demands powerful diplomatic and infrastructural development steps. Remarkable financial resources are needed for the developments. On the other hand, the establishment of the historical Silk Road had been the result of a long and integral progression.

### **3. Composition of the New Silk Road**

The significance of various parts of the trade system has often changed in the past, adapting to the actual political changes, sometimes with parts of it becoming independent. Therefore, not all power structure changes in certain regions made an effect on the whole. Nevertheless, it is not conceivable in the age of globalisation. Similarly, to the fact that in the past the roles of certain routes have changed, the aim of the Chinese plan is not to create a closed system. The initiation rather marks main directions. Based on conditions of the upcoming years, it is going to be decided which parts are getting emphasized. Its advantage is practicability; thus, it possesses intense flexibility (Petras, 2017).

Xi Jinping's presidential tour in October 2013 is often referred as the beginning of the modern Silk Road, when he announced the initiative to revive the former route. At that time the plan was rather a proposal for the Southeast Asian countries to deepen the economic relations between the region and the USA and counterbalancing the Trans-Pacific Partnership trade pact (*Shanghai Daily*, 4 October 2013). The plan was not only of regional relevance. His speech during his route in the Central Asian countries gave proof of that. In his speech he was talking about a Trans-Eurasian plan which would create an economical zone with the former Asian countries situated on the Silk Road or which would have a vague purpose to connect the continental region of the Pacific Ocean and the Baltic Sea (*The Astana Times*, 11 September 2013). The proposal later was amended several times and now it has a clear objective to improve relations between China and Central Asia, the Middle East and Europe. Africa has also been affected by the initiative; however it is important to emphasize that the continent has already started to form deeper economic ties with China from the 1990s on. In Africa's trade, the "Asian giant" took over the first place since 2010. China supports massive investments in infrastructure on the African continent as well.

According to the notion the arm of the New Silk Road is connecting China to West Asia, then Europe through Central Asia. That is the so-called Silk Road Economic Belt. Another group of the developments, the "21st Century Maritime Silk Road" aims to include the South Pacific region, the South China Sea and the Indian Ocean (Hutzler, 2015). The area covered by the two corridors shows the real dimensions of the strategy: together the continental and maritime Silk Road form a large loop, so that the three continents – Asia, Europe and Africa – can turn into one. The initiative includes six economic corridors:

- The New Eurasia Land Bridge Economic Corridor,
- The China-Mongolia-Russia Economic Corridor,
- The China-Central Asia-West Asia Economic Corridor,
- The China-Indochina Peninsula Economic Corridor,
- The China-Pakistan Economic Corridor, and
- The Bangladesh-China-India-Myanmar Economic Corridor.

The New Eurasia Land Bridge Economic Corridor is connecting China – through Kazakhstan, Russia and Poland – to Rotterdam. The China-Central Asia-West Asia Economic Corridor will be launched from Xinjiang in West China and will create connection with Iran and Turkey through Central Asian countries. The corridor continues to the Arabian Peninsula and basin of the Mediterranean Sea (Tiezzi, 2014a). The successful creation of corridors suggests that after 10,400 km in February 2016 the first direct cargo train has arrived in the capital of Iran, which refers to the successful creation of the corridor. The trip took fourteen days, which is approximately thirty days shorter than the previous maritime transport leaving from Shanghai. The highlighted significance of energy security is that oil from the Middle East can get to China on land.

The previously mentioned two corridors can be remarkably important to Europe. Several recent ideas have shown up recently about the exact location of the continental route connected to China. Its starting-point is Xi'an, the former capital over the past thirteen dynasties in Central China, where the Mausoleum of Qin Shi Huang the First Qin Emperor is located. He was the first emperor of a unified China. The city has good transportation towards Beijing and Shanghai as well. Otherwise symbols have always had a special role in the Chinese politics, and the naming of the road and the intersection represent that as well (Tiezzi, 2014b).

The Western part of the route approaches Khorgas, situated on the boarder of China and Kazakhstan, through Almaty and Bishkek, and it would reach Tehran through the north of Iran. Temporarily, the route would move on to a territory which is not stable – it would approach Istanbul through Iraq and Syria. It would reach the northwestern part of Bulgaria, Romania and the Czech Republic, that is how it would connect China with Duisburg, Germany, where the world's biggest river port – which is at the same time one of the most important trade and logistic intersection – can be found. Rotterdam, the most remarkable goods transportation port can be reached from here. Then the road turns to the south to Venice, where it meets the maritime way of the Silk Road. According to another idea the route would lead to Moscow to Istanbul through Bulgaria, Romania and Ukraine, and from here heading to the west until Rotterdam through Belorussia, Poland and Germany (Matura, 2016).

Difficulties with the developing of the route are given because of political tensions in Eastern Europe (for instance in Ukraine) and in the Middle East (for example Iraq and Syria). Therefore, in the relations between Europe and China, only the Eurasian Continental Bridge plays a relevant role. In the past few years, China has worked out a direct service between Chongqing and Duisburg in Germany. The first train went through Poland and Russia to Duisburg in January 2011. The connection has become regular from 2014. Besides there is a direct service between Wuhan in China and Mělníkés Pardubice in the Czech Republic, similarly between Chengdu and Łódź in Poland, and also between Zhengzhou and Hamburg in Germany (Hong Kong Trade Development Council, 2016). The first goods train arrived in Riga, Latvia, from Yiwu, China, in November 2016. In 2017 the first direct goods train arrived in London through Kazakhstan, Russia, Belorussia,

Poland, Germany, Belgium and France. Thus, China has direct service connection with fifteen European big cities with the outstanding 9,977-kilometre-long route between China and Spain which leads from the east of China, from Yiwu to Madrid. The Tran-Siberian Railway lost the world's longest rail network address in 2014.

The uninterrupted and safe rail transport is more favourable in terms of time and distance as well, than the transport on the sea. The distance is approx. 12,000 km instead of 20,000 km. Moreover, the transit time is also reduced to its half, meaning 14-20 days instead of 40-50 days by sea transport. In addition, the Eurasian rail transport has a tradition: most of the Chinese products arrived by train in the Eastern European socialist countries before the political transition. The collapse of the Soviet Union had been followed by an unfavourable effect on the transport between East and West, so the previous cooperation has faded (Lentner, 2016).

The China-Mongolia-Russia Economic Corridor is a collaboration of these three countries which aims to develop their transportation system. This cooperation among these countries started on the Shanghai Agreement's summit in Dushanbe, Tajikistan, in 2014.

The China-Indochina Peninsula Economic Corridor involves the countries between China and Indochinese Peninsula and their cooperation (Cambodia, Laos, Myanmar, Thailand and Vietnam). Linkage of their transport systems and the joint development have already started. This recommendation was made by the Chinese head of government on the summit in Bangkok, Thailand (Greater Mekong Sub-Regional Economic Co-operation). Some projects have also been finished, e.g. the border crossing point, a port on the Vietnamese and Chinese border, and motorway and railway lines between these two countries.



The New Silk Road's important line is the Bangladesh-China-India-Myanmar Economic Corridor. The idea came earlier than the Belt and Road Initiative itself and it has its roots in the 90s. However, the realization only became relevant in the recent years. The 2,800 km long corridor links together 1.65 million km<sup>2</sup> from Kunming to Dhaka, Bangladesh, and Kolkata, India. It connects the Chinese Yunnan province, Bangladesh, Myanmar and the Indian West Bengal including 440 million people, with development and linking motorway, railway, sea and air transport lines together. It might take a great role in strengthening the relationship between East and South Asia, and their two major powers, China and India. For China, it is a significant aspect that the role of sea transportation can be reduced, resulting in faster and safer ware transportation. The goods could reach the Indian Ocean directly, avoiding the South China Sea where the latest political decisions from Beijing caused a tense situation. Bangladesh and Myanmar are hoping for tightening relationship to the neighbour's fast-growing markets and to the world economy. India favours a more powerful integration of its most Eastern area, which is divided from the country by Bangladesh (Bhattacharjee, 2016).

The Initiative's key element is the China-Pakistan Economic Corridor which connects Kashgar in Northwest China and the Gwadar Port in Pakistan. The USD 46 billion development plan was approved in 2015. The project includes investment in the energetics as well, apart from the infrastructure development (*The Wall Street Journal*, 16 April 2015). According to the plans the 1,681 km Karachi-Lahore-Peshawar rail line will be upgraded, and a 900-megawatt solar power park will be built in Punjab province. The project also involves coal-fired generation plants' development, the construction of motorways, airports, oil pipelines and communication infrastructures. The Silk Road Fund's first

project, in cooperation with the China Exim Bank, is the Karot Hydropower Project in Pakistan. It is a 720-megawatt power park, scheduled to operate by 2020 and is expected to cost USD 1.65 billion. (*The Wall Street Journal*, 16 October 2016) The Corridor has its own strategical importance for China, meaning that China can pass around the regional competitor India (Chin and Qi, 2015).

The maritime trade route starts from the port of Guangzhou. It connects Canton (Guangzhou) and Beihai on mainland China, Haikou on Hainan Island, Malaysia's Kuala Lumpur through the Strait of Malacca and India's Kolkata. Crossing the Indian Ocean, it reaches Africa – Nairobi, the capital of Kenya, and the Red Sea through Djibouti by-passing the Horn of Africa. The Maritime Silk Road would reach the Mediterranean Sea through the Suez Canal touching Athens (Piraeus) and finally arrive at its destination, Venice (Tiezzi, 2014a). However, the Strait of Malacca means a significant strategic risk for Chinese trade, so it is no coincidence that the idea of building a canal (Thai or Kra Canal) on the southern part of Thailand on Kra Isthmus, which would connect the Indian Ocean with the South China Sea, has been raised, but its realization is not expected in the short term.

There are significant obstacles that stand in the way of building the Maritime Silk Road; therefore it will take time. Chinese interests on sea are still limited. China aims to reduce its dependence on European enterprises in the field of maritime export to the country and on those routes where the American navy has important positions (Bhattacharjee, 2016). During the construction of the maritime belt, Chinese companies upgrade Pakistan, Sri Lankan and Myanmar harbours. With that, India is practically surrounded by these “Chinese” harbours and the country justifiably fears for its strategic position in the ocean's region (Jin, Li and Wu, 2016).

Amidst all the previous difficulties, the Belt and Road Initiative has been designed for strengthening China's influence on the world economy. The Initiative is also about to provide economic benefits for the countries which are connected through the six economic corridors. In this sense, the Chinese economic policy stimulus promotes strategic aims.

#### **4. The Prospective Economic Benefits of the Belt and Road Initiative**

The Initiative's implementation will have a huge impact on the global financial system, the cost of the related investments amounts to hundreds of billions or even trillions of USD (van der Leer and Yau, 2016). The funding derives from several resource channels which are granted by international financial institutions established by China. The state-owned Silk Road Infrastructure Fund started its work with a capital investment of USD 40 billion in 2014. The Asian Infrastructure Investment Bank (AIIB) established by China began its work in 2015 with a capital investment of USD 100 billion (Weiss, 2017) and the purpose of its activity is to support Belt and Road Initiative's investments. The Chinese government counts on the Shanghai-based New Development Bank's resources which was set up in 2014 by BRICS countries, as well as on traditional rivals as the Asian Development Bank or the World Bank. Financial participation of the countries concerning developments is also planned. Large enterprises of the Western world are interested in the investments, and the programme is expected to result in growth in orders (*The Wall Street Journal*, 16 October 2016). As a co-owner of large European and American enterprises or a sponsor in their projects, China's aim is to involve the financial actors of the Western world in investments.

What could China gain from this new economic plan? With the strategy of the “One Belt, One Road” China is planning to implement its short- and long-term goals simultaneously. There is no exact date for the completion of this project – patience is one of the main virtues in oriental mentality anyway. This venture could be considered much more as a fundamentally important pillar of the Chinese politics, a strategy that should be supported by governments to come, continuously during the next years, decades. The missing facts and specifics in the action plan do not indicate the signs of weaknesses but reflect the approach that the strategy must be flexibly executed, since participants’ goals might change in the future (Cheng, 2016).

This modern reconstruction of Silk Road contributes to an increase in China’s influence throughout the international political and economic scene. There are also opinions which consider this as a new Marshall Plan (*Bloomberg*, 8 August 2016) and emphasize the fact that the American financial aid after the World War II made possible for the US to control the political, economic and military life of the Western European countries. This Chinese development program in long term can lead to a bigger conflict between the major powers, and it can even end in a second Cold War. It is to be noted that though China is undoubtedly a global economic and trading power – it possesses the world’s biggest currency reserve, and it is the world’s most important export power – as for the military potential of the country it is far behind the United States (Zhang, 2017).

The official Chinese political rhetoric makes all effort to disprove the negative interpretations. It stresses the mutuality of future plans and the same economic interests of all participants. It emphasises the win-win cooperation so that the planned route would only bring benefits to all participants involved. It will result in productivity increases and

guarantee access for the business partners to the Chinese innovations even in the way of technological assistance. The political leaders underline the principles of “three no’s”, which mean: China does not interfere in the home affairs of other countries, it does not intend to increase its area of influence, and it does not endeavour hegemony in its international relations (Lee, 2016). Despite the principles of non-interference and disclaiming of extension of sphere of influence, the developments are financed by banks close to the Chinese state and state-owned funds. The economic interests of the Chinese companies (from raw material to human resources) are significant in the implementation.

The Chinese diplomacy stresses its expectation that intensive economic relationship will establish closer political and cultural relations which can lead to a new way of mutual respect and confidence. Re-inventing the Silk Road is not only establishing a commercial route – nor was that the historical predecessor – but it could also mean mutual interests, commitment and responsibility. It incorporates the vision about the interrelated economic and political communities which expand from Asia to Europe. From the perspective of the EU countries, the One Belt and One Road Initiative promises Chinese investments (Plevnik, 2016).

Related to the Belt and Road Initiative, China intends to sign free trade agreements with the countries along the economic belt. At present, China has signed 12 trade agreements with, among others, Singapore, Pakistan, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong and Taiwan. Similar agreements are under discussion with Japan, South Korea, Australia, Sri Lanka, Norway, the countries of ASEAN (connected with the Regional Comprehensive Economic Partnership) and with the Gulf Cooperation Council (Cheng, 2013).

The economic belt has significant geopolitical and geostrategic purposes too. The developing infrastructural connections would lead to emerging trade and in its broadest sense could stabilize the regions in the

neighbourhood of China and as a result, political and economic conflicts could be prevented. The question is that the route and the increasing influence to what extent would mean the export of the Chinese development model in the future (World Economic Forum, 22 September 2015).

The Central Asian region has been the conflict zone between China and Russia over many decades. The strengthening Russia regards the area as his traditional sphere of influence from the end of the 90s. The infrastructurally well-equipped routes could ensure a strong position to China as it would guarantee the safe trade – especially energy transportation – between China and the other Central Asian countries. However, the recently built rail connections towards Europe led through Russia which shows the mutual interests related to the initiative (Follath, 2016).

The infrastructural projects – and later the developing trade – would accelerate the process which can strengthen the internationalization of the Chinese renminbi, while decreasing the role of the US Dollar in international trade. China intends to make this economical belt a territory in which the capital accumulation and financial integration are stronger and also the exchange of the currency can be simple and smooth. It should also be noted that renminbi is already used even more widely throughout the countries in the neighbourhood, such as Mongolia, Kazakhstan, Uzbekistan, Vietnam, or even in Thailand (Shah, 2016).

This trade initiative also has internal economic policy goals. Though the Chinese economic growth has been in double digits during the last two decades, it plummeted to about 7% in recent years. (The plans of the government are about to maintain the pace of economic growth.) The new Silk Road program can be an important instrument in order to boost the economy. Recently the manufacturing sector (e.g., construction

industry, metallurgy, mechanical engineering) – where state-owned enterprises dominate the market – has been growing considerably, but along with the decline in GDP growth, this former expansion may cause considerable low utilization of the existing capacity. New infrastructural investments may bring economic stimulus to the economy (*Global Times*, 16 April 2017). Furthermore, the state can intervene with its significant currency reserves (World Economic Forum, 26 June 2016). Consequently, it can assist in boosting consumption and lead the economy to the earlier export-led economic growth path.

However, capacities can only be utilised fully if persistent supply of raw materials and energy resources is provided. The newly built Silk Road may help in easing China's urgent demand for energy and raw materials, by building new gas and oil pipelines in Central Asia for example, or maritime ports in South Asia. In the light of China's growing presence in Africa, the New Silk Road may play an important role in shipping and transporting raw materials and energy resources (World Economic Forum, 26 June 2017).

In line with the economic policy targets, the main part of the initiative is to support Chinese companies in expansion to countries of the One Belt and One Road Initiative. For this purpose, a special fund has been launched, the China Ocean Strategic Industrial Investment Foundation (COSIIF), which aims at promoting the local companies alongside the Belt and Road Initiative (*Global Times*, 23 October 2016).

The Initiative is also a part of the Chinese plans for rural development. The latter is targeting at the establishment of a more equally balanced rural structure, as a counterpart for the eastern territories. The developments of the global initiative would be accomplished in the less developed western and central regions. The planned roads are crossing 16 provinces out of the total 27 (including the Autonomous Regions); however, some other regions could also be

involved. All of these provinces have their own identical plan for the Belt and Road Initiative. These regional priorities are related to the improvement of the domestic political stability, via the convergence of the poorer territories like the Xinjiang Uyghur Autonomous Region in the northwest of the country (Zhang, 2017).

## **5. Further Spill-over Effects**

The “Belt and Road” strategy – if implemented – could substantially influence the state and development of the global trade in the forthcoming years (World Economic Forum, 2017b). This implies several scenarios for the future, and none of the scenarios can be predicted as a certain one. For instance, the policy of the Donald Trump administration could create a different international environment for the Silk Road plans. In our view, an isolated US governmental policy could give way for China to an enhanced policy role globally. This might happen not just simply because China could get advantage from the US retreat, but also because sustaining and increasing the world trade will serve China’s interests as well. Within an international layout of this kind, the developments of the trade network could substantially support the Asian country’s plans. In this way, China would be able to strengthen its relations with Europe and Africa, acting as a counterpart to the presumably more protectionist trade policy of the United States in the future. Alongside with its changing economic and trade interests, China might be giving up its cautious distancing from the global problems, and might take more political responsibilities in world politics (Huang, 2016).

The plan of the New Silk Road could enlarge the dominance of Southeast Asia, and especially also China, in the global economy, and accelerate its central role in world trade. The Belt and Road Initiative



could support the increasing presence of China in the African continent (as depicted since the 1990s) as well, by diminishing the influence of Europe and the US there (Kynge, Beesley and Byrne, 2017). One of the longer-term effects of the Initiative could be the strengthening of the Indian Ocean's islands in the world economy, while these isles are forming deeper economic relations. There might be chances for the formation of a China-India-Africa triangle as a long-term result of the initiative; however, there are many obstacles to this formation.

The Belt and Road Initiative might open way to a new phase of globalisation, in which China is a main actor (as opposite to the previous phase, when the United States was the global leader). However, China's dominance might raise the concern whether this is about to happen together with the export of the Chinese social and political regime to other parts of the world (Xinhua, 13 May 2017).

The policy expansion of China, and especially the New Silk Road initiative, might give a chance for East Asian economic development to find its way to poorer regions in Central Asia, the Middle East or Africa (Yao *et al.*, 2016).

As a proof for the above, the leaders of the countries endeavouring on the Belt and Road Initiative released a joint communiqué on their roundtable in Beijing in May 2017 (Xinhua, 15 May 2017a), perceiving the Initiative as an impetus for international cooperation and free trade. In the communiqué the mutually beneficial cooperation has been entrenched, in respect of achieving sustainable growth and development, well-established infrastructural networks and sound financial structures (Xinhua, 15 May 2017b).

The Belt and Road Initiative brings huge investment and development opportunities to the relevant sectors and businesses. At the moment, many countries in South Asia (typically India), Southeast Asia (typically Indonesia) and Central Asia (typically Kazakhstan) are

plagued by a lack of funds, technology and experience, especially in manufacturing and infrastructure. When it comes to infrastructure, China is proposing an outstanding opportunity for international cooperation and knowledge transfer (Shanghai Stock Exchange and Association of Chartered Certified Accountants, 2017). Current developments strengthen China's foreign trade and investment relations, as well as the use of the renminbi as an official reserve asset. At the annual meeting of the Boao Forum for Asia 2015, President Xi Jinping talked about China's intention of increasing its annual volume of trade with the Belt and Road countries to more than USD 2.5 trillion in a decade (Ngai, Sneider and Zecha, 2016).

Throughout the three and a half years which passed since its first announcement, considerable investments have been achieved within the Initiative. The building of the China-Mongolia-Russia Economic Corridor has been launched accordingly (National Development and Reform Commission, PRC, 2015); although the Russian partner has indicated its intention for support rather than for participation. Among Central Asian countries, first it was Uzbekistan, who entered into a cooperation with China on a railroad construction between Tashkent and Namangan (Zhao, 2016). The results of the cooperation with Malaysia, China's most substantial partner among the ASEAN countries, have mostly been achieved by railroad and logistics projects. The progress of the Initiative proves that the participation of the less developed countries is more intense, as these are in need of infrastructural developments for the most. One example for this is the wharf of an industrial park in Central Sulawesi Province, Indonesia, built with the help of China under the framework of the Belt and Road Initiative, and completed in September 2016 (*Beijing Review*, 16 February 2017).

Meanwhile the Chinese economy has reached a yearly 6-7 per cent GDP growth, driven by domestic consumption and governmental

incentives. The macroeconomic data for the first half of 2017 confirmed that the actual GDP (of 6.9 per cent) was more favourable than the forecasted (6.5 per cent). Industrial output rose by 7.6 per cent in June from a year earlier, coming in above market expectations (*The Wall Street Journal*, 14 July 2017). Retail sales grew by 11.0 per cent in June from a year earlier, fixed-asset investment in non-rural areas of China climbed by 8.6 per cent year over year in the first six months of 2017, exceeding economists' expectations (Qi, 2017). However, rating agencies warn about the accumulated debt of the fiscal and the private sector, which has reached high levels (*The Wall Street Journal*, 24 May 2017). This might signal that the indebtedness of the public and the private sector implies significant stability risks.

China's trade data is closely watched as a barometer of strength in global trade though exports have become a less important factor in China's own growth in recent years. As the world's biggest exporter, China's economy once depended heavily on outbound shipments. After the global financial crisis crippled external demand, Beijing moved to make the economy more reliant on domestic consumption. However, China's trade surplus is above USD 40 billion per month, and is expected to continue to grow, given the relatively positive outlook on China's main trading partners and the expansion of the Belt and Road Initiative. China's foreign direct investments have spill-over effects on its companies' competitiveness, proving their export potential (Huang and Zhang, 2017).

## **6. Summary**

The Belt and Road Initiative may exercise a considerable impact on the world trade and global economic development in the forthcoming years. The Silk Road Economic Belt and the 21st Century Maritime Silk Road

may provide strategic opportunities for China and the participating countries, strengthen the economic relations between the Asian and the European continent, and open routes to Africa and South America.

In 2013, Chinese President Xi Jinping launched the far-reaching cooperation initiative, the Silk Road. In May 2017, Beijing hosted the Belt and Road Forum for International Cooperation. The idea originates from the ancient Silk Road, but the initiative is not confined to it in the sense that more countries can join the cooperation. This paper investigated the scope and role of connected countries, as well as the achievements of the cooperation.

China has made concerted efforts in investing and developing local and overseas infrastructure construction, by allocating about USD 900 billion of governmental funds for the establishment. The Belt and Road Initiative is expected to help improve the transport, power and communication infrastructure in the connected countries in the coming decades, being implemented and financed by governmental and also private investment resources. The effects of the Initiative will, through the interconnection of high-speed rail, highways, waterways and other transport infrastructure, promote the achievement of greater integration and development of the economies along the Silk Road. Among the real effects of the initiative, the regional development considerations and the geostrategic aspects are even more substantial.

This study depicted the six economic corridors, and emphasised that the involvement of the participating countries has evolved in the past three and a half years. These moves served these countries' infrastructural development on one hand, but also strengthened China's geostrategic role on the other.

Finally, the paper demonstrated that the initiative is an important platform for the participating parties to strengthen cooperation and synergize their development strategies. By analysing China's economic

performance in response to the Belt and Road Initiative, the authors concluded that the industrial output and the employment data signal the continuation of moderate GDP growth.

## Notes

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## **Geopolitical Implications of the Belt and Road Initiative: The Backbone for a New World Order?**

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### **Abstract**

Over 2,000 years ago, China's imperial envoy Zhang Qian contributed to establish what would later become known as the *Silk Road*. Composed by an intricately networked set of trade routes, the road connected China to Europe and Africa and the Arab world running across Central Asia. In 2013, China's president, Xi Jinping, during a visit to Kazakhstan, announced the launch of a new initiative aiming at creating a modern equivalent of the original Silk Road. The initiative that now goes under the name of One Belt One Road (OBOR) or Belt and Road Initiative (BRI) is much more complex than the original Silk Road, and focuses on the creation of six main corridors to establish a network of land and maritime routes. The initiative is focused on ironing out regional gaps through a combination of economic measures and infrastructural works, including railways, roads, pipelines, ports and logistic hubs, to streamline the flows of goods, people, money, ideas and cultures, transiting through Asia, China, Europe and Africa. Over 60 countries are

involved in the BRI, covering a total of 70 percent of World's population with an estimated cost ranging around USD 6 trillion. China frames the *raison d'être* of the OBOR initiative within a mainly economic perspective, as part of its regional integration programs aimed at streamlining trade routes in and out of China, to maximize the efficiency of the outlets for China's manufacturing sector, while also kick-starting the development of several of the less developed Southeast and Central Asian countries involved in the initiative, with the end goal to promote and stabilize China's economic growth across the globe. However, it appears clear that an initiative having such a broad geographic and economic scope cannot avoid crossing over the mere province of economics, to stray into the domains of geopolitics and geo-economics, providing China with opportunities for economic growth, but also more political and economic leverage both regionally and globally, as well as a unique opportunity to use such leverage to change or challenge the existing international order either from the inside or, if necessary, through the creation of an external alternative order. This paper explores this complex topic, providing an insight into the deeper geopolitical and geo-economic aspects of the Belt and Road Initiative and what they may mean for the current global order.

**Keywords:** *geopolitics, One Belt and One Road initiative, China, Southeast Asia, Eurasia, BRI*

## **1. An Introduction to the BRI**

In September 2013, during a speech held at the Nazarbayev University, on the occasion of his official visit to Kazakhstan President Xi Jinping announced the launch of the Silk Road Economic Belt. Shortly after, during a visit to Indonesia, Xi announced the launch of the maritime

counterpart, aptly named the New Maritime Silk Road. Symbolically inspired by the original Silk Road, the two arms of the project, initially jointly named as One Belt One Road (OBOR) and then Belt and Road Initiative (BRI), aim at creating or expanding a new complex, seamless, integrated network of land and maritime routes running from East and Southeast Asia to Europe and Africa, through Central Asia and Russia. The launch of the initiative has sparked mixed feelings, ranging from enthusiasm to outright suspicion about the real intentions of China and the consequences such an initiative, should it succeed, could have for the delicate equilibriums that characterize the current international order.

To provide the BRI with the financial lymph necessary to make the initiative sustainable, China has established a new financial framework, made of new and existing upgraded organizations, among which, the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB), formerly BRICS Bank, a reformed China Development Bank and an ad hoc Silk Road Fund (SRF).

The AIIB has sparked a heated debate on China's geopolitical goals. Reportedly established to fill a financial vacuum in Asian infrastructure investment, the AIIB has been defined as an IMF competitor and as a tool prodromal to attempt to establish a new world order. In fact, the relations between China and the IMF have always been far from idyllic. For a long time, the IMF has been asking China to reduce its corporate debt and implement economic reforms that the latter is not eager to or cannot implement. On the other hand, China and others, have been calling for a modernization of the IMF to reflect the growing geopolitical weight of emerging powers, as well as the adoption of a new global currency, pegged to a multi-currency basket based on the existing Special Drawing Rights (SDR), to reduce over-reliance on the dollar, which could expose foreign countries to backlashes, like those that ravaged several countries during the 2008 crisis, and create instead a

global currency pegged to a basket of strong currencies, rather than rely on the current system founded in the primacy of the U.S. dollar (The Epoch Times, 25 July 2016). Such calls on a global scale have become increasingly frequent after the 2008 economic crisis, of which Xi Jinping and the Chinese political establishment have long been outspoken critics (Momani, 2017).

While welcomed by many countries, especially the emerging powers, China's calls for a reform of the IMF have been consistently hindered by the U.S. congress (Perlez, 2017). For these reasons, the combination of BRI and AIIB has sparked a debate on the real purposes and scopes of China's strategy, especially on whether China's goals are merely economic or rather aimed at slowly building an alternative international system based on the so-called *Beijing Consensus*, acting as a competitor and an alternative to the current system based on the *Washington Consensus*.

This paper explores this intriguing topic, providing a structured analysis of the Belt and Road Initiative, approaching it from a holistic perspective that considers the geopolitical, geo-economic and geostrategic implications of the BRI, offering a set of potential conclusions on the purpose, scope and implications of the BRI for both China and the West.

The paper includes four sections, organized to allow the reader to acquire an incremental understanding of the BRI and its implications. Drawing on the existing literature produced by both Chinese official sources and international scholars, the first section provides an overview of the BRI, explaining the key material and conceptual aspects of the initiative and highlighting challenges, doubts and specificities of this ambitious, game-changing initiative. The second section discusses the potential implications of the BRI from a holistic perspective. The analysis encompasses economic, political, security and social



implications, shedding light on some deeper aspects of the BRI from a geopolitical and geo-economic perspective in the various regions involved. The third section delves more in-depth into the geopolitical and geo-economic aspects of the BRI, trying to understand whether a potential success of the initiative and its dynamics really carries the power to alter the current status quo, to create a *Beijing Consensus*-based system able to challenge the current Western-led order. The final section includes the conclusions and a few remarks of the author.

## **2. What Is the Belt and Road Initiative: Material and Conceptual Elements**

The BRI is an undertaking of imposing proportions that carries huge economic, political, historical as well as symbolic, significance for the future of both China and Asia and all the other non-Asian countries involved, with potentially multifarious effects on a global scale. To render the understanding of the scope of the BRI easier for the reader, the basic infrastructural and economic aspects of the initiative have been separated from the conceptual and political ones.

- ***Basic Infrastructural and Economic Aspects of the BRI.*** The infrastructural aspect of the BRI envisages the creation, expansion or upgrade of a complex connectivity network, including ports, highways, railways, pipelines and logistic infrastructures spanning across over 60 countries and involving 70 percent of world's population, spanning from the Pacific Rim Economic Belt at one end and Europe at the other end, across Central Asia for an estimated cost of around 6 trillion USD (*People's Daily Online*, 2015). The initiative includes two major routes, one land-based and the other maritime, with the latter running across a "pearl chain" of ports and logistic hubs across the coasts of Asia, Africa

and, ultimately, Europe. The land-based route, named *Silk Road Economic Belt* (SREB), includes three main routes, linking China to Europe, through Central Asia, the Persian Gulf with the Mediterranean region, through Western Asia and, finally, the Indian Ocean via South Asia, while the Maritime Silk Road (MSR) splits into three further routes, one heading towards the South Pacific, one running through South Asia, across Myanmar, Sri Lanka, Pakistan and then linking with its land counterpart in West Asia, and one crossing Africa, with its terminal destination in Venice, Italy. These land and maritime routes are split into six major economic corridors: China-Mongolia-Russia Economic Corridor (CMREC), New Eurasian Land Bridge (NELB), China-Central and West Asia Economic Corridor (CCWAEC), China-Indo-China Peninsula Economic Corridor (CICPEC); China-Pakistan Economic Corridor (CPEC); and Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC). Plans include an extension of the corridors to the Middle East (Rifaat, 2016), as well as the new Arctic frontier, through China's AIIB partner countries in the Nordic regions of Europe (Liu, 2017).

In the introductory part of this paper I have briefly mentioned that when the BRI initiative was originally announced, it sparked a whole range of different feelings, opinions and hypotheses around the world. In international politics, it is not infrequent to see countries announcing huge projects or initiatives and, often, due to a variety of hurdles, do not follow through. While there are many reasons why these endeavours fail, most often the primary cause comes down to the lack of adequate financial backing required to fund such broad-scoped endeavours. For this reason, one of the main doubts raised about the BRI points at its financial sustainability and profitability; especially considering that many of the projects envisaged by the initiative involve working in some of world's worst hotspots, rife with a disparate set of challenges that

make those regions at risk of geopolitical instability due to long-standing issues that have, to date, proved hard to solve. However, these challenges do not seem to have deterred or discouraged China from pursuing its endeavour, with the country showing the tangibility of its intentions through the establishment of an ad-hoc financial and institutional framework and appropriate funding to sustain the BRI initiative. In 2014, soon after announcing the launch of the BRI, China established a new financial institution, the Asian Infrastructure Investment Bank (AIIB). The core role of the bank is to boost and support the creation of critical infrastructure in the Asian region. And the AIIB is not the sole entity involved in providing the necessary financial lymph needed to concretize the infrastructures envisaged by China. While the AIIB acts as the main financial instrument within the BRI, the financial ecosystem includes also another two financial entities, the Silk Road Fund (SRF) and the newly reformed and upgraded BRICS' New Development Bank (NDB). One may object that the simple creation of financial institutions, however, does not mean much, since these are empty boxes unless adequately endowed with the necessary financial instruments rendering them operational and that, therefore, such empty boxes should be supported by adequate funding. That is why, at the Boao Forum held in March 2015, the Chinese National Development and Reform Commission introduced a preliminary blueprint of the BRI, followed by the allocation of USD40 billion to the Silk Road Fund. These measures boosted the credibility and reputation of the initiative among potential members, including a number of Central Asian countries (Gabuev, 2015).

Despite the doubts of investors and analysts about the feasibility and profitability of the endeavour, the BRI and its financial tools, the AIIB and its sister entities, did not have to make much effort to find eager supporters, both in and outside Asia. The AIIB was very well received

worldwide, gaining 84 approved members and 21 prospective ones, among which many major Western countries in the league of France, UK, Germany and Italy (AIIB, 2017). All these countries invest in the AIIB and the BRI in the hope to get a share of the profits generated by the future use of the infrastructures and the new emerging markets that are expected to spur along the land and maritime routes across the BRI corridors. Funding has also been provided by several Chinese local governments and domestic policy banks, such as the China Policy Bank, the China Import-Export Bank and the China Agricultural Development Bank (EIU, 2016).

Many of the infrastructural works within the scope of the BRI do not require implementation *ex-novo*. In many cases China is stepping into existing infrastructural projects, like roads, railroads, ports and so forth, upgrading and adapting them, so that they can be integrated within its BRI initiative in a cost-efficient way. This is particularly true in the case of the Asia-Pacific region, where many Chinese projects overlap and expand on existing initiatives, like the ASEAN Master Plan for Connectivity (AMPC), with which the BRI shares the goal of building a regional network of roads, railways, logistic hubs and roll-on-roll-off (RORO) ports, to establish an integrated system to boost the movement of people, goods, financial flows, ideas and cultures in a seamless, timely manner both on land and at sea. Overall, this looks very much like a major upgrade aimed at further streamlining the existing integrated manufacturing and supply chain connectivity networks that have already reached a good level of development in East Asia and the ASEAN region. The land section of the BRI follows a similar logic, picking up where existing initiatives or planned ones existed, to expand and develop them into a seamless, integrated network. In particular, the land component of the BRI aims at joining the efforts with the Russia-led Eurasian Economic Union (EEU) in order to make its way throughout

the Central Asian regions. In this regard, following sections of this paper will illustrate in better detail how the Sino-Russian relations, often overlooked, may have a key, synergistic role with mutual benefits for China and Russia, provided the two manage to iron out historical challenges and current fears, especially on the Russian side.

As a matter of fact, the relations between China and Russia have been far from warm for a long time. Ideological divergences during the Cold War, the weakening of the Soviet Union and the rise of a powerful China after the Cold War made Russia wary of its giant neighbour, especially at the borders, where for decades growing numbers of Chinese illegal immigrants have been settling in the lowly populated territories of Russian Far East (RFE), worrying Russia about the possibility of future territorial disputes in those regions (Alexseev, 2003). However, despite these long-standing challenges, in the recent decades, the two countries have started to adopt a series of confidence-building measures (CBMs) aimed at consolidating mutual trust and cooperation. Such efforts resulted in the signing of several important agreements, among which the Treaty of Good-Neighbourliness and Friendly Cooperation Between the People's Republic of China and the Russian Federation, in 2001, has recently been ratified (Ministry of Foreign Affairs, PRC, 2001). Since then, the relations between the two countries have considerably improved with a pattern of growing cooperation in the four important dimensions of trade, energy (Wang, 2016), arms sales (Keck, 2014) and military cooperation, with the latter element signalling that the Sino-Russian relations have gone a long way and their historical mutual wariness has faded, leaving room for a renewed basis of mutual trust (Wu, 2017). Improved relations between China and Russia not only have significant importance for the stability of the region, but they also bear critical weight in geopolitical terms, vis-à-vis the BRI. After its initial scepticism and suspicion towards the

Chinese initiative, seen as a potential competitor of Vladimir Putin's Eurasian Economic Community (EEC), in more recent times Russia seems to have adopted a more cooperative, open attitude towards the BRI, starting to consider it as an important element of its EEC platform, with the potential opportunity to develop a model of interaction based on complementarity and mutuality of interests, rather than one based on regional competition – so much so that in 2015 the two countries signed an agreement for the integration of the two initiatives (Spivak, 2017) and, contextually, established a joint fund, the Russia-China Investment Fund (RCIF). Created by Russian Direct Investment Fund (RDIF) and the China Investment Corporation (CIC), the fund boasts USD 2 billion in commitments, to be allocated for the creation of infrastructures in Russia and China (RCIF website, 2017).

● ***Conceptual Aspects – the Reasons for the Existence of the BRI.*** The BRI has sparked a vivacious debate among the political establishment, both in the West and beyond. While many have compared the BRI to the Marshall Plan implemented by the United States to help Europe recover after the tragic events of World War II, and find an outlet for the manufacturing surplus of the United States, the BRI is in fact a very different type of initiative that has only vague points in common with the Marshall Plan. Such differences have been remarked in multiple occasions also from official Chinese sources. For example, in 2015, Foreign Minister Wang Yi overtly stated that the two initiatives are entirely different (Ministry of Foreign Affairs, PRC, 2015), and that, unlike the Marshall plan, the BRI does not have any Cold War-inspired geopolitical purposes, nor is it based on aid but rather on for-profit cooperation, underlining that the infrastructural projects involved as part of the BRI initiative are not being funded as “aid for geopolitical clout” but rather as a form of investment from which China and other partners

expect to profit, once the various elements that constitute the project will be fully functional (Xinhua, 2015). In particular, in reply to the rising chorus of pundits and journalists pointing out at the potential geostrategic and geopolitical ends of BRI, Xi Jinping has gone to great lengths to explain that the BRI is not a geopolitical tool and that the initiative does not challenge, but rather complements the current status quo and respects the so called “three noes”: no interference in the internal affairs of others, no seeking spheres of influence and no striving for hegemony or dominance (Lee, 2016), as well as alleging full compliance to the Five Principles of Peaceful Coexistence of the UN Charter, namely: (1) mutual respect for each other’s sovereignty and territorial integrity, (2) mutual non-aggression, (3) mutual non-interference in each other’s internal affairs, (4) equality and mutual benefit, and (5) peaceful coexistence. To avoid further speculation on its real goals, the Chinese leadership has also made a clear point of not associating the BRI with the terms “strategy”, “project”, “program”, or “agenda” (Xie, 2015). Most notably, during his speech at Davos, in 2017, Xi Jinping took a stance that appeared to be antithetic to Trump’s pushes for a new cycle of American isolationism, exceptionalism and unipolarism. Xi’s speech focused on championing the need for the continued expansion of the process of globalization and free trade in a multipolar world, with the BRI acting as an enabler to that end, ideally uniting countries and global communities around a common idea and a common goal. In the same occasion, Xi highlighted once again the need for reforming the current international system, pointing out how, many of the woes that beset the current global environment, are a direct result of “U.S. follies of ‘chasing reckless profits’ and poor financial market regulations that ushered in the onset of the 2008 global financial crisis” (Momani, 2017).

Grasping the scope and meaning of the BRI is not an easy task for a variety of reasons. The initiative is an evolving concept whose geographic and conceptual scope keep changing and expanding into new areas, as it gains clout and China adjusts its plans based on emerging contingencies and opportunities. China tends to define the process as an integral part of its “Going out” strategy in terms that are overwhelmingly positive, benign and peaceful, and not devoid of symbolical references such as those hinting at a “rejuvenation” of the Chinese nation and those highlighting the peaceful, harmonious nature of the Chinese model. From a broad domestic perspective, part of the initiative is described as a tool aimed at fulfilling China’s “Two Centenary Goals”, carrying both economic and symbolic weight in China’s vision for the future of the country. The first goal aims at doubling the country’s GDP by 2021, coinciding with the 100th anniversary of the founding of the CCP; the second goal consists in reaching a per capita GDP that is at least equal to that of countries with an average level of development by 2049 (Lu, 2016). In more mundane terms, the BRI and the whole ecosystem built around it are designed to be a vector for China’s new economic model, which aims at reducing the reliance on exports to boost domestic consumption while investing its surplus in foreign currency and liquidity in general in infrastructure abroad. The hope is that such move will allow China to solve or mitigate some critical domestic challenges, which include widespread corruption, income gap, aging population, unemployment, as well as several environmental issues. In order to tackle these issues, China hopes that the BRI will be able to: streamline the logistics and the flows of China’s manufactured goods in and out of the country, even though the main focus is, naturally, on the export side; expand existing markets and develop new ones in the Eurasian region, allowing China to develop an outlet for its manufacturing surplus in the areas of primary and finished products; build infrastructure abroad to



invest its foreign reserves surplus as a way to generate returns on investments, while at the same time expanding job opportunities for the highly skilled workforce graduating at Chinese and foreign top universities, as well as for those workers for which at present the Chinese market is not able to offer enough opportunities due to structural economic slowdowns and oversaturation, especially in areas like the construction sector.

In China's vision, the over 60 countries participating in the initiative should be able to reap similar benefits, expanding their opportunities to trade with China on a same level, participating in the infrastructural projects of the initiatives and getting a stake in the new markets created along the various corridors that constitute the BRI. On paper, the ambitious initiative promises to reshape, expand and develop the economies of the regions involved, in particular those of East Asia, Southeast Asia, Central Asia, Russia, Africa and Europe, with what is projected to be a win-win cooperative platform designed to promote cooperation among all the members involved, through the creation of a highly integrated area of co-prosperity.

## **2. Implications and Challenges Ahead**

Despite the optimistic tones adopted by China on the initiative, and the enthusiasm shown highlighted by the outpouring of participations in the AIIB and the strong interest about the whole initiative, the BRI is not devoid of challenges in various areas. Such challenges can be categorized according to four macro geographic areas, with some of such challenges overlapping across two or more regions or occasionally intersecting the whole geographic scope of the BRI. The macro geographic regions where specific challenges exist can be split into: (1) Pacific Rim Economic Belt and Maritime Silk Road; (2) South-

Central Asia and Russia; (3) Africa section of the BRI and, potential issues that could occur at the “interfacing point” with the (4) EU members taking part in the initiative.

### ***2.1. Challenges in the Pacific Rim Economic Belt and the Maritime Silk Road***

The actual implementation of the BRI in this region presents several challenges of technical, political and geopolitical nature. Among the technical hurdles, one of the most often mentioned is the one related to the different railroad gauge standards used in the region. Unlike what the name suggests, the Maritime Silk Road (MSR) does not limit itself to building a network of safe ports and maritime routes, but rather aims at establishing a complex integrated hybrid connectivity network involving roads, railways and a roll-on-roll-off (RORO) port ecosystem able to streamline the flows of trade, people, capital, information and ideas. Especially, the combination of ports and railroads has long been considered a key element for trade integration in the ASEAN region, thanks to the high level of flexibility, huge capacity, reduced energy consumption and excellent standards of security and reliability these two integrated tools are able to provide in handling huge volumes of people and goods. An efficient and integrated region-wide railroad network can become a driver for increased domestic demand, boosted employment, as well as an incentive for economic growth. For this very reason, the MSR includes the construction of several key railroads in the region, whose implementation is not devoid of technical and geopolitical challenges. An epitomic case in point is the Singapore-Kunming Rail Link (SKRL). Announced in 1995 by ASEAN as a relatively small line, the SKRL has been then integrated into the BRI, in the form of a High-Speed Rail (HSR) project spanning over 6000 kilometres, through Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand, Viet Nam,

Kunming (PRC), with further plans to expand the line to Surabaya, Indonesia, through a system of bridges or multimodal ports (Ad-Hoc Expert Group Meeting for Cooperation on Facilitation of International Railway Transport, 2015).

The SKRL epitomizes the complex nexus between technical problems, regional political obstacles and global geopolitical goals. On the technical side, the main issue resides in the fact that the original SKRL was a much more modest project, aimed at expanding the existing network of railways on a much shorter distance, using the existing gauges. However, China's idea to integrate the SKRL into the BRI involves a major upgrade of the project that is not devoid of technical challenges, the most prominent of which is the fact that the rail gauges used by traditional railroads in Southeast Asia are not compatible with China's standard HSR gauges. This means that, in order to accommodate the Chinese requirements, the whole line will have to be built *ex-novo* with the new gauges, with a subsequent soaring of the investments required. Another dimension that poses challenges for the implementation of the initiative is the geopolitical one. The fact that China would be in charge for the management of the SRKL network, including the sections of the line crossing the sovereign space of other Asian countries, was met with distrust and uneasy feelings by some countries worried about the risk that, through the control of a critical piece of transport infrastructure, China may acquire excessive political and economic clout, both within the countries involved and on a regional scale. A second hurdle is that, reportedly, the SKRL will not be able to solve one of China's major geopolitical and geo-economic conundrums, that is its need to find a way to bypass the Malacca Strait, a bottleneck infested with pirates and firmly in the hands of India and the United States. Among other things, China fears that in case of increased competition with major powers, the United States and their regional

allies may manage to implement a blockade aimed at crippling the Middle Kingdom's shipping routes (Wu, 2016). For this reason, one of the main *raison d'être* of the SKRL is to create an alternative Sea Line of Communication (SLOC) to bypass the Malacca Strait. However, one of the main limitations of this strategy lies in the fact that the volume of goods the HSR will be able to carry will never match the massive transportation capacity provided by sea shipping. Another solution would be to build the much discussed Kra Canal, cutting the narrow 50-kilometer stretch of land located in the Kra Isthmus, a thin strip of land separating Southern Thailand from Malaysia. However, also this plan poses hurdles and complexities, with its main constraints being the necessity to find an agreement with Thailand, and the risks associated with the inherent instability of that specific region of Thailand, exposed growing violent acts perpetrated by Muslim separatist groups. Apart from this, Thailand has, for a time, been one of the most reluctant countries when it comes to seconding Chinese plans, refusing both to allow the passage of the SKRL and the construction the Kra Isthmus canal (Lam, 2015).

Mistrust towards China affects also other countries in the region. A case in point is the complex relation between China and Malaysia. While being interested in the BRI, Malaysia has expressed its own reserves about the lack of a dispute resolution mechanism. The fear is that, in case of disputes, China may use its military and economic power to gain the upper hand. China has tried to reassure Malaysia, by taking on its advice and instituting an ad-hoc One Belt One Road Arbitration Court (OBOR Arbitration Court) in October 2016 and followed by an OBOR dispute resolution centre in 2017 (*Supreme People's Court Monitor*, 2017). Adopting Chinese legislation as a reference, the Court is tasked with resolving disputes between the BRI's member countries and the Chinese actors operating within those countries to implement the

infrastructural works part of the initiative.

Many of the regions across the various corridors of the BRI are also affected by security challenges, which include piracy, terrorism and other threats. In other cases, the eagerness to be part of the BRI initiative and host part of its infrastructure is met with overwhelming enthusiasm by the chosen countries but less enthusiastically by neighbour countries that could be potential regional competitors of China. A case in point of these dynamics is the triangle between China, Sri Lanka and India, where Chinese investments in Sri Lanka have been met with enthusiasm by the receiving part, while irking India. India has been offered to take part in the BRI, but at the moment it is not clear whether it will decide to jump onboard or whether it will implement its own charm offensive with analogous initiatives in the region (Smith, 2016), or even bandwagon with anti-Chinese countries and initiatives in the region, as it is already doing with the so-called “Quad Dialogue”, an attempt to form an alliance between United States, Australia, Japan and India (Pant, 2017).

## ***2.2. Challenges in Russia and South-Central Asia***

From an infrastructural perspective, some of the challenges of the BRI in this region overlap with those in the Asia-Pacific, such as the different rail gauges and, in particular the economic viability and profitability of the initiative, with the last two representing a source of doubts many experts are struggling to understand given the peculiar set of challenges that characterize Russia as well as South and Central Asia.

However, behind the solvable technical issues, the real challenges in these regions are mostly exquisitely geopolitical and amenable to three main factors. The China-Russia relations, China-Stans relations and a complex mix of issues including terrorism, separatism and extremism. In order to reach Europe, the BRI's corridors need to cross some of the *5-Stans*, a region that has traditionally been under the political and

economic sphere of influence of Russia, but that in the decades following the Cold War and after the events of 9/11 has also seen a rising influence of the EU and the United States, in the form of economic aid and cooperation, as well as, in the case of the United States, security-related cooperation, even if the latter has been fading, with the United States closing its last base in Central Asia in 2014, following the realignment of Kyrgyzstan with Russia (Pillalamarri, 2014). The region is rife with political and security problems, with some of the Stans engaged in complex hedging political strategies, in order to maintain a sustainable balance between the need to maintain cordial relations with the United States and the EU, a key trade partner in the region, and the political and military influence of their neighbour, Russia. This hedging strategy bears an added layer of complexity given that some countries where Russian, Chinese and EU's interests overlap are also part of the Shanghai Cooperation Organization (SCO). As we have seen in previous sections, Sino-Russian relations have considerably improved over time, with growing cooperation, institutional bindings in the forms of agreements, converging goals and the increasing evidence that the two countries face common threats. Past the initial wariness, Russia has decided to adopt a pragmatic approach, opting to cooperate with China and now considers the BRI as an ideal complement for Putin's pet project, the Eurasian Economic Community. Western analysts have stressed that the two initiatives are characterized by huge differences, from which several potential challenges could originate including:

- The EEU's over-reliance on Russian economy, and the energy sector, whose performances, especially vis-à-vis the sanctions enforced towards Russia, could affect the integration process.
- Many EEU member countries are aware that getting too close to Russia may preclude them any chance to attract more investments from

foreign investors, especially from the United States and the European Union.

- Real integration and continued cooperation, pillars of a system like the EEU, may be ephemeral due to territorial issues and different levels of economic development among Central Asian countries. Furthermore, territorial disputes over control of water sources exist at the borders between Kyrgyzstan, Uzbekistan and Tajikistan (Tynan, 2014).
- Ostracism toward the BRI from local populations in Central Asia, afraid of the economic and environmental fallouts of Chinese investments in the region, which in some countries has often taken a violent turn, like in the case of the Uighur anti-Chinese unrests in Kyrgyzstan, an increasingly unstable country with growing nationalist pushes.
- Despite the fact that the external environment is pushing China and Russia towards a growing convergence of their geopolitical and economic goals, analysts and pundits think that the relationships between the two could deteriorate. Should this occur, any effort to interface and integrate the EEU with the BRI would be doomed.
- The EEU is a Russian-led regional initiative, while the BRI includes many partners but is under the sole leadership of China. The incompatibilities between the two initiatives could become a source of divisiveness between Russia and China, especially due to Russia's persistent wariness towards the potential risks of Chinese encroachment within its sphere of influence.

Provided that much rests on the decisions and pragmatism of Russia and China, the BRI and the EEU are inherently different entities in terms of structure and goals and this may pose a challenge for the convergence of the two initiatives. At the moment, this translates into the lack of a mutual institutional platform allowing for the actual integration of the

two initiatives. Also in terms of ends, the two entities are sharply different, with the BRI being an outward-looking trade-focused global and open initiative aiming at connecting Asia to Europe, while the EEU is an inherently inward-looking political initiative, whose goal is to recreate and secure Russian dominance in what, *de facto*, is its own backyard, and prevent the encroachment on those regions by the EU, the NATO and the U.S. (Zhang, Li and Gabuev, 2016).

The participation of Afghanistan in the BRI, driven by its key geographical position and by growing Chinese interests in that country are bound to bring additional challenges in both economic terms, infrastructure feasibility and, most important, security. Not only China owns some mines in Afghanistan, but it also fears that that country and other countries in Central Asia may become a safe haven for Uighur Muslim insurgents from the province of Xinjiang (Bhattacharji, 2012). This has led China to become increasingly involved in Afghan and Central Asian political affairs with a growing military footprint in those regions (Zhao, 2016). While the Chinese participation in Afghanistan's reconstruction is more than welcome, the path of Chinese-driven development in that country may be subject to several obstacles from both the growing Taliban influence and the United States (Mudabber, 2016). In addition to these issues, Pakistan and Afghanistan's participation in the BRI risks irking India, further straining Indo-Chinese and Indo-Pakistani relationships. The complex dynamics between the BRI and the regional balances in this area have the potential to spark virulent clashes, often amplifying existing issues, like the territorial disputes between with potential shifts in the balance of power in the region, or the exacerbation of existing issues, especially in the region of Kashmir (Khalil, 2017).



### **2.3. Challenges in Africa**

China has a long-standing relation with Africa, and the infrastructural investments brought by the BRI initiative in a continent where lack of infrastructure represents an endemic problem and a major hindrance for development have, in general, been welcomed by all African states. However, also in this case the implementation of China's initiatives is not devoid of challenges. While welcoming Chinese investments, many countries in the African continent are afraid that the Chinese model will increase their levels of sovereign indebtedness towards the Middle Kingdom, with negative implications for their sovereignty, since such an event could potentially allow China to leverage its economic power to steer the policies of those countries, at home and beyond, a trend that is increasingly visible in Asia-Pacific and other places where China's growing influence is affecting specific areas of domestic policy in those countries where, over the years, China has built a significant economic footprint that translates into the capacity to exert political influence in domestic decisions (Kurlantzick, 2017). For this reason, the allegiances of a number of African countries are hedging between the Chinese model and a less burdening Western model based on Foreign Direct Investment (FDI) that, however, comes with less indebtedness but also with the usual value-based constraints. African countries have also asked China to reshape its model in a manner that is more compliant with the sovereignty of those countries. Apart from these specificities, the other challenges in Africa share some commonalities with those of the other regions discussed to date, and include security risks, uncertainties in terms of returns on investments (ROI) for the investors and corruption. The main African countries benefitting from economic cooperation with China include Kenya, Tanzania, Zimbabwe, Rwanda and Burundi, with the first being a major receiver of Chinese investment.

## **2.4. Challenges in the EU**

After a moment of dismay about the initiative, Europe started to understand the relevance and the potential opportunities that both the AIIB and the BRI could imply for the EU. Many European countries, including several staunch U.S. and NATO allies, like Italy, United Kingdom, Germany, France and others, have joined the AIIB and have expressed positive opinions towards the BRI, with countries like Italy and Hungary representing important terminal hubs of the Belt and Road Initiative. In January 2017, the first “Silk Road Train” coming from China arrived at Barking Station in London. This event pretty much symbolizes the essence and the tangibility of the BRI, dispelling the allegations of those who claimed that the Belt and Road was more a wishful thinking than a real project. Most of these countries are not just members of the EU, but they are also NATO members. For this reason, the participation of these countries in the AIIB has irked the United States, stirring doubts on whether the European Union and the United States are on the same page (Reuters, 2015). The scope and relevance of the BRI have sparked a certain wariness also within the European Union, worried about the fact that the growing pro-BRI block among single EU member countries may in time widen the existing divisions that have increasingly characterized the EU’s ecosystem in the last years, further weakening its political and economic infrastructure, as well as affecting its core values. The main reason for such wariness is that, despite China stressing the economic aspects of the initiative, it appears clear that the fallouts of the BRI transcend the mere economics, with potential geopolitical spill-overs in at least two areas. The first is the one associated with the institutionalization of the BRI, and the second is the potential risk that a growing Chinese influence in and out of the BRI might lead to a growing influence of the latter vis-à-vis the BRI’s

member countries, as well as between these and the non-members based on economic ties (Yan, 2015).

Challenges notwithstanding, there are very few doubts that, if well managed on the EU side, the BRI has all the potential to become a win-win deal for both China and the EU, with a substantial reduction of both time and transportation costs, compared to the more traditional sea shipping and the possibility for the EU to enjoy a streamlined, secure access to the Central Asian regions as well a land-based connectivity path to the Asia-Pacific, a unique opportunity for the EU to expand the portfolio of outlets for its manufacturing industry, as well as a better access to privileged, cheaper, land based energy routes, with this latter benefit being maximized should the EU and Russia manage to normalize their relations (Bond, 2017).

### **3. The Geopolitical and Geo-Economic Dimensions of OBOR and Their Dynamics**

While it is true that China may be missing the key ingredients required to implement efficient soft power policies, as stated by Joseph Nye, it is also true that the traditional champion of the soft power, the United States, has seen a decline in soft power influence. This is due to at least three critical mistakes: the invasion of Iraq in 2003, and the ensuing “War on Terror”, which alienated the sympathies of many around the world; the direct involvement in the economic crisis in 2008 and the whole turn of events that ensued; and finally the combined effects of a number of critical foreign policy mistakes that occurred during the last three administrations, which include the involvement in the Arab Spring, the toppling of Libya and, last but not least, the Snowden affair. The failure of two critical projects in Asia-Pacific, the Trans-Pacific Partnership and the Pivot to Asia, as well as the American display of

*impuissance* vis-à-vis the Chinese unhindered encroachment in the South China Sea, further contributed to instil mistrust towards the American model and cast a dark shade of doubt about the will and capacity of the United States to play a regime-shaping role in one of the most important regions of the world, chipping away at American prestige and high moral standing. The combination of these factors could, in the future, result in unexpected outcomes as the United States may not be able to counter China's charm initiatives, especially in a moment where the Chinese model, despite its contradictions and unpalatability for the West, is meeting the consensus of a number of developing countries, as it allows them to generate economic growth without the burden of implementing corresponding political reforms. In particular, the growing success of the Beijing Consensus in key regions like the Asia-Pacific could spark an escalatory spiral, where the United States may eventually need to resort to the use of containing or coercive measure to maintain control of certain regions or opt to surrender specific regions to China's influence.

Other sections of this paper have already highlighted how, despite China's repeated reassurances about the benign nature and the purely economic scope of the Belt and Road project, the whole initiative and its financial mainstays, the AIIB, the SRF and the NDB carry a remarkable amount of geopolitical power. It is important to stress that such statement applies regardless of China's manifested intentions, as certain effects of its policies are automatically generated as the geographic and economic relevance of the initiative expands, gaining new followers and pushing countries and leaders to include the contingencies of the BRI within their decision-making processes. In the case of BRI, the geopolitical and geo-economic clout is produced by China's economic might, the huge scope of the initiative, the number of countries involved, as well as the shares of GDP and global population it affects, directly or indirectly. To clarify, there is very little doubt that the BRI carries a

strong economic significance for China, as it represents its economic lifeline – the means to boost Chinese economy, absorbing the country’s industrial capacity, revitalize the job market and a possible path to salvation for many nearly bankrupted State-Owned Enterprises (SOEs), while simultaneously contributing to boost domestic consumption. However, it appears clear that the initiative will also affect the geopolitical status quo of the regions it crosses, with the potential, if successful, to shift the balance of economic and political power eastward or, if one prefers, promote a marked shift from a Western-led model symbolized by the Washington Consensus, towards a model that embodies the principles of the Beijing Consensus.

Even without the BRI, China’s economic power has proved particularly powerful in attracting countries under its geopolitical sphere of influence. The Chinese model has demonstrated its efficacy in enabling developing countries that cannot afford quick value-based political reforms as a means to generate economic growth to generate such growth without requiring any major political reform. This is because the Chinese model does not carry value-based strings attached in terms of democracy or human rights, nor it attempts to interfere with its partner countries’ domestic affairs, but rather sells a model that is based on a set of pragmatic measures to improve the economic metrics without affecting the political regimes of the countries involved, making such approach more palatable than the Western one. The growing influence of this model is especially visible in the Asian region. Despite its assertiveness and the constant quarrels on territorial issues with a number of neighbouring countries, China has managed to successfully build solid economic relationships with most of these countries, even when the relationships are marked by bitter divisions on territorial matters and further exacerbated by historical grievances, as in the case of Vietnam. Many countries in the region may feel worried at China’s

assertiveness in the province of territorial matters, but they are deeply attracted by China's economic might and by its eagerness to build infrastructure where nobody else would, or ever offered to. The pervasiveness of China's economic power, helped by several factors, historical, cultural, as well as those related to the underexplored influence of the Chinese diasporas living in many East and Southeast Asian countries, has already contributed to reshaping the geopolitical scenarios in these regions, often more than pundits and experts are eager to admit, especially those who, educated during the Cold War era, are more used to see the world in binary ways, splitting it into black and white factions. In order to understand how Chinese influence overlaps with the Western one in these countries it is necessary to first understand that today's events are not occurring in a polarized world of whites and blacks, as it used to be during the Cold War, but rather in a more heterogeneous ecosystem, based on globalization as the environment, neoliberalism as the ideology, and the market, rather than ideology or cultural affinity, as the key parameter, in a domain where often economics and trade trump national security and the nation state altogether, ideological alliances and allegiances tend to become weaker and blurred and the need to hedge between security needs and economic prosperity may require a constant reshuffling and rebalancing of allegiances. For this reason, many countries in the region have opted for a hedging strategy, or an approach based on "hybrid allegiances", where the goal is seeking a point of equilibrium between the economic opportunities offered by China and the security shield offered by the West as a deterrent against a potential escalation of the Middle Kingdom's assertiveness. Such approach has become very widespread also among middle and major powers around the globe, some of which are staunch allies of the United States, like Australia, Germany, Italy and the United Kingdom. Even if the chances that China's increased

economic clout within these countries may lead to a significant political shift towards China's ideological visions are slim, the fallouts of China's growing economic pervasiveness in these countries, in an environment of diminished American power, cannot be underestimated. Such balance between reaping the economic benefits of Chinese trade and the need for the protection offered by American deterrence is only sustainable if two conditions exist. First, the current system continues to be run in a regime of shared globalization, characterized by a high level of interdependence; and second, the relative power of the United States vis-à-vis China remains at levels sufficient to allow the first to access the Asian region, in particular the South China Sea. A situation where interdependence is reduced due to growing polarization and American power vis-à-vis the Chinese one declines excessively would force most countries to shift from a hedging strategy towards one where each single country has to take sides with one of the contenders, which would also implicitly translate into an economic, political and, eventually, ideological paradigm shift in the global ecosystem. However, with Trans-Pacific Partnership and Pivot to Asia stalled, there is a concrete risk that the BRI may cause a further decline of the American influence in Asia, affecting its relationships with some of its key EU partners, and turning the South China Sea into a "Chinese Lake" (CSIS, 2016), and Central Asia, where the U.S. and the EU have been trying to expand their democratic spaces, also through investments aimed at freeing the countries in those regions from the Russian yoke, into a broad swath of Eurasian landmass under exclusive Sino-Russian control.

The BRI presents opportunities and risks also for the European Union. We have seen as, on the one side, the EU itself has shown a tepid, if not cold shoulder to the initiative, despite the enthusiastic narrative, while on the other side, many single EU members have decided to autonomously adhere to the initiative. There is no doubt that while the

BRI brings huge trade opportunities for the EU, the enthusiastic, independent participation of several EU member countries, outside of the institutional framework of the EU, may lead to a further weakening of the already strained institutional and economic fabric of the Eurozone. In a time where the EU and its economic and ideological policies are increasingly seen as counterproductive by countries and citizens, especially in the most crisis-stricken countries at the Southern and Eastern periphery of Europe, the adoption of China's "no questions asked" economic model could deepen the existing divisions within the Union and create dangerous situations of over-reliance on China's economic power and its model, which is inherently antithetic to the one advocated by major Western powers. Whereas the latter associates trade agreements with the compliance to rigid institutional frameworks based on economic, political interests and common value sets, like democracy, human rights and environmental rules that often imply deep domestic democratic reforms for the members of these types of initiatives, normally in form of multilateral Free Trade Agreements (FTAs), the Chinese model is based on a much more open, pragmatic approach devoid of such constraints. The Middle Kingdom allocates its investments without any value-based implication, and without pushing its members to overtly pledge allegiance to any ideological model, with economic and political dependence being generated by indebtedness and increased Chinese presence and lobbying activities in the target countries. This specificity, combined with the fact that the soft power model based on infrastructure-building has long been abandoned by Western countries, has allowed China to fill a void on a global scale, with a growing influence in all the regions crossed by the BRI initiative and beyond (Casarini, 2015).



### ***3.1. The Case for China Building Its Own International System***

The BRI and the AIIB have sparked a heated debate and several hypotheses with regard to the geopolitical ends of the initiative. Such hypotheses normally converge towards the main idea that China is trying to either overthrow or alter the existing international order. This section of the paper explores this topic, putting together all the basic elements necessary to provide a structured hypothesis on this challenging subject. The analysis will focus on three core questions: (1) Whether China is building a new international order; (2) Whether such international order is benign or malign; and finally, (3) Whether such an order would be complementary to or a challenger to the current one.

First of all, it is necessary to point out that most international relation literature and known doctrine in strategic and political matters bears the inference that building an international order is a costly endeavour in economic, military and diplomatic terms. And history teaches that the result of such effort is often war, because the undertaking of such a daunting challenge would signal the current hegemon and its allies a high level of grievance, manifested or not, and the subsequent will of the challenging country to stray from the status quo, engendering dynamics in line with those described by power transition theory (Tammen *et al.*, 2000). Second, the will to create an alternative order requires the existence of a set of causal and material requirements which I summarize in the following points.

- First, a causal phenomenon of sufficient intensity to lead a challenger of the status quo to undertake such task because it perceives that there is no alternative to such a path. The causal element is normally a grievance, a dissatisfaction, or irreconcilable systemic and ideologic differences that cannot be solved within the institutional boundaries of the existing order, and that the challenging side perceives as a threat

that can either diminish its power or menace its survival altogether. Examples of these could be growing unwillingness to share an order that has been shaped by a hegemon and affects or ill-fits an emerging power with a different political and economic system, or a threat arising due to territorial or economic divergences that is bound to escalate into a conflict whose outcomes could result in a zero-sum existential threat for the dissatisfied party.

- Secondly, grievances and dissatisfactions should be shared by several countries or actors operating both within and outside of the existing order. The level of dissatisfaction of these third countries and actors should be sufficient to motivate them to join the main challenger in the creation of the new system, in a scenario where such countries come to the conclusion that if they do not take action in the present, or when the conditions are favourable, they may be subject to an existential threat at some point in the future. While rational thinking suggests that most allies in such a coalition would join voluntarily, some allies may be forced through economic or military coercion, especially when these are key neighbour countries.
- Third, enough military power is required to enforce rules and provide defence and security both outside and inside the newly established entity.
- Fourth, a territory, under the form of a set of countries with enough population cooperating within and for the establishment of the new system, is required.
- Fifth, the union so formed should have a basic amount of resources at its disposal to make the new system sustainable.
- Sixth, the new entity should have a market that allows for the regular functioning of an efficient economy, both when interfaced with the market of the existing order as well as a standalone entity, to grant the survivability of the system, should the relations between the

challenged hegemon and the challenger become so sour that the former tries to contain the rise of the challenger through trade sanctions and economic warfare. Such market could assume three basic forms: a model based on the current order, in a regime of complementarity; it can be already present in the territory of the new entity in the making, although not yet codified in the form of institutionalized regime; or it may need to be created *ex-novo* according to the political-economic and ideological model advocated by the new entity.

- Seventh, the newly created entity would need an alternative currency or, as an alternative, use an existing one as reference currency alternative to that of the hegemon or, yet, operate within the existing order to decrease the monetary power of the hegemon while increasing its own monetary power, or that of its allies, at the expenses of the hegemon. The creation of an *ex-novo* currency would be required only if the new entity aims at substituting the existing system while it would not be necessary should the two systems be complementary, or if the challenger has a chance to build inroads and encroach on the existing system from the inside.

This list of elements enables us to further analyse China's behaviour and determine, to an extent, whether it possesses the will and the tools to build a new international order and whether its actions provide any hint that this process is already ongoing or planned, in some form. The next section will focus first on the analysis of the material aspects, or quantifiers, to measure whether China really has the material tools required for such a challenging endeavour. The next step involves the analysis of the possible causal elements, such as dissatisfactions and grievances, constituting the driver for the implementation of such a complex endeavour.

***Finding allies.*** In order to create a new international system, China would require the support of a pool of countries sharing the goals of its initiative and, at least in part, its grievances and interests. As we have seen, the undertaking of such a bold action would alarm the current hegemon and its allies, which would surely put in place adequate economic, political, legal and, if necessary, military measures to prevent allies from defecting and joining the challenger in the formation of the new order, while simultaneously attempting to curb the ambitions of outsiders which might be tempted to support such initiative. So where should China go look for partners?

China's dissatisfaction with the current order is shared by other countries, like the other members of the BRICs. All of them feel that their growing power is not adequately represented in the major institutions and that the United States holds an overwhelming amount of power, allowing it to afford an overpowering amount of leeway in shaping global rules. Furthermore, more and more countries seem to find the Western model increasingly unfitting for their systems and ambitions. While the formation of alliance patterns with Brazil is to be factored out, due to geographic and economic reasons, and despite the fact that the relations with India are not at their best at the moment and due to the known territorial hurdles and to the perception within the Indian political establishment that the BRI might erode the country's influence, the relations between China and Russia have become increasingly close over the last years. The increased cooperation between the two countries is driven by a complex mix of mutual and common interests and shared threats, as well as by exogenous factors within the international system, that make such cooperation mutually beneficial. This is true despite the existence of the previously mentioned grey areas in the relationship between the two countries. Indeed, the pragmatic model of relationship adopted by the two countries has led to

a closer Sino-Russian cooperation, with positive results for both countries. In order to better frame this rationale, it is first necessary to explain what the exogenous contingencies of the two countries are.

After the annexation of Crimea by the Russian Federation in 2014, the United States, the EU and the United Nations enforced an embargo on Russia and since then the relationships between Russia and the West have been steadily deteriorating. The participation in the Syrian conflict made Russia even more antipathetic among the Western leading elites, with recurrent attempts to further harshen the sanctions regime against Russia (*Forbes*, 19 June 2017). In such a gloomy scenario, the possibility for Russia to integrate the BRI into the EEC initiatives constitutes an enabler providing Russia with the opportunity to establish brand new markets in Central Asia, as well as using the BRI as an “outward” door to access the markets that are part of the initiative, focusing on trade eastward, and in particular in the Asia-Pacific, rather than westward, allowing Russia not only to escape the chokehold of EU’s and US’ sanctions but also to expand its trade relationship in new markets, under the protective umbrella of China. The availability of a stable trade flow to and from other BRI markets and a thriving EEC in Central Asia would allow Russia to consolidate its power in the region, while allowing it to regain influence on a huge swath of what used to be the former sphere of influence of the Soviet Union and recreate an efficient buffer zone against the encroaching attempts of the EU and the United States to encircle Russia. Eventually, such a scenario could also allow Russia to take full control of Ukraine and expel the remaining elements of U.S. and EU influence from Central Asia, all the while enjoying a privileged trade channel in Asia-Pacific, under the protective umbrella of China’s influence in those regions.

Among China’s potential allies, one should not forget the underdog. Rarely mentioned in analysis when associated with China and

considered a rogue state by the United States and most of its Western allies, Iran is another outsider that is acquiring increasing strategic visibility among the Chinese and the Russian leaderships. Iran is currently not directly involved in the BRI, but this may well be a temporary shortcoming, because China is trying to negotiate the participation of some Middle Eastern countries, including Iran, in the BRI (Dominguez, 2015). Like Russia, Iran's economy has been crippled by Western sanctions over its nuclear program and its sponsorship of terrorist groups and the country has long been advocating the necessity to create an alternative international order to contain the United States.

***Financial institutions.*** Regardless of its form, any international system is built around a sound economy, which requires institutions and regimes to function properly. Under the current international order this role falls on the “holy” triad of institutions established under the Bretton Woods agreements that also represent the functioning basis for the present neoliberal order: the World Trade Organization (WTO), the World Bank, also called International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund. The first of the three deals with trade matters, while the World Bank has mainly a developmental role and the IMF tackles “accounting” tasks within the international order, granting the regular flow of payments and receipts (Driscoll, 1996). China is also a member of all three organizations, and the Renminbi has recently become part of the basket of IMF's reserve currencies (BBC, 2015). While being very critical of the current system and asking for reforms, China's approach has, to date, appeared to have been based on attempting to change the system from the inside, rather than express the manifest desire to build alternative institutions for which it may not yet be equipped for. An epitomic case in point of this behaviour is the mentioned attempt of China to push for a new global currency, the Special Drawing Rights (SDR), which would not be based

on the primacy of the U.S. dollar anymore, but rather on a basket of selected currencies that better reflect the influence of the new emerging powers.

These are all indicators that China is increasingly socialized in the existing international political system and, despite the recurring bickering with other countries, which fall within the physiological nature of the relations among the members of the community of nations, and in spite of the recurrent requests for reform of the current system, there are no signs indicating that China is willing to leave the safe port of the current system to sail into perilous, uncharted waters to become the helmsman of a new international order. Rather, the Middle Kingdom seems set on changing the current system on its terms from the inside.

So, what is the purpose of the AIIB and the NDB and the SRF? After all the Japan-U.S.-led ADB could well have catered for it. Perhaps the IMF and the other existing institutions could have endorsed China's BRI plan and funded it. As seen in previous sections, China has pointed out in several occasions that Asia has remarkable gaps in terms of infrastructure funding. A known study by ADB estimated the gap to be in the range of 8 trillion USD between 2010 and 2020 – an amount that the existing financial institutions cannot cater for (Bhattacharyay, Kawai and Nag, 2012). Additionally, those limited funds are not necessarily as focused on infrastructure as the BRI is, as they are allocated to a variety of items in agenda, including areas not related to infrastructure, such as education and gender equality. Therefore, the AIIB and other China-led financial institutions, according to China, do not represent alternatives or substitutes to the ADB or other existing institutions, but rather they complement them. China's rationale has a point. Had funding been so abundant, perhaps such infrastructural initiatives would have already been implemented by others. However, it is hard not to see a geopolitical end in China's projects, especially in a region where the competition

between great, middle powers and China is growing. Such competitive element emerges when one observes the dynamics of the various free trade agreements (FTAs) in the region. China never joined the TPP, not even when the hype around the initiative was at its peak, while Japan and the U.S. were integral parts of it. And the U.S. was never part of the TPP counterpart, the China-led Regional Comprehensive Economic Partnership (RCEP), of which though Japan eventually became a member. This suggests an interesting, yet often underestimated phenomenon that characterizes the participation in FTAs. While there is room for negotiations on several items in agenda among the various countries, there is very limited margin for discussion about the core tenets beheld by the leading members of such initiatives, whose political and ideological values are automatically injected into the very DNA of such agreements. This means that should China join a U.S.-led FTA, it should also adapt its own domestic system to the rules imposed by the U.S., which would translate into the necessity to carry out domestic political reforms, from which China traditionally shies away because they are deemed a risk for the very existence of the Chinese Communist Party. Vice versa, should the United States join a China-led agreement, regardless of the openness and the alleged level of freedom carried by the initiative, the participation would mean not only loosening up its regulatory ecosystem to adapt to what one can anticipate as laxer regulations, but also subjecting itself to China's primacy within the specific framework of such system.

Economics, politics and geopolitics are strictly linked domains within which complex dynamics occur, often with interesting outcomes. In this case, the most interesting outcome is that, despite the relentless narrative of cooperation aired by mainstream media and their respective leaderships in official occasions, the relation between the U.S. and China appears increasingly competitive, especially when it comes to the Asia-



Pacific and, more specifically, to the South China Sea. If all the above is true, then it is also legitimate to anticipate the possibility of an escalatory trend putting the two countries at odds in the future. The empirical evidence of such trend is also shown by recent statements of President Trump, which have defined both China and Russia as revisionist powers (*Nikkei Asian Review*, 19 December 2017). Assuming the above as one of the possible defining trends in the future, it is also possible to posit that while it is perfectly justifiable that China has established the above financial institutions as a complementary source of financing tool for regional development, filling the vacuum left by other regional and international institutions, it is also possible to think that such institutions are part of a “failsafe” system able to operate autonomously, should the existing sources of financing depending on the current U.S.-led international order cease to support China’s regional ambitions at some point in time.

***Military power.*** Military might and the capacity to protect sovereignty and the institutions that sustain a regime are key elements for the success of a system-building of the type envisaged in this paper. Oftentimes, military might is represented by the aggregate capabilities of a hegemonic power and those of its allies, with the latter normally being smaller countries that have decided to share the hegemon’s values and interests to protect the status quo. At a first glance it may seem that while China has an increasingly modern and well-equipped army, it might not be able to generate enough pull to find proper allies, except through coercion. The reasons are known: China’s assertiveness, especially in the South China Sea, the low palatability of its political system and the lack of tools of soft power proper, often substituted by economic tools and other forms of diplomacy. However, such perspective, markedly Western-centric, does not consider the fact that the current order is a Western-led one in a world of emerging powers

whose economies and societies have developed different systems and are looking for their own share of geopolitical influence, allowing them to thrive without necessarily embracing the neo-liberal order, the democratic values and the whole value-based model epitomized by the Washington Consensus. Another often ignored fact is that the rise of globalization has also incentivized the proliferation of forms of regionalisms based on common interests and goals that often result in security alliances that do not obey any of the major Western powers. In the case of China, an example of such security coalitions is represented by the Shanghai Cooperation Organization (SCO). The organization, established in 2001, counts eight members, China, Russia, India, Pakistan and 4 Central Asian “Stans”, namely Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan, with Iran as a possible new member. Four of the “Stans” are also members of the Russian-led Collective Security Treaty Organisation (CSTO), formerly CIS Collective Security Treaty (CST). This potentially provides Russia with a higher degree of influence within the SCO as well, given the closer relations it enjoys with its neighbours. Xi Jinping has overtly declared that the SCO does not have outward purposes, is not a NATO competitor and is primarily aimed at overseeing the security of the BRI routes in Central Asia. While the organization is primarily aimed at protecting the Central Asian region against common threats, like separatism, terrorism and extremism, in a region traditionally dominated by Russian influence, the origins and goals are of Chinese making. While the SCO does not pose a direct threat to the Western status quo, it tells us some interesting facts about its nature:

- First, all the members of the SCO are also involved, to some extent, in the BRI.
- Second, many of these countries are members of the BRICS.

- Third, all of them represent emerging powers whose instances are often ignored by the current status quo leading the international order.
- Fourth, all of them except India, to an extent, are considered as authoritarian countries.
- Fifth, while many of these countries have issues with each other, like India and China, and India and Pakistan, all of them have agreed multiple times over time that the current international order should be changed to reflect the aspirations of the emerging powers.

It is a fact that the democratic Chinese neighbours did not show any interest in joining the SCO, but rather expressed their worries about the real goals of the organization. This puts all the countries above inherently at odds with all the elements that characterize the current international order, from neoliberal values, Western-style globalization and the related values, to human rights and democracy and, in particular, U.S.-led unipolarism. While all of these countries have a strong interest in boosting the globalization of trade, reducing tariff barriers and so forth, they also strongly oppose supranational entities like the European Union and strongly reject the idea of a unipolar global order, while often opposing most of the core values that represent the philosophical and ideological framework of the Western system. Almost all of them support, instead, strong forms of nationalism and the protection of their own cultural and religious values. Accordingly, they not only share a huge neighbourhood but, despite historical mistrusts, territorial disputes and other challenges, like those between China and India or between China and Russia, and between India and Pakistan, but also share a core set of interests, including the respect for each other's differences and a non-interference principle and, often, common threats. This combination may constitute a sufficient bonding and an element that contributes

to mitigating differences, strengthening their relationships vis-à-vis common external threats. In this perspective, the SCO with many or even with a few members, like China, Pakistan and Russia, would be more than sufficient to grant the internal and external security of the core regions crossed by the BRI, like China, Russia and Central Asia (*The Economist*, 2014).

***Territory.*** If we posit that the hypothesis about China and Russia made in previous sections is potentially viable, then we can also reasonably assume that an increasing convergence of interests between the two is a possible outcome, especially if the BRI initiative were to succeed, allowing Russia and China to exert their political, economic and military influence, establishing what can be defined as a new form of Beijing-Moscow Consensus enforced on considerable swaths of territory spanning from East Asia across Central Asia, with indirect effects also in Eastern and Southern Europe (Cau, 2018). Surely, the modes and the intensity of the influence exerted onto these regions would have very different levels of intensity and forms, compared to the models seen during the binary era of the Cold War. In a globalized regime strongly rooted in interdependence, China's influence would be unevenly spread, with terminal areas in Asia and Europe where Chinese power and Western power would mingle in a mix of competition and cooperation, and a mostly land-based core region spanning from China to Pakistan, Afghanistan and central Asia, where Chinese and Russian power would be stronger, largely unchallenged, yet not devoid of poaches of cooperation and cracks through which some elements of EU or U.S. influence may manage to penetrate. This would create two major global areas, an Eastern and a Western one, with China and, perhaps, Russia jointly dominating the former and the United States and the EU dominating the latter. In such a scenario the influence of the United States in Asia would be reduced but not zeroed, with countries especially

in Southeast Asia and Central and Eastern Europe still trying to resort to hedging strategies in the attempt to catch the most benefits from both sides. However, China's increased economic clout and the tyranny of geographic proximity between China and the South China Sea neighbours would eventually end with swallowing most of them into the gravitational pull of Chinese power, leaving the access to potential opponents as a form of Chinese "*discretionary*" measure. Russia, whose economy would emerge strengthened by the new markets created through the BRI, could gain control over much of Central Asia and Eastern Europe. This could also eventually cripple further attempts of the EU and the United States to expand their respective spheres of influence in those regions, constraining the available choices for those countries that show more reluctance to take part in the EEC, which would therefore be forcibly pushed towards the sphere of Russian influence.

**Resources.** Resources constitute an essential part of any new system. If two different systems operate in a cooperative environment, then they can exchange the needed supplies along a specialized supply chain where production can rely on a model of exchanges based on complex interdependence. But when two competing systems exist, their level of cooperation and interdependence diminishes, or is subject to cyclical variations based on contingencies. Sometimes cooperation will be sufficient, while in times of disagreement, cooperation may shrink or cease altogether, replaced by containment measures, when necessary. Would China manage to survive should it decide to build its own international system? Also in this case, evidence tends to show that there are high chances that China would be more than able to cater for its needs, on the condition that it manages to take control of the South China Sea and in so doing become a regional hegemon in its neighbourhood, while adopting a converging strategy with Russia that

manages to conjugate the respective interests of the two countries while downplaying their differences and in so doing gaining access to the key routes and markets in the Eurasian region.

**Market.** The creation of a new system presupposes the existence of a market, institutions and regimes to work properly. Also in this case, the interaction between Chinese influence in Asia and Russian influence in Central Asia and Eastern Europe could prove potentially a lifesaver. However, the market in Central Asia does not exist. As we have seen, those regions are not only fragmented and divided politically, ethnically and under many other aspects, but they are also deeply underdeveloped. While exposing my theory, some pundits pondering what the BRI means for China in Central Asia were sceptical about the possibility that it may want to build a whole new market in that region. I think this reaction is somewhat natural. As a matter of fact, now those regions are rich in resources but hardly economically sustainable. But what would happen if huge infrastructures were built, cities started to spur, Chinese citizens were incentivized to move in those cities and expand the existing population base, in a newly revived economic environment thriving on infrastructure building, with local citizens benefitting from increased trade flows bringing those regions within the thresholds of average income, ushering them into the province of a new middle class? Should this hypothesis materialize, the consequence would be that China could reap the benefits spurred by a huge new market, and Russia could push its “inward-looking” policies further, reducing its dependency on the West and consolidating its regional power through economic stability, being not more isolated, but rather at the centre of a new, integrated economic pole that is at the crossroads between the developing markets of the Asia-Pacific and the wealthy markets of Europe. Together, China, Russia and Central Asia have immense energy resources and other natural resources. Those resources are most probably enough to build a

middle class and create a new market, populated with millions of consumers that could render the whole platform sustainable. From the perspective of China and Russia, the added value of all this would be that the EU and the U.S. would find themselves marginalized from those growing markets and dependent on the two countries to access those regions.

**Currency.** No new international system works without a currency. But currencies today exist in a U.S.-based ecosystem. The most important implications of this are that the United States can get the upper hand in monetary and economic matters and, at the same time, leverage the primacy of the dollar to isolate itself or recover from any economic and monetary storm. The second implication is that the United States and the order they have created can, through the dollar and the various economic institutions they control, apply strong pressure, short of war, on any country not complying with the rules they have set. We have seen examples of this with the embargo on Russia for the annexation of Crimea, the sanctions on Iran due to its nuclear program, on Venezuela and, more recently on North Korea.

An often overlooked yet telling aspect of Chinese and Russian monetary policies is associated with their gold reserves. If we compare China's behaviour with Russian behaviour in this specific area a number of interesting similarities emerge. China and Russia are respectively the largest and the third largest gold producers. Data indicates that shortly after the 2008 economic crisis China started to buy increasing amounts of gold. China's gold reserves went from 600 tons in 2008 to over 1800 tons in 2016 (*Trading Economics*, 2017). Furthermore, recent studies indicate that the volumes of private gold in China amount to about 20,000 metric tons. China also controls several gold mines around the world and it is now the largest gold producer worldwide (Padhy, 2017) Russia has adopted an analogous strategy, starting to buy gold. Russian

gold reserves grew from 0 ton before 2008 to 1,600 metric tons in 2016. Russia is also the third major gold producer, with its reserves steadily expanding (*Trading Economics*, 2017).

Several analysts around the world have been wondering why the two countries have been purchasing so much gold over the last years and, to date, only a few hypotheses emerged. One of such hypotheses maintains that the 2008 economic crisis was a wakeup call forcing countries to diversify their portfolios with more reliable investments. The second maintains that with the values of dollar and euro dwindling, gold still represents a solid choice, able to insulate a country from potential market instabilities and allow it to back its printed money with the real value of gold.

More realistically, all these elements signal that China is not satisfied with the current order and that it is trying to push for changes from the inside rather than resorting to the more daunting task of building its own order. However, this does not mean that China does not have specific goals in asking for reforms. Indeed, achieving the goal to morph the current system from the inside, rather than resorting to a more conflictual strategy, is an optimal solution from a cost-benefit perspective; this strategy is also more in line with China's historical strategic tradition, as the country has traditionally eschewed direct conflict, opting for more raffinate and complex strategies to achieve its goals. To explain this, it is necessary to clarify that nothing prevents a new international system to be pegged to an existing yet reformed monetary system or even to the dollar. If such system is complementary to the existing one and the two cooperate, one could well spare the costs and the risks associated with the creation of a whole new currency system. Another possibility is that, through gold hoarding, China may be building resilience in case of global market shocks; this also means that in case of monetary shocks on a global scale, China and Russia will be



able to peg their currencies to gold, if necessary, with all the others left adrift at the mercy of the tidal moods of the financial markets.

***China and its grievances.*** At the beginning of this analysis I have mentioned that in order for a country to undertake the costly and risky business of creating a new international order, valid motives and grievances must exist. In the case of China such reasons can be summed up in three points:

- The first is the growing antagonistic relation between China and the United States in the South China Sea, and East and Southeast Asia more in general.
- The second is the growing reluctance of China to accept the current system as it is, in particular with regard to the American primacy and its exceptionalism; and China's repeated calls to reform the system in such a way that it reflects the real distribution of global power.
- The third, inferred from the first two, is the inherent tragedy of two entirely different systems coexisting within a Western-led system, whose goals are essentially antithetic. One is unipolar, the other multipolar; one preaches democracy, the other advocates a politically socialist but economically state capitalist model entirely permeated by "Chinese characteristics", emphasizing a state-led economic system able to generate growth without the need for democratic reforms; one has established a huge power base and alliances that have allowed it to expand and project its geopolitical and military weight over huge swaths of the globe ever since the end of WWII; the other is a rising power that has realized that all of the invaders came from the sea and is now longing for a bigger backyard and increased global influence.

While the reform of the international system allows China to afford patience, the South China Sea issue bears a higher dose of escalatory

risk. In this perspective, if the differences between the two systems can be worked out with China given appropriate geopolitical and geographic space, the refusal to concede in this area may exacerbate such differences with unpredictable results. In such case, China could have enough motivations to push for devising alternative ways to both keep its growth path and isolate itself from the dangers of a potentially hostile adversary.

### ***3.2. Answering Questions***

At the beginning of this section I have set on to answer three questions: 1) whether China is actually building a new international system; 2) whether such hypothetical system is complementary or substitutive of the current one and, finally, 3) whether such international system is benign or malign. This section offers some answers to such questions, based on the corpus of evidence collected to date.

***The case for China building a new international system.*** China has claimed multiple times that the BRI initiative and all of what it entails do not envisage geopolitical goals whatsoever and that the initiative is only promoting a new economic model based on cooperation and open non-value-based initiative articulated around the concept of win-win cooperation. China is also increasingly integrated in the international order, occupying important roles in all its major institutions, like the UN Security Council, where it also enjoys the privilege of veto power. It is, overall, a respected country with very few, focused grievances, some of which are, though, prone to escalation as they threaten China's existential space, its growth, its security and the very nature of its peculiar political system.

Chinese initiatives lend themselves to multiple interpretations that require a granular approach rather than a binary black-white explanation. In this perspective, it is possible to read Chinese actions like the BRI, the

AIIB, the gold hoarding, the SCO etc. as part of a flexible long-term project, whose minimum goal is to create a certain degree of complementarity with the existing international order, while cutting a dedicated survival zone that allows the Chinese ecosystem to survive, develop and, ultimately, thrive with or without the support of the current international system. This implies building resilience against external threats and expanding the scope of its system by filling the vacuums left by existing institutions. On the other hand, evidence shows that China possesses all tools and basic motivations to build an alternative international order of its own making, should the need arise. However far-fetched such a statement may seem from an academic perspective today, one does not have to imagine the outcome of such an alternative international order in the form of coercion and conflict, indeed acts that China will try to prevent. Rather, despite the growing competition between the two countries, the alternation from a system to the other may be the result of a natural decline of Western power, the rise of new powers and all that ensues for the internal ecosystem of the current status quo. Signs of this are already visible in the progressive acceptance of the Renminbi as global currency, as the dollar loses momentum as a global currency, a trend that is set to worsen should more countries accept trading with China in Renminbi, instead of using the dollar as the key currency. Signs of this trend are seen mostly with what I call “fringe” countries, like Russia (*Financial Times*, 2 June 2015) and, more recently, Venezuela (Reuters, 2017). However, one of the clearer indicators of China’s will to substitute the dollar for its transactions, at least on a regional scale, is the recent crude oil futures contract set to be the biggest in Asia denominated in Renminbi (*Asian Nikkei Review*, 14 September 2017). All these are indicators that while not aiming for radical abdications of power, China is slowly working its way to power from inside the current international order, capitalizing on the debacles

that have weakened the West and its model during the last decades, and maximizing the efficacy of its strategy and the leverage of its economic might to subdue potential contenders and attract potential allies.

*A substitutive or a complementary order?* While it may come natural to think that, out of its grievances, China may be trying to build a substitutive order, it may not be so. Building a substitutive order would mean that all countries currently supporting the current order would automatically rebalance towards China, essentially pushing the United States and their current order out of the game. Despite the relative decline of the United States and the growing distrust towards its model, the chances of such an event occurring are indeed slight.

Should China manage to build another international system, this would not be substitutive, but rather complementary or alternative to the existing one and most probably open to new members, with such condition of complementarity persisting as long as the West has enough power and as long as there is a sufficient number of countries that do not trust China enough to let the security and economic umbrella of the West go. The coexistence of two international systems in place on a global scale, where multiple emerging powers shift towards one or the other major power based on contingencies and self-interest, would allow for a sort of constant rebalancing between the two systems, offering a choice for smaller countries to shift among the two systems based on their economic and political interests.

It is the opinion of this author that any attempt to build a substitutive system that is exogenous to the existing one would require a massive amount of coercion, and such endeavour would be bound to have immense costs and be met with an overwhelming opposition from the United States and its allies, eventually resulting in counterproductive outcomes for China. The latter may instead prefer to bide its time and find a common ground for dialogue to push changes from within the

system, in a cooperative, complementary manner, as long as such a course of action is viable.

***Would a China-led international system be good or bad for the world?*** While absolute answers to these questions beg to point out that the concepts of benign and bad are in general based on where one stands, I beg to think such a world order would have good chances to turn inherently benign for a variety of reasons.

First of all, while an intense competition is to be expected at the beginning, when China and its new system chip away economic, political and geopolitical space at the expense of the existing one, possibly subjecting the existing system to a number of political and economic blows in major arenas as it tries to impose its model, if war does not break out, a possibility exists that, unable to defeat each other due to unsustainable costs, shifting allegiances and levels of power, the two systems could actually find a *modus vivendi* leading to a new balanced status quo where two complementary systems coexist with each other, as dominant powers in their respective regions, in a cooperative-competitive kind of relationship. This type of setup could be beneficial for many countries as they would have the possibility to shift from a system to another when one proves unsatisfactory. Admittedly, this rationale rests on the idea that the author does not expect Sino-American competition to emulate the level of polarization that characterized the Cold War due to globalization and interdependence, *sine qua non* conditions for trade to thrive and therefore allow both countries to sustain their models and respective systems. In lack of such conditions, chances are that China may decide to eventually split its own system from the Western one, due to sanctions and attempts from the West to cripple its expansion through economic warfare and other methods, forcing the Middle Kingdom to resort to the tools it owns to create its own regional self-sustaining system. While this scenario may

seem a remake of the Cold War, the main difference is that China would not be bound by the ideological tenets that forced the Soviet Union to abide by certain economic rules, but rather could simply continue to use Western-style market rules to build and maintain a sustainable economic system that is independent from the one led by the U.S.

Second, in order to maintain an alternative order, China would first have to devise a strategy to make its internal growth sustainable, in order to generate the levels of political and economic stability necessary to focus outward. These goals can only be satisfied if China operates within a regime of free trade in a globalized world. This is why Xi Jinping has repeatedly stressed that, should Trump pursue isolationist policies, China will replace the United States in championing globalism and free trade (*The Guardian*, 2017). This implies that China needs to project a benign image of itself, leveraging a combination of economic support, and non-coercive tools like public diplomacy and soft power initiatives aimed at building confidence with both its neighbours and the global political establishment. While such view of China's behaviour may appear overly optimistic, in view of China's assertiveness vis-à-vis its territorial disputes, the reasons for such a statement are more rooted in cold realism than in the domain of idealism. While China has been showing increasing assertiveness in the Asian region, its nature is inherently non-aggressive and its assertiveness in the region is dictated by strategic reasons aimed at filling a gap that constitutes an existential threat for its survival. The South China Sea is not only rich in vital resources, such as oil, gas, rare earths and fisheries, but also represents China's maritime buffer zone. China knows very well that in the past, all invaders came from the sea and this has led its leadership to implement a strong military transformation whose goal is to increase its maritime power projection through the creation of a strong blue navy as well defining specific strategies aimed at deterring and denying potential contenders

the capacity to operate in the South China Sea, like the so-called Anti-Access Anti Denial (A2/AD) strategic concept (Kazianis, 2014). Aside from the South China Sea, China has gone out of its way to demonstrate its good will and its peaceful intentions towards the international community and its neighbour countries, through economic aid and charm offensives based on soft power and public diplomacy mainly aimed at emphasizing the commonalities and the historical cultural, religious and even linguistic values that China shares with its neighbour countries.

Third, in a global setting where two international systems contend for primacy, benign behaviour pays. While in a unilateral system an unchallenged hegemon can take the liberty to abuse its own allies or indulge in arbitrary economic sanctions, embargoes or meddling with domestic policies of his allies, the existence of a valid, sustainable, alternative would do in such a way that not just China but also other hegemonic actors would have to keep their power and their attempts to build inroads within the domestic ecosystems of their own allies in check, for fear that these may, at any point in time, jump ship and switch allegiances, a behaviour that would be made much easier in a global regime where trade and crude self-interest, and not hardcore ideology, represent the main drivers in the decision-making process.

Unlike what the established tenets of some international relations theory tend to point out, the underlying theory advanced in this case posits that multipolarism has the potential to generate stability or at least less friction compared to unipolarism. The current system has, for decades now, been based on a unipolar or quasi-unipolar regime, and contrary to most established theories, empirical evidence shows that such system has proven unable to produce the self-control mechanisms and dynamics necessary to keep its own power in check and generate the levels of stability expected by the theoretical models. Additionally, the

risk with unipolarism is that once the institutional mainstays and the leadership of the hegemon power everyone relies on to steer the boat crumble or deviate from the established course, normally nobody is able to find another leader and a model in time to avoid the rocks ahead. The U.S. has, for decades, led the system, using globalization as a vector to promote its ideological and economic doctrines on a global scale. Initially welcome, the system epitomized by the Washington Consensus is now showing its limits. Furthermore, the Western model has proved a failure in helping developing countries to emerge from their condition of underdevelopment, and often this did not happen not because those countries did not want to but rather because the Western model, based on a complex set of values, is inherently ill-suited to produce development in many countries. While the countries in the West have, for the most part, absorbed and appropriated the values and the goals of the United States, although not without disagreements, a number of other countries in Africa, Asia and the Middle East have proven particularly resistant to the attempts to spread the Western model of democracy, often just pretending to share Western values to receive aid, without actually implementing the expected political reforms the West expected in exchange. In this perspective, the opportunity to enjoy an access to an open initiative merely based on trade, mutual profit and interests, without being subject to the observance of rules and values that not only vastly transcend business proper, but often are also not in tune with those of many countries and whose compliance would require radical economic, political and cultural transformations, for many countries represents a unique chance to generate growth without the need for political reforms. In order to reap the benefits of this opportunity it is, however, necessary to implement a globalized multipolar system where the term “globalization” does not translate into the hegemony of one single power upon all the others, but rather one where multiple



interdependent powers coexist across different cultures, religions, geographic regions and systems, cooperating with one another, while also reciprocally respecting their respective spheres of geopolitical influence and their values. This is not a tale of a one single world with no borders under one single power that projects its values and ideological tenets on a global scale, but rather one of an ecosystem of “globalized” nations that are aware of their cultural, religious and political values within their borders, and yet able to respect the geopolitical primacy of different nations in different places. This concept seems both in line with the Chinese model as well as with the new Eurasian model advocated by theorists like Aleksandr Dugin and his 4th political theory (Dugin, 2012), another rarely mentioned element of convergence between Chinese and Russian ideological models.

#### **4. Conclusion**

The Belt and Road Initiative is a challenging endeavour that aims at boosting the free movement of goods, money, people, money flows and cultures in the regions it crosses, as well as an economic lifeline for the Chinese economy. If successful, the initiative will allow China to achieve its economic goals and acquire increased influence on a global scale.

While the implementation of the BRI is already an evolving reality, with many infrastructural works being in the course of implementation, the initiative involves several material, economic, political and geopolitical challenges, with the last three items being the harder issues to tackle. On the economic side, the huge costs of the BRI initiative and the profitability of several BRI projects represent the major source of uncertainty. The geopolitical challenges offer a much more complicated scenario, ranging from widespread suspicion in Southeast Asia and

Central Asia to the need to balance the relations between India and Pakistan in South Asia as well as allay the doubts of the West. In Central Asia, the convergence between the EEC and the BRI may bring huge opportunities for both countries, allowing China to benefit from a privileged access to Russia's backyard, consolidate its presence in the region and reach the wealthy European markets. In Europe, the tepid, uncertain attitude of the EU has been compensated by the enthusiastic participation of many countries which have joined the AIIB and the other Chinese-led initiatives.

Despite China's reassuring statements, an initiative like the BRI cannot be devoid of important geopolitical fallouts that may cause wanted or unwanted consequences for the current status quo, from which wariness grows about the real purposes of the Chinese initiatives. With such a scenario in mind, this paper has tried to answer three main questions, namely whether the initiatives undertaken by China are aimed at creating a new international system, whether such system would be substitutive or complementary to the existing one and, finally, whether such system, once established, would be inherently benign or malign. The study has found out that, should the BRI succeed, China would indeed possess the means necessary to create its own ecosystem and address a certain amount of grievances that are shared among other emerging powers. These powers are growing increasingly weary of American primacy, both because they hardly fit into the current international order if not through endless, often painful compromises, and also because the trust towards the United States over the last decades has started to crumble away.

These elements and the empirical observation of events like China's pushes for the internationalization of the Renminbi and its inclusion in the basket of the Special Drawing Rights, the gold hoarding by China and Russia, the increase in yuan-based transactions and the growing

divide between the Chinese and the American models signal that China is indeed trying to change the current international order from the inside, using the very same rules established by the system's leadership to alter the inner balance of the system in such a way that is more favourable to China and other rising powers. This is done in part through assertiveness, in part by gathering consensus within the system among those countries that, like her, are unhappy with the current U.S.-led system and long for a system based on multipolarity that better reflects the growing influence of the emerging powers. This does not mean that the system devised by China should live in a symbiotic manner inside the existing one. In anticipation of a potential escalation of the competitive elements that may in the future lead to a break-up of the two systems in a manner akin to what occurred between the Soviet Union and the West after WWII, China seems to be in the process of designing its own strategy in such a way that its system, once in place, will be self-sustainable and survivable also in a stand-alone mode. In this perspective, the BRI and the newfound harmony with Russia seem to play a key role. The BRI aims at the creation of a highly integrated global trade area under different degrees of Chinese influence. The role of Russia is to grant China the necessary geopolitical stability in what is traditionally known not only as Russia's backyard but also as a region rife with challenges. In exchange, Russia will have a unique chance to integrate the "inward looking" strategy of the EEC with the "outward-looking" strategy of the BRI, which will allow Russia to find new markets eastward, especially in the Asia-Pacific, while simultaneously helping the country to consolidate its power in Central Asia, as well as avoiding the hardships of the Western sanctions.

The final question asked whether a possible new system led by China would be benign or not. There is no definitive answer to this question, because no one can predict with a reasonable level of accuracy

the future path of Chinese foreign policy and how its system will evolve. But while it is not possible to provide a realistic estimate of the setup of a future China-led system, it is however possible to draw some important conclusions through a brief empiric evaluation of what three decades of post-Cold War quasi-hegemonic Pax Americana and Washington Consensus have brought to the table. In spite of the optimistic, almost utopic predictions made by the famous social scientist and economist Francis Fukuyama on neoliberal democracy and despite the alleged higher stability offered by unipolarism supported by some theoretical paradigms in the field of international relations, it is possible to say that the long period of quasi-unipolar U.S. hegemony has not brought much of the stability anticipated by theorists on a global scale. Since 9/11 the United States has been in constant conflict. George W. Bush's war on terror, which is by now ushering into its eighteenth year of duration, has managed to destabilize the whole Middle East as well as Afghanistan, with important fallouts on a global scale, in the form of increased terrorism, sanctions, human security, immigration flows and so forth. The attempts of the European Union, originally a supporter of the American unipolar model, to chip away at the Russian buffer zone in Eastern Europe have triggered destabilizing trends also in that region, especially in Ukraine. In the meantime, the United States and its economic system have been the main enablers of the economic crisis that in 2008 left many countries on their knees, triggering a global cycle of recession from which the global economy has not recovered yet. The shift from liberal capitalism that made the world a better place during the Cold War, left place to a rampant model based on *laissez faire* neoliberalism, where the protective barrier provided by democratic governments has been bypassed by lobbies and corporations that only obey the rules of the market, causing the disappearance of the middle class and paving the way for a job market based on low wages and part-

time contracts that deprive the youth from any chance to make any family planning, *de facto* crippling their future. In the meantime, the growing political polarization within the United States has sparked vicious dynamics in domestic politics resulting in an alteration of leaderships whose ideological tenets appear to be entirely different from each other, with each new administration pursuing the same old interests through new socially constructed paradigms designed by different groups within the same government apparatus, with such paradigms being later on forced onto the rest of the world, often alienating also the very same allies that have, for decades, supported American policies because they hoped to become part of that regime of co-prosperity the American model had symbolized since the age of the Marshall Plan, only to find themselves forced to obey what are often perceived as irrational policies that make them accomplices of major foreign policy failures. The impression one gets from all this is that, once left unchecked, American power has largely taken advantage of the absence of opponents to abuse its unipolar moment without bringing to the table any real benefit, often becoming as oppressive as those regimes it claimed to be fighting during the Cold War. While this topic would deserve a separate, dedicated research, an important lesson can be drawn from all this. Unipolarism does not grant more stability for at least two key reasons. The first is that, it does not matter how good an alliance is and how much values allies share among them, if one of them has a chance to prevail over the others, it will do. The second reason, of which again American foreign policy is a clear epitome, is that when, in a unipolar regime, a hegemon runs out of external enemies, its next step is to take on its own allies, expanding the level of control or using all its power to pre-emptively allay any risk within the ecosystem, through dynamics that are often repetitions of the exogenous ones previously enforced against external threats, only on a smaller scale, dictated not by

different ideologies anymore, or not only at least, but mainly by growing differences in the type of interests the hegemon and his allies want to pursue and in the way they wish to reshape the system from the inside once they run out of external enemies. A case in point of this type of dynamics has been the debate around the NATO and its budget after the Cold War, with the United States constantly pushing for increased budgets from its allies, while these have traditionally preferred to allocate their budgets elsewhere; or the different opinions on Russian sanctions, which have been hurting the trade relations of a number of EU countries with that nation. In short, unilateralism, or quasi-hegemony, when unchecked, causes abuses of power and often, what used to seem good hegemons may at once turn into bad hegemons, which exist in an ecosystem where there are no alternatives to such hegemon. Its power is unchecked from the inside, due to the overwhelming military superiority and the political pervasiveness the hegemon enjoys within its own system, and unchallenged from the outside, due to the lack of potential opponents. Such an amount of leeway can easily steer the leadership of a hegemon to abuse of its power or, in case of illegitimate power takeovers within that country, cause important shifts on a global scale, in lack of strong forces able to counter the overwhelming power of the hegemon and the influence it enjoys among its allies.

In this perspective, even if we do not know whether the rise of the Chinese model will be benign or malign, we can say, with a certain amount of certainty, that the shift to a multipolar world that gives rise to alternative systems and models might, in the end, be a better way to keep in check the hegemonic ambitions of everyone and a driver for major powers to generate domestic stability as a way to ensure the support of its citizens in face of potential external threats. This leads to what may seem to be a counter-intuitive conclusion. In order for an international system to be stable, there is a need for multiple challengers that operate

in a regime of multipolar interdependence, in the respect of each other's geopolitical space. The implications of such a shift are broad as they eschew the Western universalist approach based on a "one-size-fits-all" model under the guidance of one single power or a limited number of powers, to privilege a model that acknowledges the plurality of an expanded number of powers, each one characterized by its differences and its own geographic and geopolitical sphere of influence.

Another important lesson taught by the last three decades of post-Cold War American hegemony is not only that the Western universalist model has significant shortcomings that tend to spark extreme reactions when applied to incompatible systems, but also that liberal democracies are not epitomes of ideological freedom and peace but rather ideologies themselves and as such they try to win over new territories with the same rapacious voracity of any other ideology, and that for this reason, as paradoxical as it may seem, also the internal and external balance of these systems lies in the existence of potential opponents able to keep their ambitions in check. With all this in mind, maybe the rise of China, the BRI, the revival of Russia and the establishment of an alternative system that is complementary or alternative to the current one should not be considered in such a negative light.

## **Note**

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## **Geopolitical Consequences of the 21st Century New Maritime Silk Road for Southeast Asian Countries**

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### **Abstract**

One of the major elements of the One Belt, One Road initiative launched by China in 2013 is the concept of the 21st Century Maritime Silk Road. The author aims to give a summary of the 21st Century Maritime Silk Road, and the Chinese intentions in general, then to present in detail the participation of the Southeast Asian countries in the project, and the geopolitical consequences of this cooperation for the region. Of all the ASEAN countries, Indonesia showed the greatest enthusiasm towards the Chinese plans, but Malaysia, Myanmar and the Philippines have aspired to join the Chinese-led project as well. According to my conclusion, the Maritime Silk Road has great significance in a geopolitical sense, because it has become the decisive element of Chinese foreign policy. In the case of ASEAN countries, it especially has a greater strategic goal: reinforcing China's influence in the region in the field of both economy and politics enjoys priority, due to the rivalry between China and the United States.

**Keywords:** *China, Southeast Asia, One Belt One Road, New Maritime Silk Road, geopolitics*

## **1. Introduction**

One of the major elements of the One Belt, One Road (OBOR) initiative launched by China in 2013 is the concept of the 21st Century Maritime Silk Road. The aim of this megaproject is to revolutionize deep-sea trade from Southeast Asia through Africa to Europe, and put the participating countries on the track of economic development with the help of the infrastructural developments along the coastline.

Of the ASEAN countries, Indonesia showed the greatest enthusiasm towards the Chinese plans, since modelling the maritime infrastructure of the island state is one of the most important political goals of President Joko Widodo. (Duquennoy and Zielonka, 2015). Besides, Malaysia, Myanmar and the Philippines – after the inauguration of President Rodrigo Duterte in June 2016 – have aspired to join the Chinese-led project as well. Actually, all the Southeast Asian countries having a seacoast more or less intend to participate in its realization.<sup>1</sup> Undoubtedly, these states can benefit much from the success of the OBOR in economic terms. At the same time, it is also obvious that the Maritime Silk Road is also significant in a geopolitical sense because it has become the decisive element of Chinese foreign policy; furthermore in the case of ASEAN countries, it has a greater strategic goal: reinforcing China's influence in the region enjoys priority in the field of both economy and politics, due to the rivalry between China and the United States.

According to my hypothesis, the 21st Century Maritime Silk Road helps China make the ASEAN countries dependent with economic tools, and if it succeeds, it can convert this dependency into geopolitical

benefits. Despite the support of the United States, the Southeast Asian countries are compelled to cooperate with China in economic terms; however, in this way they become dependent upon Beijing. Consequently, the influence of the USA is expected to decrease, and the region is forced to adapt to the Chinese policy more than before.

In this paper, I first outline the main characteristics of the One Belt, One Road project, and then I continue with the description of the 21st Century Maritime Silk Road. I intend to thoroughly analyse the attitude of the Southeast Asian countries towards the Chinese ideas, mainly in strategic, political and economic aspects. The presentation of the geopolitical consequences necessitates the introduction of the South China Sea dispute and the China-US rivalry since the relationship system of the Southeast Asian states could not be interpreted without this background. In the concluding part, I attempt to verify my hypothesis and summarise the conclusions at the same time.

My paper basically focuses on the Maritime Silk Road and its geopolitical effects exerted on the Southeast Asian region; therefore, this study cannot undertake to exhaustively analyse the complex relations of China, Southeast Asia and the United States, and present the South China Sea conflict.

## **2. The One Road, One Belt Initiative**

In the autumn of 2013, China furnished another proof of its intensifying global role, when it launched the One Road, One Belt initiative, with an aim as ambitious as to revive the traditions of the old Silk Road. China's attachment to the past and the remembrance of ancient times resonates throughout the OBOR scheme. In geographical terms, one can talk about two main routes: the one connected China and the Korean Peninsula, and the other crossed the South Chinese Sea along the shores of South and

Southeast Asia as far as the Persian Gulf. Maritime routes were already used several thousand years ago, well before the continental routes evolved. In China, greater attention has been paid to sea trade since the Han dynasty (209 BC – AD 8), and since the 7th century, when the role of the Arabs intensified, maritime routes were preferred for security and financial reasons (Iftikhar and Abbasi 2016). During the 15th century, the voyages of Admiral Zheng He symbolised China as the maritime great power; Chinese sailors got to the coast of Africa, promoting the extension of political-economic relationships. Regarding their significance, these enterprises may be considered as the precursors of today's concepts.

Beijing committed itself to build and upgrade transport networks following the traces of the one-time caravan routes connecting Europe and Asia, and, naturally, to boost the regions concerned economically. Basically, we can talk about a long-term international development scheme managed (funded) by China, which also satisfies the geostrategic goals of Beijing by linking the remote regions with major trade routes.

The One Belt, One Road initiative includes two megaprojects: one of them is the Silk Road Economic Belt, and the other is the 21st Century Maritime Silk Road. The former links China with Central Asia, the Middle East and Europe on land, while the latter unites the major maritime trade routes of Africa, Europe and Oceania as well as South and Southeast Asia. The two schemes are inseparable, and the aim is their parallel implementation (Scott, 2016). Although the significance of high-speed railways and motorways is unquestionable, maritime transport still plays a primary role regarding the volumes of transport. Therefore, in a global sense, the Maritime Silk Road has an even greater significance than the “economic belt” encompassing continents.

The plan of the Maritime Silk Road became public in early October 2013 in a speech which was delivered in the Indonesian Parliament by

Xi Jinping, the President of China. The head of the Chinese state committed himself to the necessity of building a modern maritime infrastructure and developing transport routes, primarily between China and the ASEAN states (Roell, 2016). Since Southeast Asia had already been considered as the centre of long-distant trade, this region plays an especially important role in the project for China. The venue and time of the announcement was not a coincidence, either. The Chinese government had launched the One Belt, One Road project just a few weeks earlier, of which, in addition to the continental one, the Maritime Silk Road forms an organic part, since the two schemes mutually complete each other.

According to China's National Development and Reform Commission, the One Belt, One Road initiative is in line with the 5 principles of the United Nations: mutual respect, mutual nonaggression, mutual non-interference, equality and mutual benefit, and peaceful coexistence (NDRC, 2015: II. Principles). Consequently, the New Maritime Silk Road – similarly to continental projects – is expected to extend beyond “mere” infrastructural developments funded by China (for example, constructing ports and shipyards). Its real aim is to promote regional collaboration, financial integration, free trade and scientific cooperation.<sup>2</sup> Naturally, the largest merchant nation of the world did not forget about financial conditions, either. The planned investments will be funded by the Asian Infrastructure Investment Bank and the Maritime Silk Road Bank. In the case of the former institution, China provided half of its equity of USD 100 billion, and as for the latter one, its entire equity of USD 16 billion was provided by the state. In addition, the Chinese government deposited USD 40 billion for the Silk Road Fund (Foo, 2015).

In the beginning, Beijing considered only the participation of the countries situated along the marine commercial routes between China

and Europe, but the New Silk Road Plan published in 2015 already specified greater ambitions. The action plan would have intended to connect the South American countries into the initiative though the Indian Ocean and the South China Sea (Putri, 2017).

For centuries, the original Maritime Silk Road enabled the peaceful interaction between different cultures and civilisations, contributing to the development of long-distance trade as well as ensuring the creation of a new international economic and political system, in which China's leading role was indisputable. The concept of the 21st Century Maritime Silk Road – building on the successes of the past – is attempting to emphasise the positive effects of globalisation, and argues for mutual benefits, peaceful collaboration and the sustainable development of the maritime world.<sup>3</sup>

### **3. Southeast Asia and the New Maritime Silk Road**

In recent years, China has tried to do everything it could, to obtain the approval of foreign countries for the implementation of the scheme. In 2014, the Maritime Silk Road, and in 2015, its joint creation, was the central theme of the China-ASEAN Expo (Tiezzi, 2014). The foreign travels of the leaders of the states also fit into this pattern. On the whole, most of the countries concerned have reacted positively to the Chinese initiative. Until today, more than 50 states and organisations, including the European Union and ASEAN, have reassured China of their support. According to the original plans, the main branch of the Maritime Silk Road leaves from Guangdong and then goes along the Asian shores; its main stops are Kuantan, Jakarta, Colombo and Calcutta, and via Mombasa, on the Red Sea and the Mediterranean Sea, it reaches Europe, where the destination is Athens (Duquennoy and Zielonka, 2015). The other branch passes Southeast Asia and then continues toward the Pacific

islands. Naturally, we can hardly speak of concrete routes, because – apart from current investments – the political position of the countries concerned has not been clarified yet.

However, there is one great difference between the Silk Road Economic Belt and the Maritime Silk Road: the routes outlined by the Maritime Silk Road have been operating with full capacity for a long time, thus developments would limit to the construction of new ports, and would aim at increasing the volume of trade through them. On the continent, roads and railways, at best, exist, but the construction of railway lines is still pending at most places. We should not forget that the continental and maritime components of One Belt, One Road are closely related, during which the priority is the construction of ports, and the construction of railways into the mainland only comes second (van der Putten and Meindjers, 2015: 28).

After China, the second most important region of the Maritime Silk Road is Southeast Asia. The Straits of Malacca and Singapore are of strategic significance, but due to the power of the city-state, Chinese influence may be considered minimal here. That is the reason why China mainly tried to engage Malaysia and Indonesia in the investments. Nevertheless, China also committed itself with Singapore to strengthen the cooperation. In 2016, considerable progress was made in this respect since according to the agreement between the China Construction Bank Corporation and International Enterprise Singapore, 21 billion dollars were allocated to support infrastructure projects (Xinhua, 22 December 2016). At the Belt and Road Forum in 2017, however, the country was only represented by National Development Minister Lawrence Wong, which indicates that the city-state, though aiming at cooperation with China, intends to achieve greater independence against its neighbours, when forming bilateral relations (Chan, 2017).

The Malaysian government also reacted positively to the announcement of the OBOR initiative; however, in the beginning neither the Chinese nor the Malaysians took actual steps for closer cooperation under the project. However, the 21st Century Maritime Silk Road was already included in the Joint Communiqué published on the 40th anniversary of the Malaysia-China diplomatic relations in May 2014 (Lockman, 2015).

Later the two governments agreed on the establishment of the Malaysia-China Kuantan Industrial Park, as a result of which China will implement infrastructural investments of a value of almost USD 2 billion in the port of Kuantan, located on the eastern shore of Peninsular Malaysia. In 2016, Malaysia and China signed the Malacca Gateway Project, which includes the establishment of a vital deep-water port in the Strait of Malacca. The Malacca industrial park is also one of the main components of the project. Within this framework, the aim is to build 3 reclaimed artificial islands and develop one natural island for touristic purpose except Pulau Melaka, which has to become a maritime activities centre (*FMT*, 11 January 2017). According to some opinions, as in Malaysia the overall infrastructure risk is lower than in the other ASEAN countries the state is far better placed than its neighbours to exploit the opportunities created by the Chinese infrastructure developments (Teo, 2017).<sup>4</sup> In May 2017, Malaysian Prime Minister Najib Tun Razak also travelled to Beijing, and as a result, China and Malaysia signed memorandums of understanding to the value of more than 7 billion dollars, primarily in the fields of infrastructure developments and agricultural cooperation (Xinhua, 16 May 2017a). Chinese investments also contribute to the development of the Malaysian economy, so Kuala Lumpur is considered one of the key allies of China with respect to the OBOR project.



For China, Indonesia is the most important Southeast Asian state for geostrategic and geo-economic reasons. Besides the Strait of Malacca, both the Lombok Strait and the Sunda Strait allows the largest country in the region to control the strategically important maritime trade routes along which most of the Chinese export-import passes. Therefore, it can be stated that without Indonesia's participation the whole New Maritime Silk Road would fail (Putri, 2017). Fortunately, the Indonesian and the Chinese heads of government soon agreed: according to President Jokowi's concept, Indonesia wishes to become a kind of a "coastal axis" between the Pacific and the Indian Ocean, and Chinese plans are completely adapted to this idea. Although Indonesia is the world's biggest archipelago the infrastructure is far underdeveloped. Presently Indonesia is the biggest economy in the ASEAN and by 2030 is projected to be the 7th biggest economy in the world, hence for China the bilateral relationship is especially important. When in November 2014 President Jokowi announced his ambitions to turn his country into a "global maritime fulcrum" he pledged himself "to improve Indonesia as a trade nation through the construction and upgrading of its maritime infrastructure, including 24 strategic ports and five deep-sea ports" (Duquennoy and Zielonka, 2015). The total estimated cost of the ports to be built between 2015 and 2019 is USD 57 billion and will be placed along strategic maritime highways to boost Indonesia's connectivity, trade opportunities and attractiveness for foreign investments. According to the plans, the most important ports are Kuala Tanjung in North Sumatra and the Port of Bitung in North Sulawesi. China correctly realized that it is enormous business, since Jakarta wants to build these facilities all over the country in the near future, mainly with the help of Chinese companies. At the Belt and Road Forum held in May 2017, the country was represented by President Jokowi in person, and during the

bilateral discussions the parties signed several memorandums of understanding for the deepening of strategic partnership, including a contract concerning the establishment of a corridor ensuring economic connectivity (Xinhua, 16 May 2017b).

The Philippines under President Rodrigo Duterte realized that the improvement of the economic relations with China was of strategic importance. After his presidential election victory in May 2016, Duterte started to form his new, admittedly “independent” Philippine foreign policy, which – in contrast with his predecessor, President Benigno Aquino – has totally redefined the country’s foreign and security policy strategy, the most striking aspect of which is its turning away from the United States and the opening toward China. Duterte tries to establish good relations with both the rivalry major powers, and he would not like to relinquish the US investments either, but whereas these have not been able to meet even the infrastructural needs, it is clear that there is a need to look for new partners (Billington, 2016).<sup>5</sup> China’s positive attitude paved the way for Duterte’s official visit to the country, held between 18 and 21 October. It is no coincidence that he was accompanied in his visit to Beijing by more than 400 businessmen: the improvement of the economic relations was of key importance. Finally, 21 different agreements have been signed in total, worth USD 24 billion, of which USD 15 billion is Chinese investment, together with a credit facility of USD 9 billion. The country would not like to be excluded from China’s 21st Century Maritime Silk Road Project; therefore, most of the investments are infrastructural developments. According to the plans, the reclamation of the Davao coastline and port development project sums up USD 780 million, for the Cebu International and Bulk Terminal Project USD 328 million, for the Manila Harbor Center Reclamation project USD 148 million; moreover, building of highways and railway lines are also part of the concepts (Smith, 2016). Recently, during his

visit to Beijing on 23 January 2017, the Filipino finance minister Carlos Dominguez has signed an agreement of 30 joint projects with China worth USD 3.7 billion (Reuters, 23 January 2017). In May 2017, Rodrigo Duterte also travelled to Beijing in person to make the cooperation between them even closer, following the negotiations with Xi Jinping in October 2016. During the negotiations, the parties signed several economic and energy agreements. Duterte stood up for the increasing of Chinese investments and the infrastructure projects planned in the southern areas of the country, which can also facilitate the settlement of the Moro conflict, allowing for both peaceful development and efficient connection to remote markets through the New Maritime Silk Road (Xinhua, 15 May 2017). Furthermore, if Latin America joins, the Philippines would also become more and more important in strategic terms since it could mean the main link between China and the above-mentioned region.

As for Thailand, the idea of building a canal intersecting the Kra Isthmus already came up in the late 20th century but it could not be realised for economic and political reasons. Singapore opposed the project all the while because the avoidance of the Strait of Malacca would have reduced the traffic of the harbour to a considerable extent (Billington, 2017). These days both the Chinese and the Thai governments are interested in the implementation of the plan, because in an optimal case Thailand may become a new centre for Far Eastern trade. For China, the planned project similar to the Panama Canal would decrease the security risk of navigating through the Strait of Malacca by presenting an alternative route for the Chinese energy import (Wheeler, 2016). Although the launching of the investment has numerous advantages, in spite of the discussions due to mainly cost and environmental concerns no decision has been reached yet. Although Thailand could not be represented at the highest level at the Beijing

Forum in 2017, the Thai delegation including the 5 ministers entirely agreed with the Chinese plans. Thailand would like to connect to the China-Indochina Economic Corridor by building the Eastern Economic Corridor and its ultimate purpose is to ensure the connection of China and Southeast Asia with the help of the OBOR (Ministry of Foreign Affairs, Thailand, 16 May 2017).

In order to decrease the dependency on the Strait of Malacca, China is also interested in the cooperation with Myanmar. The parties have agreed upon the construction of a deep-sea port and an industrial park in Kyaukphyu. In consequence of using the deep-water port facilities, and oil and gas pipeline in the city, the direct shipping from China to Kyaukphyu via the Strait of Malacca started bypassing Singapore (Wheeler, 2016). For Myanmar, the infrastructural investments are badly needed, and China can secure those in accordance with its own political and economic interests. In this aspect, Myanmar can be seen as a central and key player for China. After all it is not surprising that the participation of the actual leader of the country, State Counselor of Myanmar Aung San Suu Kyi was welcomed by the Chinese leadership at the Multilateral Forum in May 2017. At the Myanmar-China bilateral discussions 5 memorandums of understanding were also signed, which expect the parties to cooperate more closely in the fields of both infrastructure developments as well as agriculture, healthcare and the protection of historic buildings. Concerning the development of Myanmar's economy, Chinese investments play a decisive role, clearly proven by Suu Kyi's visit.<sup>6</sup>

Similarly to other countries in the region, Brunei would not like to miss the Chinese plans, so it has supported the idea of the OBOR since the beginning. With regards to this, in early 2017 a joint venture company formed by China's Guangxi Beibu Gulf Port Group and Brunei's Darussalam Asset took over the operation of Muara Container

Terminal, the largest container terminal in the country (Xinhua, 22 February 2017). At the Belt and Road Forum held in May 2017, the delegation representing the sultanate conducted successful negotiations on further details of deepening the cooperation.

#### **4. The Global Importance of the Maritime Silk Road**

As we have seen above, the countries of Southeast Asia positively reacted to the Chinese initiative as they have expected considerable economic benefits from it. For the fulfilment of the strategic purposes related to the OBOR, we should also see the attitude of the states of South Asia, Africa, the Middle East and Europe actually to the ambitions of Beijing.

In South Asia, the main partners are Sri Lanka, the Maldives and Pakistan. Sri Lanka welcomed the “Colombo Port City” project of USD 1.4 billion two years ago, which would have meant a 20 billion dollars Chinese investment, due to the port in Hambantota and the new district to be constructed around it. However, the country has become indebted (its debt has reached 8 billion dollars), so the new government, which took office in 2015, is not really enthusiastic about the participation in the Chinese project (Moramudali, 2017). During Xi Jinping’s visit in 2014, the Maldives committed itself since a contract on constructing a bridge linking the capital and Hulhule Island was concluded, in addition to developing the airport and the road network.

Pakistan has a central position in China’s One Belt, One Road initiative. Although the China-Pakistan Economic Corridor – concentrating on the development of the road network – may primarily be regarded as an organic part of the Silk Road Economic Belt, it also means an important link with the New Maritime Silk Road. Pursuant to an agreement made last year, China will implement developments of

USD 1.6 billion in the port of Gwadar, partly providing an alternative to the trade routes crossing Southeast Asia. In May 2017 China also assumed to construct an airport in Gwadar (*The Nation*, 15 June 2017).

Initially, China also expected India to take part in the Maritime Silk Road, since Manmohan Singh's government supported the concept from the very start. The new Prime Minister, Narendra Modi – and his stonewalling tactics – however, made it obvious for everyone last summer that India was not enthusiastic about the idea at all. In fact, the Indian government believes that the Chinese expansion violates their own geostrategic interests, because it decreases their influence in the surrounding regions (Sri Lanka, Bangladesh, the Maldives), and it would give China an advantage in the rivalry between the two major powers. India was not represented at the Belt and Road forum in 2017 either and openly opposed the OBOR. The China-Pakistan Economic Corridor is planned to pass through Kashmir demanded by India but being under Pakistani control; the plan, however, ignores “India's sovereignty and territorial integrity” according to the Modi Government. Besides India supposes that Chinese projects lack in transparency and environmental aspects, and what is more, the long-term operation of the investments completed is not granted either. Due to the Chinese credit, the indebtedness of the countries involved is a severe danger, too, which has been proven by the case of Sri Lanka (Ayles, 2017).

The next strategically significant station of the New Maritime Silk Road is the coast of Africa. Senegal, Tanzania, Djibouti, Gabon, Mozambique and Ghana are all included in the Chinese investment plans. Like other regions, the development of ports, roads and railways are closely connected here as well. China's growing economic presence on the continent may lay the foundation of Africa's long-term development. At the end of 2015, China obtained the 10 billion USD project aiming at the development of the Bagamoyo port in Tanzania,

which is one of the greatest investments on the continent. If the plan succeeds, Bagamoyo will be the largest port in Africa, ensuring connections with several East African countries. In Djibouti, renting a naval base for USD 100 million per annum serves military as well as economic purposes but first and foremost, it is dedicated to guarantee the safety of the Maritime Silk Road. In Mozambique, China has undertaken development projects of a value of USD 1.4 billion, of which the upgrading of the port in Maputo also forms a part. In Ghana, a new port will be built at Atuabo for USD 600 million by Chinese companies. Egypt – due to the significance of the Suez Canal – is also participating in the Maritime Silk Road. The Chinese are primarily interested in upgrading Port Said and increasing the capacity of the canal. Having China as its largest investor, the Suez Canal Development Project was launched in 2014 with the aim of doubling the incomes arising from trade across the sea (Namane, 2017).

The destination of the Silk Road in Europe can be found in the port of Piraeus in Greece. Last summer, the Chinese company Cosco purchased the majority of the shares of the port, and committed itself to significant developments. The total value of the business reached Euro 1.5 billion. Piraeus, however, like Africa, cannot be regarded the end of One Belt, One Road, since its main role is to create a link between the remote parts of the European mainland through the high-speed railways to be built. At the Belt and Road Forum in 2017, the Prime Minister of Greece Alexis Tsipras stated that he intends to establish new maritime trade routes in order to exploit the location of the country, and the New Maritime Silk Road offers excellent opportunities (IBNA, 14 May 2017).

## **5. Geopolitics and Geostrategy: Southeast Asian Countries and Changing Power Balance of the Asia-Pacific Region**

According to the official Chinese position, the sole objective of the New Maritime Silk Road and the entire One Belt, One Road initiative is of economic nature, namely “win-win cooperation”, to ensure common development and prosperity, and furthermore, to promote economic and cultural integration between China and the states involved. In fact, there is much more than that, since there are serious diplomatic, economic and strategic considerations in the background (Yale, 2015).

Indisputably, the development of trade, the reduction of costs, and the assurance of the safety of trade routes are equally important for China as well as its partners. From the viewpoint of internal affairs, the slowdown of Chinese economy and its planned restructuring require the opening of new markets, therefore major foreign investments (such as the construction of ports) are vital for giant Chinese companies. In addition, developing countries may be the newest market outlets of Chinese export (Scott, 2016). Although the “help” from China means several benefits for these countries, Beijing may establish its economic and, where appropriate, political dominance in the region.

To understand China’s real intent, we should take a closer look at the Grand Strategy that includes the main national objectives of the country to be achieved in the international system, i.e. its long-term foreign policy and defence ideas (Chaturvedy, 2017). In a geostrategic sense, the Maritime Silk Road primarily aims to guarantee Beijing’s control over the most important sea trade routes and uninterrupted import of raw materials. In this, the specific ports and straits have particular significance (Morgan, 2015). Therefore, it is essential for China to ensure the control over the South China Sea and the Indian Ocean, even if the latter is unlikely to be realised yet. In November



2015, China established its first foreign naval base in Djibouti, which provides great help in the military operations against piracy off the coast of East Africa. Some analysts see chiefly military ambitions in the background of the Maritime Silk Road, which can be best summarised by the “string of pearls” theory (Zhou, 2014). Its main point is that in accordance with China’s strategic interest, China will establish permanent naval bases from the Middle East to China, like a string of pearls. However, the way events are developing currently does not support the relevance of the theory; military considerations do not feature in the Silk Road project, and, for the present, the emphasis is on enhancing economic interests (van der Putten and Meindjers, 2015: 33). The OBOR project fits entirely into the strategic ideas that have been represented by Chinese President Xi Jinping since 2013 and mainly aim to realize the Chinese Dream of achieving the great rejuvenation of the Chinese nation. The Chinese Dream can be seen as achieving the Two Centenaries: the material goal of China becoming a “moderately well-off society” by 2021, and the modernization goal of China becoming a fully developed nation by about 2049, by the 100th anniversary of the Chinese Communist Party and the founding of the People’s Republic (Kuhn, 2013).

But the Maritime Silk Road has great significance also in a diplomatic sense. It is not a coincidence that lately it has become the decisive element of Chinese foreign policy. In the 21st Century, Beijing has extended its foreign policy from land-oriented diplomacy to ocean-oriented diplomacy in part to promote maritime relations with its neighbours (Wang, 2016: 151). Southeast Asian countries have been considered as the most important potential partners from the beginning, since the scheme primarily aims at their appeasement, against the recent assertive foreign and defence policy of China. Since obtaining the control of the South China Sea plays a decisive role for China in

economic, political and military terms, the country has taken every effort to realise this recently. In the 2000s, China gave up the former “good neighbour policy”, i.e. the policy aiming at the amiable settlement of territorial disputes and the issue of sea borders, and applied more and more violent methods to detect the possible energy sources and increased its military presence in the South China Sea region instead.<sup>7</sup> Later the tendency continued, since in the spring of 2015 China started to fill up the reefs and to build airports and other objects in the disputed territories. The main source of the conflict is that owing to the unclear limits of the seas the whole or parts of the Spratly Islands are commanded by China, Taiwan, Vietnam, Malaysia, Brunei and the Philippines.<sup>8</sup> The group of islands consists of 150-180 smaller islands, cliffs and reefs, of which Vietnam occupies 29, the Philippines 8, Malaysia 5, Taiwan 1 and China 7 (Dolven *et al.*, 2015: 16). The Paracel Islands includes nearly 130 islands and reefs, which have been China’s protectorates since 1974, although Vietnam and Taiwan command the territory, too. Besides the obtaining of energy resources, other strategic factors also control the parties, especially the provision of control over marine routes and the rivalry between the USA and China. Annually, goods to the value of over USD 5.3 trillion are transported across the South China Sea on the average, which accounts for 30 percent of global trade (O’Rourke, 2017: 2). Furthermore, 60 percent of China’s oil imports also reach the country along this route (Austin, 2015). In July 2016, the International Court of Justice in Hague passed a judgement in the lawsuit carried on between the Philippines and China about the South China Sea, and the decision obviously favoured Manila. The legal procedure was initiated by the Philippines against China in 2013, saying that Beijing’s excessive demands regarding the South China Sea are not in accordance with international law. Having not accepted the competence of the court since the beginning, China has not participated

in the procedure and keeps stating with reference to historical rights that the region is an inalienable part of the country. ASEAN used to try settling the conflict multilaterally – China would support the bilateral negotiations with the parties involved; however, after the execution of the Declaration on the Conduct of Parties in the South China Sea in 2002, no Code of Conduct having a binding force has been accepted up to present. In the summer of 2017, the opportunity for agreement recurred again, but actually the parties' standpoints did not approach each other. The turn of the Philippines – according to which President Duterte does not wish to enforce the judgement of the Permanent Court of Arbitration in the hope of a consent – definitely favours China, but the settlement of the dispute still seems to be very far. Thus, the benevolence of the Southeast Asian countries can only be gained with economic instruments, as the reactions of the parties involved show. The New Maritime Silk Road project offers ideal means for this, and the successful realisation of the project would allow for the establishment of economic dominance.

The increase in Chinese investments and the expansion of commercial relations have already provided a greater geo-economic influence of Beijing within the region in recent years, but the geopolitical consequences cannot necessarily be felt. Obviously, China already hopes for a considerable political profit in return for the infrastructure investments and it shows no inclination to renounce the economic profit. The Southeast Asian countries can find the example of Sri Lanka a real danger: indebtedness and insolvency owing to the credits assumed. Besides, the relationship between China and its partners can be influenced unfavourably by political changes too, since the failure of the currently China-friendly leadership can postpone investments and make the security and political cooperation more difficult. According to certain opinions, China would also like to enforce

its ideological influence in the region entirely (Ebbighausen, 2017), which can lead to further conflicts since the countries committed to democracy and liberal principles would not be easily ready to follow the Chinese expectations.

Naturally, the US's regional role and relationship with China must also be examined within the geopolitical relations of China and Southeast Asia. The Southeast Asian power system emerged after 1945 could be characterised by the political, military and economic dominance of the United States, which, however, has affected the power relations of the region more and more recently owing to the continuous increase in China's power. The United States reacted to this with the "Pivot to Asia", and later the "Rebalancing", the new foreign policy concept announced under the Obama Administration. Organically continuing the former US regional foreign policy from a certain respect, the foreign policy plan announced under Secretary of State Hillary Clinton in 2012 consisted of three main elements: the relocation of 60 percent of the US fleet to the Pacific region by 2020, the consolidation of the regional allies and the increasing of their activity, as well as the establishment of a free trade zone (Trans-Pacific Partnership – TPP) that would have excluded China (Clinton, 2011). This plan would have counterbalanced not only China's increasing power, but it also seemed to be suitable for the USA to maintain its rule-setting role within the region in the future too. The success of the "Pivot to Asia" policy is rather contradictory in the literature.<sup>9</sup> Serving its own economic interests, the US's policy aiming to counterbalance China was enforced only at the level of rhetoric because of shifting more active participation to its allies. Washington paid less and less attention to the interests of the smaller countries, and at the same time it was also proved that the USA is less and less able to keep pace with China's economic power; therefore, the superpower undoubtedly started to be squeezed out of the region. The

first measures of the Trump Government included the withdrawal from TPP; however, although they seemed to wish to give up the previous Asia policy of the Obama Administration, actually the holding up of China remains a priority. Therefore, in various aspects the Pivot to Asia is expected to continue. At the same time, while the Obama Cabinet reacted to the announcement of the One Belt, One Road initiative negatively, Trump – taking the economic benefits into consideration – shows willingness towards cooperation and would participate in the project under appropriate conditions (*Bloomberg*, 23 June 2017).

As for the South China Sea dispute, the United States does not openly take a stand concerning the territorial disputes, but it fundamentally supports its Southeast Asian allies against China, which means that it prefers a multilateral solution. The maintenance of the Freedom of Navigation is more important than anything else to the US on the South China Sea in geostrategic terms, for the defence of which it has been carrying out aerial patrols over the Chinese artificial islands and has been sending warships to the Freedom of Navigation operations – in accordance with international law. However, the judgement passed by the Permanent Court of Arbitration in July 2016 proved more than ever that the USA cannot and would not like to enforce the international right against China, practically delivering its regional allies to the policy of Beijing.

Besides the United States, one of its main allies and at the same time China's rival, Japan, has a standpoint that cannot be neglected. Similarly to India, Japan did not accept the Chinese plans enthusiastically owing to its geopolitical interests (security of marine communication lines); however, for economic reasons and owing to its changing relations with the USA it shows willingness for a compromise with Beijing. Nevertheless, in the summer of 2017 it established the Asia-Africa Growth Corridor (AAGC) together with India, which

specifies similar objectives like the OBOR and aims to counterbalance the Chinese ambitions (Shepard, 2017).

China's rise and the US's loss of importance implied considerable geopolitical consequences for the Southeast Asian countries. As a result of the changed international balance of power, the Southeast Asian states will try to capitalise this trend and choose the most advantageous relationship with the rivalling Great Powers. Considering the transformation of the strategic environment, in economic terms China is far more important than the USA. This not only means that China can take "revenge" on smaller states, but it could also promise economically desirable opportunities such as the OBOR initiative or the Regional Comprehensive Economic Partnership (RCEP), whose missing would imply severe economic and political risks for the given governments. Therefore, closer cooperation with China is becoming a regional interest more and more, even if that cooperation is a sensitive issue in several countries. Although the Southeast Asian nations need the presence of the USA to counterbalance China more than ever, they are compelled to adapt to Beijing's expectations more and more, whose first step is economic. Undoubtedly, however, the deepening of the economic dependence will bring a point when China can already enforce its geopolitical expectations, first maybe in the settlement of the South China Sea conflict in a form beneficial to it.

## **6. Conclusion**

The One Belt, One Road Initiative, and the New Maritime Silk Road, is considered an exceptional enterprise from several aspects and unprecedented in history. The ambitious plan – providing proof of China's growing global role – mainly focuses on the interests of the world's most populated country, but promises profit to all participants in

the long term. Beijing was right to recognise that in the globalised world only such multilateral solutions are appropriate which allow cooperation and cultural interaction between distant regions.

On the other hand, we have to consider that the Maritime Silk Road has great significance in a geopolitical sense, especially for Southeast Asia, because it serves as an important element of the Chinese geostrategy and diplomacy. In the region, the greater strategic aim is to cooperate closely with the ASEAN states, hereby reinforcing China's influence in the region in the sphere of both politics and economy and to steal a march on the US in the global rivalry.

In this paper, I demonstrated that China intends to make the Southeast Asian states dependent with economic tools, with the New Maritime Silk Road, and in the case of successful realisation, it can use this for other geopolitical purposes in the future too. At present, it has a fair chance of success since the ASEAN countries reacted to the Chinese initiative positively and for the sake of economic favours they seem to be ready to assume some kind of dependence on China. In a global sense, the New Maritime Silk Road enjoys the necessary support since the countries of Africa and Europe also stand by it.

It is clear that the changed power balance has a significant role in the process. Diminishing manoeuvring room of the US forces the countries of the region to cooperate with China, and the US has no answer to the economic dominance of Beijing. The present policy of the Philippines illustrates this situation very well. The great question is how the Trump Government will be able to maintain, or even consolidate the US's superpower position in the region, otherwise – thanks to the New Maritime Silk Road – the Chinese economic dominance will soon be followed by the extension of the geopolitical influence and the former tributary system will be restored.

## Notes

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1. In this respect, Vietnam is an exception since this country only participates in the development of mainland communication lines but not in the Maritime Silk Road project (Xinhua, 23 May 2017). Laos and Cambodia as mainland nations can only play an active role in the realisation of the One Belt, One Road. Of course, Maritime Silk Road is expected to bring positive results indirectly.
  2. As Professor Wang Yiwei in his recent book *The Belt and Road Initiative: What will China offer the world in its rise*, phrased China “seeks to avoid the traditional risks of globalization, and create a new type of marine civilization characterized by the integration of man and the ocean, harmonious co-existence, and sustainable development” (Wang, 2016, 16).
  3. According to Professor Yang Baoyun at the University of Beijing, “just like the historical route hundreds of years ago, the new Maritime Silk Road will bring tangible benefits to neighbours along the route, and will be a new driving force for the prosperity of the entire East Asian region.” (*China Daily*, 4 October 2013).



4. Partly contrary to this, in April 2017 five major global shipping firms left Port Klang and transferred their activity to Singapore. (*OBOR Watch*, 14 September 2017)
5. Of course, Duterte understands that at the moment the US is the third largest trade partner of the Philippines after Japan and China, as well as the second largest investor and the main development subsidy-lender.
6. However, Myanmar is not only interested in the 21st Century Maritime Silk Road project but it is also an active participant of the Silk Road Economic Belt since it takes part at the Asian Expressway and the Rail Tracks and is a member of the Bangladesh, China, India and Myanmar Economic Corridor (BICM), which are directly connected to the OBOR (Khin, 2017)
7. With no accurate data available, we can only rely on estimations stating that approx. 28 billion barrels of crude oil and 25 trillion cubic metres of gas can be found at the bottom of the sea (Perlez, 2012).
8. Referring to historical traditions, China supposes – but does not specify precisely - that approx. 90% of the South China Sea region belongs to the country according to the 9-dash line of 1953, while, mainly for economic reasons (oil and gas), the Southeast Asian countries insist on their demand too. The following volume of essays offers an excellent summary of the South China Sea dispute: Leszek Buszynski and Christopher B. Robert (2015), *The South China Sea maritime dispute*, Routledge, Abingdon. About China's standpoint, see: Shicun Wu (2013), *Solving disputes for regional cooperation and development in the South China Sea: A Chinese perspective*, Woodhead Publishing, Cambridge.
9. In a military sense it should be highlighted that 60% of the fleet will have been commanded into the region by 2020, thanks to the fiscal restrictions. (We should not forget either that the 60% proportion already refers to a fleet of a reduced size; therefore, no US military presence larger than the current one should be expected in presence.) For more details see: Robert

S. Ross (2012), “The problem with the Pivot: Obama’s new Asia policy is unnecessary and counterproductive”, *Foreign Affairs*, Vol. 91, No. 6. pp. 70-82; and Hal Brands (2017), “Barack Obama and the dilemmas of American grand strategy”, *The Washington Quarterly*, Vol. 39, Issue 4, Winter 2016, pp. 101-125.

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## **Hungarian Economic Development Prospects – in the Light of the One Belt and One Road Initiative**

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### **Abstract**

This paper attempts to delineate the most important aspects of the historical Hungarian economic development path, while shedding light on long-term Chinese investment and trade opportunities in Hungary. In order to make the One Belt and One Road Initiative a success, China needs proper knowledge of the Central European countries' long-term development needs and goals. This analysis delivers a first assessment of the basic long-term questions of Hungarian economic development. The paper reviews milestones of economic progress after 1990 until the present, and shortly looks into the effects of the economic transformation of the 90s, and the main repercussions of the Global Financial Crisis (2008-2009). At the end of the paper a short glimpse is given on how the Hungarian economy could develop, and what are the possible development models to be utilized by Hungarian decision-makers. At the same time, it will be clear where Hungarian and Chinese need can intersect each other.

**Keywords:** *China, Hungary, trade, investment, economic development model*

## 1. Introduction

Improving economic, cultural and higher educational relations between geographically distant countries is never easy. The difficulties are easy to see thanks to the well-known gravity model of world trade. The law of gravity states that the gravitational attraction between any two objects is proportional to the product of their masses and diminishes with distance. As a result, the trade between any two countries is, other things equal, proportional to the product of their GDPs and diminishes with distance (Krugman, 2012: 12). But this general rule does not exclude anomalies, which means that long distances do not necessarily prevent improving relations leading to relatively strong trade, capital relations and developing contacts in fields like cultural and higher education cooperation and exchange. But for this to happen, several prerequisites must be met.

The first in the line of such prerequisites is the responsibility of diplomacy. High-level support of bilateral relations always facilitates the expansion of all forms of international relations. Frequent high-level meetings inspire active relationship-building endeavors on a lower level as well e.g. cooperation of chambers of commerce or between universities. Political contacts may also help set up financial funds to facilitate grassroot business development with publicly funded projects.

The second important prerequisite relates to shared interests. In several decades of bilateral relations between Hungary (Central Europe) and China, we have never witnessed such a constellation of common interests as we see today. And this interest is related to efforts of opening towards third countries in an era of global economic and

power restructuring, when the competition between corporations and countries is steadily increasing. The growing pressure for improving competitiveness has developed along with growing opportunities: rapid economic development, improving transport and communication systems facilitate more and better business and cultural contacts.

But the third prerequisite is the most problematic one. If we want to capitalize on the opportunities, a lot of work and effort will be required. This work must include the desire to want to get to know each other better, understand the attitude of the people and cross-cultural differences, explore prospective fields of trade, capital and other business relations, and finally, we must facilitate the flow of information between the two countries. Too often, businessmen assume that their partners have the same business values as themselves – but that is not correct. Different countries have different people, different people have different values and different behavior patterns. One of the biggest challenges of doing business in a foreign country is learning how to operate in a diverse cultural setting. If these objectives are achieved, relations can reach a higher level. Without putting in this arduous day-to-day work, the currently existing window of opportunity cannot be used, and the opportunity may be squandered.

And finally, one additional aspect should be raised. Building relations between countries often require personalities who are willing to travel a lot and communicate with all stakeholders on a regular basis. These personalities could be instrumental and essential in the process.

## **2. Interests, Interactions and Strategies**

In recent decades, relations between Eastern Europe and China have been shaped by domestic political difficulties, geopolitical changes and deep economic transformation. From the perspective of economic

history, the two regions share important characteristics. Being made up of peripheral country groups of world economy prior to the great transformation of the 1990s, both regions had faced “peripheral structural crisis”<sup>1</sup> since the seventies, although Central and Eastern Europe (CEE) was hit hard, while China was able to mitigate the negative impacts and could enter a rapid, sustainable economic growth period (Berend, 2004). Their development paths and global economic positions were uprooted during this period. Entry into the European Union by ten Central European countries had opened up new regions to the CEE which it had either only few or politically hampered links with. China along with several rapidly developing countries in Asia have enjoyed a period of rapid growth over the last more than thirty years; their international economic position changed, several countries have been able to ease their dependence on international economic institutions. The region has become one of the fastest emerging parts in global economy today.

The economic crisis in 2008 hit the rapidly emerging Asian region and most importantly China much less severely than it hit advanced countries, but as a result of the shifting international economic and political centers of the world and the social and economic implications of global challenges, certain changes regarding domestic and external economic policies had started to unfold. Although some of the CEE economies faced above-average output decline in 2009, most of them were soon able to regain their momentum owing to their modernized, competitive economic structures. The region would be able to deliver much better economic performance than the “core” of the European Union – particularly the large and most developed countries therein – but the development prospects of the countries in the CEE are now mixed. The economic crisis in the USA and Europe brought about the need to diversify economic, political and cultural relations in the CEE

and it also questioned some of the earlier assumptions on the sustainable and linear convergence of these peripheral countries.

From the part of Hungary, the intention for cooperation with China has a long history. But from time to time periodically the intensity of interests has changed due to economic or political reasons. In the early nineties, immediately after the political and economic systemic changes, the demand in Hungary's most important export markets (the Former Soviet Union and other Central and Eastern European countries) collapsed due to the unfolding transformational recession.<sup>2</sup> The need for the rapid reorientation of trade was now a pivotal objective and the logical choice was the geographically close markets of the Western European countries. In order to facilitate external trade with this region and to get additional development incentive, the unquestionable priority of the country was to join the European Union, a large single market, as soon as possible. Other regions in the external strategy became less important for a while. Along with this objective, attractive investment opportunities had surfaced for large firms to take over the domestic markets (in every Central and Eastern European – CEE – countries) from insolvent local firms through privatization from the early 90s. In addition, export-oriented greenfield investments (Foreign Direct Investments – FDI), attracted by cheap labor and cost-related incentives, also started to increase. FDI was promoted by economic policies in the region, especially in Hungary, due to the scarcity of domestic investment financing. The sudden rush of Western business into the region had resulted in several positive structural changes (and many negative consequences),<sup>3</sup> and created the basis for an export-led development pattern. This was the case in each of the CEE countries, leading to fierce competition for FDI, not least because of the expectation of associated economic benefits in terms of export performance, economic structural change, employment, growth and competitiveness. As a result, for

almost two decades, Central Europe's pre-crisis economic model, including Hungary's strategy, was based on export orientation led by large inflows of foreign direct investment with the leading role being played by the European Union in both trade and FDI.

### **3. The Role of Export Orientation as a Means of Diversifying External Relations**

Development model questions, the issue of export orientation, import substitution or other trade-related aspects are always in the forefront of the economic and political thinking of countries where convergence towards more advanced regions is amongst the most important economic issues. In the case of emerging markets, export-oriented (or export-dependent) economic development is, in most cases, vital for achieving a certain degree of catching up, although in the long run export constraints may be significantly different from country to country. A large domestic market (or more precisely, significant and rapidly increasing domestic purchasing power) can partly substitute the role of export in GDP growth. Countries with small domestic markets, however, are much more likely to be forced to maintain export orientation in the long run at any price. Some of the heavily exporting countries (measured either in terms of export volume or export/GDP) rely (or relied) on cheap labor (China until recently for example), the availability of crucial natural resources (Russia, oil-exporting countries, etc.) or the economies of scale. The impact of export, when based on economies of scale, can be crucial for smaller countries, where even a very limited number of large, export-oriented firms can significantly impact on GDP growth (and jobs). (Of course, the factors on which strong export performance is based may be mixed.) The prospects of these country groups differ with respect to export potential and FDI relations in the coming decade.

1. Cheap-labor countries can face increasing difficulties in the coming decades. Although cost factors are still important, at the same time, the speeding up of technological development renders labor force skills even more important as the wage level starts to increase parallel with the growing per capita GDP. This change is clearly reflected in the intensification of reshoring of industries from developing countries to developed nations for example.<sup>4</sup> This applies mostly to the relatively large emerging countries that need to change their underlying development model and promote a smooth transition to a much more domestic demand-based strategy.
2. The position of exporters of natural resources seems to be strong, especially when we consider that even after the commodity price increase witnessed during the last decade, future price developments for most of these commodities remain rather favorable. (Obviously, these countries also try to diversify their economies, which is quite clear, for example, in the case of several oil-exporting countries in the Middle East.)
3. The third group consists of export-oriented small countries that do not possess easily exportable natural resources, and have very high export openness (export/GDP) reaching 80-95%. This is the case in several Central European countries, including Hungary. Their economic development mostly depends on export performance. If firms in these countries are to increase sales and create more jobs, there is simply no other alternative to internationalization. And as the exports of these countries are mostly based on the performance of FDI-related manufacturing and services firms, whose domestic purchasing power is limited, they should elaborate strategies that preserve and strengthen this export orientation. (This does not mean the negligence of domestic demand factors, such as consumption and investment, but

rather indicates that their role is to balance the growth pattern, rather than replace export orientation).

As Hungary cannot compete with low wage countries (though wages are still low in international – European – comparisons), long-term sustainable strategies cannot avoid upgrading technological capabilities to maintain or increase current export levels. The other possibility is to find new markets and promote the internationalization of more and more small and medium-sized domestic firms. The application of these two strategies at the same time may be a starting point for the external strategy of Hungary in the future.

#### **4. The Trend of Geographical and Sectoral Diversification**

Today's global political and economic environment cannot be described with the simple terms of the bipolar world's traditional center-periphery relations when political support of large powers – to gain more international influence – helped the economic development of less developed states. The picture is further complicated by the transnationalization of business activities as a result of increasing global competition and by the surge of regional integration initiatives that sometimes overlap each other in terms of scope or geographic location. Peripheral or semi-peripheral countries in this sense no longer serve as the background territories for only one economic or political center, but are influenced by several at the same time (although the level of political and economic influence varies from one center to the other, not least because of geographical distances or ideological reasons). This is the very position of Hungary now. It is clear that each country will always have a major international trade and capital partner (which in the Hungarian case is certainly the European Union), but countries consider other relations important too, which has been increasingly true in the



past few years when the more advanced countries, notably the Eurozone, have been facing massive financial instabilities and growth problems.

For Hungary, an export-oriented strategy will – without a doubt – remain one of the most important elements for balanced development in the coming decade. Domestic demand without significant export performance is insufficient to deliver sustained economic growth. Export openness, however, in most cases carries substantial risks. At the beginning of the economic crisis in 2008, export-oriented countries, such as Hungary, had been hit most severely. But the implications of this external demand shock were different from the earlier ones because international trade today is different from the pattern prevailing prior to the turn of the millennium. According to WTO estimates, close to 55 percent of the world's non-fuel trade is conducted in intermediate products. And it is mostly a result of the growing importance of the Global Value Chains in which large multinational firms have dozens of subsidiaries in various countries and these subsidiaries trade with each other. Ultimately, demand for exported intermediate products in the Hungarian case is not necessarily defined by the demand in the importing country (Germany is by far the most important destination of Hungarian products, close to 30 percent of Hungary's export end up in Germany and about one fourth of FDI stock in Hungary has been sourced from this country. Despite vigorous efforts to open up to third countries in trade and investment, the concentration ratio is predicted to further grow – unless a major economic shock takes place).

The growth of the supply chain has increased the exposure of Hungary to final demand outside Europe, to an extent that is no longer captured by bilateral trade statistics. Spillovers from aggregate demand and policy actions in the rest of the world are now much greater than ever before. Conversely, German domestic demand spillovers to Hungary remain relatively small. A significant share of bilateral trade

between Germany and Hungary is performed in intermediate goods: final demand in Germany is not the main determinant of exports to Germany. As a result of this pattern, export orientation has made the country part of a large international network, which can mitigate external shocks.<sup>5</sup> Yet export performance rebounded very quickly after the 2008 crisis since it was not the ailing demand of the European Union, or of the Eurozone in particular that defined demand for Hungarian products. Exposure to international economic developments and demand may still make a country vulnerable to external shocks. However, when countries which import Hungarian intermediate products re-export finished goods containing the intermediate product that had originally come from Hungary, the ensuing positive impacts of such re-export translate to improved Hungarian export figures. Hence any increased demand for, let's say, German export products, will also improve Hungarian output. This indirect export due to the activity of multinational firms, mainly in the manufacturing sectors, has changed the nature of dependence on international trade and transformed it into stronger dependence on the strategy of multinational companies. Interestingly enough, the expansion of multinational firms and their global optimization strategies have also led to increased presence of several Far Eastern emerging countries in international trade mainly through growing exports in intermediate products. (Of the six largest exporters of intermediate goods, four are from the Far East: China, Japan, the Republic of Korea, and Hong Kong followed by other rapidly developing countries from the region).

All these have led to the significant concentration of the export sector and by today about 30-32 percent of Hungarian exports come from the automotive industry and according to estimates, about 10 percent of the output directly depends on the performance of this sector. The geographical pattern closely mimicked the foreign direct investment

pattern, and this has led to the European Union, and Germany in particular, absorbing the lion's share of Hungarian exports.

This heavy reliance on a single region and one or two sectors has made the country vulnerable to the developments in the EU, mostly in the Eurozone and the car industry. It is this very pattern that calls for the diversification in terms of geography and product structure. But diversification is extremely difficult in a period when most trade is conducted by multinational firms and in intermediate products. The objective of diversification and creating improved relations with geographically distant countries and regions is to forge social, economic and cultural relations with these countries. More specifically, the diversification strategy envisages a three-pronged approach towards the countries of Southeast Asia. The first objective is to renew political contacts and understanding. The second is to achieve enhanced economic interaction in investment and trade, science and technology, and in tourism. And thirdly, we aim to promote cultural, educational exchange and the flow of information.

## **5. Future Prospects**

Along the road to membership, Hungary – like other Central European countries – was aiming to comply with the *acquis* as soon as possible. After the early years of the 1990s, the driving force behind democratization and economic transformation was associated with the continuous integration of the region into the Euro-Atlantic structures, including both NATO and the European Union. During this period, the transformation seemed unstoppable, and the only question was when the process of catching up would result in a substantial rise of household incomes. In the pre-accession years, the most important drive behind economic and political transformation and foreign policy orientation was

the EU. The accession objective was achieved in 2004, and the previously unanimously supportive environment for the EU changed, the motivating and disciplinary force of the membership perspective vanished. This change was coupled with three unfavorable trends.

First, Hungarian domestic politics became very complicated; objectives became obscure and difficult to follow. A second problem was apparently related to the lack of strategic vision on how EU membership could be part of a long-term development strategy for the country. Short-term objectives and lack of consent among political parties on long-term development goals made the elaboration of a viable strategy impossible. The third challenge was related to developments in the EU, namely, the strategic problems regarding its future. At the turn of the millennium ambitious plans and strategies were formulated including enlargement or the Lisbon strategy, not to mention the introduction of the euro, but by 2004–2005 no further plans were on the table.

When the dynamic phase of eastern enlargement ended, there were clear signs of destabilization in parts of the CEE as a result of unfulfilled expectations concerning mostly living standards. Voices questioning the success and rationale of more than twenty years of transformation and EU accession started to become stronger and questioned the competence and efficiency of the EU. Hungarian convergence was either slow compared to Poland or Slovakia or the absolute level of development lagged substantially in comparison to the Czech Republic.

As a result, skepticism developed regarding the success of economic transformation; negative perceptions of the EU's role in convergence strengthened, which made the emergence of very divergent strategies regarding relations with the EU possible. Parallel to the “not so promising” economic developments in the EU, the crisis resistance observed in some emerging countries was now being seen as a more successful model. In Hungary, politicians and economic experts started

voicing opinions about the need to develop economic and political relations independent from the influence of the West (EU) and to make new and stronger ties with fast-growing emerging regions.

Given this framework, a new narrative emerged in Hungary. Its most important elements were the following. The whole transformation project was based on Western ideologies and principles that did not seem to be in the interest of the Central European countries (e.g., the basic principles of the Washington Consensus, supported by renowned Western, mostly US advisers); international corporations investing in Hungary only extract their “extra” profits and disregard the true interests of the country. The EU uses double standards when applying economic and political rules and regulations requiring “new” and weak members to exhibit better performance than older and large members.

These problems within the European Union, which led to the active search for new strategies in Hungary, were then coupled with the growing interest of China towards the CEE region. Given this background the well-known strategies initiated in recent years by China are logically attractive for Central European countries and Hungary too. But it is only the framework and here comes the biggest challenge for the future. Even if people or policymakers are aware that traditions, culture and doing business practices are very different, it is still very difficult to establish closer cooperation between them. We should keep in mind that not all people from a given culture act the same way, but in order to describe cultural traits, generalizations are inevitable. When it comes to intercultural interactions, every situation should be approached with an understanding of the basic tenets of a given culture and yet one should remain alert to the specific cultural signals one receives in each situation and adjust one’s behavior and expectations accordingly. Raising awareness of intercultural differences might be a first and necessary step in order to establish smooth cooperation and working

relations between our cultures. Given this background, we must mention the importance of higher education and direct people-to-people contacts. In order to facilitate this process, it is highly desirable to encourage the application of a triple-helix type model in which the Academia, Business and Public Administration work together in order to create the necessary framework and knowledge base to understand intercultural differences that is the precondition of doing business together successfully.

## Notes

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1. Peripheral structural crisis means the preservation of the traditional economic structures and low-technology production levels after the introduction of certain reforms from time to time. As a result, innovations remained weak; the financing of technology upgrading continued to be difficult. In principle this means the inability of a region or a country to abandon its non-competitive economic structures and replace it with a more competitive one, which would be desirable to adjust to ever increasing international competition. These experiences had long-lasting consequences in countries at the global peripheries. Using the Schumpeterian analogue, the developments in CEE seemed to have been aimed to demolish earlier economic structures without creating something

new, competitive structures. Instead of creative destruction, the destruction without creation became an important feature of development in both regions.

2. This term was introduced into the economic literature by János Kornai describing the phenomenon developing in all the post-socialist countries in Central and Eastern Europe. He believed that there were similar causes and a common pattern behind this unfavourable development which was different from the usual cases described in the economic cycle theories. Later this term was widely used for economic crisis emerging due to the transition from the socialist to the capitalist system.
3. See more on the positive and negative impacts for example: “From plan to market: The transition process after 10 years” (contributors: I. Berend , J. Svejnar, E. Berglöf, P. Welfens, S. Gomulka, G. Kopits, S. Malle, J. Menzinger, L. Grigoriev, M. Landesman, P. Hare, A. Nagy, M. Elman), *Economic Survey of Europe*, No. 2/3 (1996). The assessment of the transition based on the Washington Consensus and the impacts of the chosen transformation method in individual countries remains controversial.
4. Paul R. Krugman stresses “[...] one of the reasons some high-technology manufacturing has lately been moving back to the United States is that these days the most valuable piece of a computer, the motherboard, is basically made by robots, so cheap Asian labor is no longer a reason to produce them abroad.” (Krugman, 2012) Or see BCG reports on the significant impacts of reshoring projects from 2015 onward.
5. The success of export-led growth strategy depends on several factors and there are a number of risks and challenges inherent in such a strategy.

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## **Differing Interpretations of the One Belt and One Road Initiative: The Case of Hungary**

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### **Abstract**

This paper aims to give a brief and preliminary assessment of Hungarian views on the One Belt and One Road Initiative (BRI). The preliminary nature of the paper derives from the fact that the BRI is still in the making, and it will be for the years to come, thus its framing must constantly change as well. The author intends partly to analyse the media coverage of the BRI in Hungary and partly to evaluate academic papers on the very subject. This evaluation is to be carried out by relying on how events, information and commentaries related to the initiative are represented in the Hungarian media and at the same time, it makes attempts to organize, classify arguments pro and contra, and interpret narratives from the views derived from. The paper only studies Hungarian-language materials published in Hungary, and it does not seek to investigate other Hungarian materials published in the neighbouring countries. One of the reasons for that is that different political environments change the focus of the discussions significantly,

in particular in Hungarian communities living in countries like Serbia or Ukraine that are not members of the European Union. The other reason is that traditionally foreign policies have different focuses, f. ex. the Romanian diplomacy has a strong US-orientation, while the Serbian foreign policy is Russia-oriented. In other words, China's interpretation is less positive than in Hungary since the cultural, political and economic backgrounds are different. In this paper, academic papers will receive special attention since Hungarian pundits and researchers potentially influence Hungarian decision-makers, thus the Hungarian policy. The mapping of Hungarian think-tanks has the goal to show what are the basic elements of critical, supportive commentaries, though the author is aware that being a Hungarian researcher does not make the analysis of the Hungarian academic world easier.

**Keywords:** *China, Hungary, One Road, One Belt initiative, perception*

## **1. Introduction<sup>1</sup>**

China's perception in Europe, and in Hungary, has been changing for two reasons over the last decade. First, the spread of innovative technologies, the easy access to them and the ever-growing tourism ensure that there are much more people-to-people relations, and many of us have direct experiences with the Chinese culture, the daily life in China etc. However, it is much more important that over the last decade, China while becoming a middle-income country, has grown into a fully-fledged economic and political superpower, thus shifting the political and economic centre of the world toward the East. The changes started in the 1990s, when economic reforms really started and opened up the country to the world. Trade and foreign direct investment became crucial means of these changes. Even before the 1990s, much of the attention

was paid to the Chinese economic and political events in the Hungarian media; however, it was more about a distant country than a powerful economic and political partner, whose decisions could influence the Hungarian economy in the short and medium term.

If today looking at the headlines of the Hungarian newspapers, one can see the growing relevance of China. Besides the news on disputes over North Korea, the South China Sea islands and China's strategy toward the new American administration, events, news and discussions on the possible outcome of the BRI, especially economic effects of the implementation of the BRI are discussed in academic events, conferences, covered extensively by Hungarian media and evaluated in political discussions.

The breakthrough came after the Great Recession (2008-2009), since it became clear that the rising economic power of China can significantly contribute to the stabilization of the world economy. Before the turn of the new millennia, there were many news and discussions about the real power of the rising Chinese economy in the Hungarian media; however, after the global crisis (2008-2009) China came into focus and China-related news started to make headlines. The resilience of the Chinese economy to the economic crisis, mostly hitting North American and European countries, perplexed the broader Hungarian audience. The flexibility of the Chinese economy not only surprised this audience, but researchers as well. Before the crisis, long and fierce discussions kept going on in Hungarian academic circles about the long-term sustainability of the rapid Chinese economic growth and the real causes of the fast growth; since then the debates have abated, and the focus turned to the very simple question how the Hungarian economy could reap the benefits of this fast growth by strengthening economic ties and attracting Chinese capital.

## **2. The Historical Background**

Before globalization, political and economic cooperation between China and European countries was always more or less limited due to the geographical distance and in Hungary's case because of the country's political irrelevance to China. In addition to that, there were periods in the 20th-century history of China when isolationism and ideology-focused approach determined the country's external relations. Despite the impediments, there are three reasons why today Chinese-Hungarian bilateral relations differ from Western European nation's ties with China.

1. The socialist era is a common reference point the two countries share. Looking back at the history of the 20th century, the communist period clearly connects the two countries. China's closely cooperating in many fields (world politics, economy, culture) with European socialist countries had stronger relations before 1990 than with capitalist countries. At the same time, it must be added that the interpretation of the Tiananmen Square incident was different in Hungary and China. The economic and political transformation of the 1990s in Hungary was studied and thoroughly evaluated by the Chinese Communist Party to draw adequate conclusions. The transformation itself provided the second juncture in the two nations' relations.

Although there are very different motives behind it, the One Belt and One Road initiative can revive these historic links between the two countries. These interests clearly focus on economic benefits from the increasing trade and investment, while the Hungarian political leaderships took a lively interest in the seemingly successful Chinese model over the recent years. However, in the socialist era, the golden age of these political and economic relations lasted from 1948 to 1962, thereafter China turned more to its internal issues, and the competition between the Soviet Union and China grew into a long-lasting conflict damaging cooperation between China and Hungary.

These tensions between Hungary's most powerful ally, the Soviet Union, and China overshadowed Hungarian-Chinese relations often, in particular after Stalin's death (1953) and more importantly during the Cultural Revolution of China (1966-1976) (Vámos, 2009: 1-25).

2. Secondly, another relevant factor in China's historical perception in Hungary, that of the Hungarian nation's Asian origin, has a very distinguished place in the collective national memory. It is not the intention of this paper to look into the accuracy and historicity of theories connecting Hungarians to the Huns having lived in the Shaanxi region of China, and other similar concepts. However, when it comes to China's historical perception, that might be a relevant element of the puzzle, especially in the "marketing" of the One Belt, One Road initiative in Hungary. At the same time, it is very clear that this message is much more enticing to traditionalists, more likely to be found on the conservative and nationalist side of the political spectrum.
3. The relatively large Chinese population in Budapest make Hungary's relations with China unique and provide a lot of chances for cooperation on a people-to-people level, offering ample opportunities to do business. The 1988 agreement between the two governments made travel visa-free between 1988 and 1992. And because of this short period, for the time being the biggest Chinese community in Central Europe can be found in Budapest. According to the latest official figures, there are around 6,800 Chinese citizens with permanent residency in Hungary; however, the number must be significantly higher, since many Chinese already acquired Hungarian citizenship, or were born in Hungary (Irimiás, 2009: 837).

## 2. The Development of Bilateral Relations

In general, Hungary's political relations with China have been outstanding over the last fifteen years. Ironically, the better relations Hungary has developed with China, the more suspicions European partners started to have over Hungary's intentions with China. It is stated often, that the Hungarian foreign policy is using the China-card while developing its relations with the EU and strengthening its ties with China. It is hard not to think of the Hungarian China-policy as a counterbalancing strategy, as the Hungarian Prime Minister puts it: "If the European Union cannot provide financial support, we will turn to China." (*Daily News Hungary*, 11 January 2018). The Hungarian economy still needs to receive substantial EU transfers; however, the willingness of Western European countries to finance economic development programmes in the Central European countries has been diminishing over the last years. The change in the Western European countries' policies was partly caused by the Great Recession (2008-2009), but partly by the reluctance of the Central European countries to further integrate Europe. Therefore, the Hungarian diplomacy makes attempts to reduce the already predictable "losses".

When looking at the roots of the 21st-century bilateral relations, it is clear that these relations started to develop rapidly after the visit of the Hungarian Prime Minister Péter Medgyessy in 2003. After this visit, every Hungarian Prime Minister visited China, and the new Orban government after 2010 continued this policy, aiming at strengthening relations with China. The most obvious example of these efforts was the launch of the so-called "Eastern Opening Policy" in 2011. The strategy was revised in 2012 by adopting a broader growth strategy (the Széll Kálmán plan<sup>2</sup>). The strategy pointed out the importance of trade and investment diversification. The details of this policy were described by

Zsolt Becsey who explained that besides the establishment of trading houses in emerging markets and the promotion of Hungarian firms, in particular small and medium enterprises, initiatives in the education and tourism sectors are linked to the core “Eastern Opening Policy” (Becsey, 2014). It must be underlined that the Hungarian economy is deeply embedded in the Western European economy, with around 80 percent of the Hungarian export being carried out with European partner, while the Chinese share in Hungarian trade is not significant. (China’s share in Hungarian import was around 5.27 percent in 2016, while Chinese share in export reached 2.2 percent in the same year.<sup>3</sup>) In the medium term, substantial changes cannot be expected, since the bulk of the Hungarian export is the export of Hungary-based German, French, Dutch, Belgian etc. firms.

The underlying idea behind the concept of “Eastern Opening Policy” is that historically the Hungarian economy was always reliant on capital and knowledge import from Western Europe. That is the case even today. The first signs of the asymmetric reliance could be discovered after 1492 when trade routes shifted in Europe leading to growing Hungarian dependency on trade with the West. The one-sided reliance only grew until WW2, when the formation of the socialist bloc in Eastern Europe cut these ties with Western Europe resulting in not economic, but political dependency on the Soviet Union. Although the socialist era disrupted these links, they were swiftly rebuilt after 1990, again increasing the reliance on Western capital and technology in the Hungarian economy. The Great Recession (2008-2009) revealed the vulnerability of the Hungarian economy clearly, since as mentioned earlier around 80 percent of Hungarian export targeted other EU members, and more than two thirds of exports are carried out by multinational firms in Hungary. Another channel of economic contagion was the reliance on Western European banks. The subsidiaries of these

banks made up the majority of the Hungarian banking sector, and when they reduced and/or closed down their credits in the first wave of the economic shock, they generated a new wave of economic shock in the Hungarian economy.

Thus, the “Eastern Opening Policy”, as a means to lessen the one-sided reliance on Western Europe, is an economic project of historical relevance to Hungary. It is not only a pet project of the present government, but the only chance to make economic breakthrough and break out of the middle-income country status.<sup>4</sup> Given the delineated background, the concrete target indicator of the strategy is to double the export of Hungarian small and medium enterprises to the Asian and Eurasian regions. The strategy does not exclude, but it does not focus on multinational enterprises. The main target countries of the strategy are China, Russia and India where potential for trade growth is the highest. It is clear that to harmonize the catch-up goals with the “Eastern Opening Policy”, Hungary needs partners it can engage in surplus or zero balance trade. That is not the case with China right now, so critics of the “One Belt, One Road” initiative and the “Eastern Opening Policy” question why it is beneficial to increase trade with partners who have clear surpluses in trade. More balanced trade relations between China and Hungary obviously could contribute to a better reception of Chinese ideas in the Hungarian politics. However, as mentioned above, the volume and share of trade with China is not significant (yet).

After taking a look at the Hungarian policy, it is worth investigating the Chinese side. It is clear that China’s Hungary-policy can only be framed in a broader perspective. There are four different layers to be distinguished in the relations between China and Hungary, in general the V4 countries: (1) strategic partnerships, (2) regional frameworks, (3) the EU dimension and (4) global frameworks.



1. Strategic partnerships. Up to this point, there are three strategic partnerships initiated by China in the region. The first-ever official visit of the head of China to Poland took place in 2004, and it was followed by the official visit of a Polish head of state to China in 2011, where a strategic partnership of the two countries was established. China also signed strategic partnership agreements with the Czech Republic in 2016, and with Hungary in 2017. Strategic partnerships are integral part of Chinese foreign policy, since China has established partnerships with 47 countries and 3 international organizations, with the EU, the ASEAN and the African Union. (Feng and Huang, 2014: 18-19)
2. The “16+1” mechanism. Despite efforts to strengthen bilateral relations, given the number of the Eastern European countries<sup>5</sup> and the relatively small size of their economies, it seems to be more manageable for China to establish a regional cooperation framework, thus another initiative was born by the launching of the “16+1” mechanism of cooperation including China and 16 CEE countries in 2012. And up to this point, summits usually were held in different capitals of the country group.<sup>6</sup> There are already positive signs of this cooperation as the quote puts: “According to the Chinese Ministry of Commerce, the total annual trade volume between China and CEE countries registered 43.9 billion U.S. dollars in 2010, and the figure surged to 60.2 billion dollars in 2014. China has plans to double its trade with the region by 2019.” (Xinhua, 26 March 2016). Between 2009 and 2014, Chinese FDI flows to V4-countries increased by 366 percent, while total Chinese OFDI only doubled (217 percent). However, it is not clear how much of this change in data can be explained by the strengthening of the regional cooperation framework. The “16+1” cooperation mechanism is an intergovernmental platform which is extended by working groups,

forums and dialogues in various fields (f. ex. China-Hungary-Serbia joint working group on transport infrastructure cooperation; China-CEEC Health Ministers' Forum, China-CEEC Literature Forum, and China-CEE Countries Political Parties Dialogue). A crucial step was the establishment of the China-Central and Eastern Europe Investment Cooperation Fund that was announced by former Chinese Premier Wen Jiabao in 2012. The organizer of the Fund became the Export-Import Bank of China; the fund was established a year later. The fund is sponsored by the Export-Import Bank of China and the Hungarian Export-Import Bank.

China's "one size fits all" framework has a few limitations, which are to be led back to visible fault-lines between the sixteen Central and Eastern European countries:

- 1) Large economies are more able to take advantage of the cooperation, whereas small economies find it difficult to cooperate with China. Size also matters in trade and investment.
- 2) Political obligations also differ widely among the 16 countries (membership in the EU, Single Market and the Eurozone).
- 3) This new cooperation form triggered suspicion in EU institutions and EU countries as to what the Chinese intentions are with this mechanism, referring to the possibility of the divide and rule tactics of great powers. These suspicions are very strong in Germany. In the analysis of German politicians, the importance of open markets is one of the often-recurring elements. Brigitte Zypries, Minister for Economic Affairs, underlined the importance of free trade and open markets in her May 2017 speech. She stressed that markets should be opened further in order to strengthen economic ties and boost growth. The EU, she argued, advocates open markets both among its members and among its non-European partners. She added, "As close partners, we

encourage China to implement reforms and open its market.”  
(*FAZ*, 14 May 2017)<sup>7,8</sup>

3. EU-China partnership. There is another layer which only partly overlaps the “16+1” mechanism – the EU-China comprehensive strategic partnership, which started in 2003; however, it is based on several formal agreements between China and the EU. (See the High Level Economic and Trade Dialogue in 2009 or the 1985 Agreement on Trade and Economic Cooperation etc.) The partnership was complemented by the EU-China 2020 Agenda for Cooperation in 2013 encompassing four areas of cooperation: peace, prosperity, sustainable development and people-to-people exchanges. There are various causes for criticism when it comes to this layer of cooperation:
  - 1) Traditionally the EU has deep concern about civil rights and political freedom in China (at the same time, EU member do not have that concern, and they want to trade with China).
  - 2) At the same time, the 28 countries of the European Union – despite being part of the Single Market – offer different business and investment opportunities.
  - 3) EU institutions are slow in their responses to Chinese political and economic initiatives, given the fact that they represent 28 countries.

Against this backdrop, it is no surprise that the Chinese foreign policy has favored more limited forms of cooperation in the recent years (bilateral or regional frameworks), where interests can be formulated more precisely and adequately.

4. Silk Road and the 21st Century Maritime Silk Road. Through this cooperation channel China seeks to establish contact with countries of very different development levels and more continents. This Silk Road was initiated and is being led by China. The main reason

behind this initiative was the need to push down transaction costs of negotiating processes. V4-countries with the exception of Poland have small economies and along with Poland they belong to middle-income countries. That is the reason why this cooperation was speeded up by the “Belt and Road Initiative”<sup>9</sup> proposed by China with the aim to promote the connectivity of Asian, European and African countries (State Council, PRC, 30 March 2015). References to the ancient Silk Road are often made as these remarks deliberately seek to reinforce the open and peaceful nature of this cooperation form.

The explicit strategic goal of all Chinese initiatives is to strengthen economic cooperation possibilities, without wishing to interfere with domestic affairs of the participating countries. This is made explicit in the case of the “Belt and Road Initiative”. The so-called “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”<sup>10</sup> stress this aspect by adhering to the following principles: mutual respect for each other’s sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence.

### **3. Views on the One Belt and One Road Initiative**

There is a clear division in opinions published in the media and in academic papers. Reports and opinions in the media reflect a very supportive approach to the Chinese initiative. These reports is centred on the progressive elements of the proposal: investments and jobs created by these investments are often stressed. If there is any negative tone related to the One Belt, One Road initiative in these articles, they are published in newspapers and Internet sites dominated by the liberal-left-wing opposition. In these cases, there are two typical arguments:

- a) Why replacing one dependency with another one? It is clear, Chinese trade surpluses overshadow goals of “Eastern Opening Policy”; however, Chinese percentages in Hungarian trade are not significant yet. Thus, the turn to Asia is in an embryotic state, and trade deficit can be improved, thus rejection of the project based on these percentages is hurried.
- b) Is it new method how corrupted politicians can access public funds? Other criticisms related to the One Belt, One Road initiative serve party-interests often, as a matter of fact they do not focus on the Chinese initiative, but corrupted Hungarian politicians and high-roller businessmen, who are being featured as players benefiting from public investments. One of the cases is the railroad that is to be modernized by Chinese credits between Budapest and Belgrade. According to the estimates of the Hungarian Figyelő (*Observer*), the project profitability is highly unlikely, based on their calculations, and the money to be invested will bring returns to the investor only after 2,400 years!!! (Szalai, 2017) At the same time, the same accusation is repeated when covering corruption cases related to EU funds. So, this negative element of the interpretation can be traced to Hungarian politics, not China’s perception in Hungary.

When it comes to the interpretation of the One Belt, One Road initiative in the media and the academic circles, the following aspects usually are to be referred to. There are typical answers to the question why the Chinese would invest so much money in other countries’ infrastructure. There are two main sets of arguments which can be distinguished, the geopolitical and the economic reasons.

### ***3.1. Geopolitical Reasoning***

*Chinese weakness.* A few analysts – this surprising argument is rarely to be found in the media, but more often in the academia – emphasize the

shift in geopolitical power relations. They refer to political struggles in the South China Sea between the United States and China and add that China does not have sufficient military power (navy) to counterbalance the United States in this region. Due to this fact and the traditionally non-confrontational approach of Chinese foreign policy, China turns to the Eurasian masses, where resistance is weaker. As Viktor Eszterhai puts it: “Since China would need a stronger navy in the traditionally US-dominated Southeast Asian sphere of influence to overshadow the United States, it had to look for other options. The One Belt, One Road program serves this goal. The program ends the era of low-intensity Chinese foreign policy, and it leads to an international activity, appropriate to China’s new international status.” (Eszterhai, 2016)<sup>11</sup> The reluctance of India and the cooperation of Russia, leading to a subordinate position, is also emphasized by Eszterhai. This view is a very widespread belief among Hungarian scholars, stressing the presumed evil hidden intentions of the Chinese. On the one hand, this argument clearly does not pay attention to the explicit non-intervention policy of the One Belt, One Road initiative. On the other hand – as the hegemon stability theory implies – China as emerging hegemon can motivate other countries to participate in the One Belt One Road initiative, but it cannot force the cooperation; the project must build upon mutual benefits.

*American withdrawal from trade.* This interpretation also relies on political and less economic arguments. The question why China would invest heavily in other countries is often explained by the United States’ withdrawing from the Trans-Pacific Partnership and other signs of isolation (Origo, 13 May 2017). In that argument, it is often stated that China would use the American withdrawal to gain more influence in the world economy and world politics through the launch of the

OBOR Initiative. However, the more realistic analysts emphasize the sequencing of events, pointing out the One Belt, One Road initiative started in 2013, while American elections took place later, in 2017!

*Answer to the aggressive American foreign policy.* There are analysts who highlight China's OBOR project is somehow part of a geopolitical game between the US and China. György László states: "When Hillary Clinton in 2011 announced America's Pacific Century, the Chinese didn't hesitate with the answer for long. In 2013, they started their Westward Opening Policy, the One Belt, One Road initiative." (György, 2017)<sup>12,13</sup> The sequencing is more correct; however, the OBOR cannot be explained only by geopolitical motives.

### **3.2. Economic Arguments**

*Economic pressures on China.* The China-expert, Gergely Salát explains the OBOR project by economic pressures on China and he argues that the Chinese want to live up to these pressures with the launch of the OBOR project. He is quoted in an interview: "China has many goals. On the one hand, China has abundant capital to invest and unused construction capacities, alongside the Silk Road routes; investments by Chinese firms help absorb these capacities. On the other hand, China strives to build upon several import sources and markets, to minimize exposure." (Pataky, 2015)<sup>14</sup> In this case, economic and geopolitical arguments are presented together.

*Securing access to resources.* It is often argued that access to raw materials and other resources motivates the Chinese to launch and implement the One Belt and One Road initiative (*Origo*, 13 May 2017). Viktor Eszterhai contends: "The goal of the New Silk Road Project, easiest to identify, is to ensure import routes of raw materials. Due to the dynamic economic growth, China has been forced to import more

and more raw materials from the 90s on.” (Eszterhai, 2016: 118)<sup>15</sup> Ensuring raw materials is one of the oldest motivations behind internationalization, and it is very important even today; however, if the change of the Chinese economic structure is to be speeded up, creating services and knowledge-based economy, this aspect might be less important than presented above. In other words, these two motivations seem to be contradicting each other.

*Economic development of China's backward regions.* The argument refers to the economic developmental needs of western China. Not only here, but also in development economics, there is a near consensus among scholars that being landlocked is inimical to international trade. This problem can be found in western China and of course, in the landlocked countries of Central Asia as well (f. ex. Kazakhstan, Mongolia etc.) This argument refers to large distances and poor infrastructure, leading to excessive transfer costs. The initiative aims at diminishing these problems and clearly it can start in the neighbouring countries easiest.

*Strengthening the renminbi (RMB).* The precondition of the One Belt, One Road initiative is a massive financial support from the Chinese side. Chinese credits lent to the projects will strengthen the role of the Chinese currency in financial transactions. There is an important historical analogy: before 1958, only the British pound was freely convertible in Europe, but the creation of the customs union forced the six participating countries to make their currencies freely convertible. Without that element, customs union would not have made too much sense. In other words, the One Belt, One Road initiative needs a more liberal approach as for the RMB exchange rate; a strong, easily convertible renminbi will create more trade. There are very clear building blocks of this change, f. ex. the Central Bank of Hungary



(MNB) started its 5-year Renminbi Program in 2015. Under this framework, the Central Bank of Hungary signed a bilateral currency swap line agreement with the People's Bank of China (MNB, 2016). However, that policy is not new; it started with the creation of the Dim Sum bonds and offshore RMB market in 2007. In Hungarian perspective, broadening of financing is interpreted positively.

*Financial vacuum in Europe.* Tamás Matura puts a heavy emphasis on the need for financing in these countries. He states: “The crisis of the European Union and the resulting financial vacuum revealed potential opportunities in the CEE region.” (Matura, 2017: 57.) The argument might be relevant in some of the Central and Eastern European countries; however, it must be highlighted that in recent years EU funds have provided sufficient tools for infrastructure financing in Hungary. Additional sources are always welcome though, but the term “financial vacuum” could have been more appropriate in the first months of the Global Financial Crisis, when the financial vacuum had led to credit withdrawals in Central and Eastern European banking systems.

*Differing interests of the partners.* Among Hungarian economists, this argument is the most often repeated one. Hungary needs technology and capital, while China needs markets and countries with low labour costs, where it could reallocate its capacities. None of them can be found in Hungary, moreover, being a member of the EU means competitive disadvantages, compared to other European countries (f. ex. the Balkan countries, like Serbia, Macedonia, Albania) where EU rules, in particular EU procurement regulations, need not be followed. Tamás Matura describes this situation: “Central European EU member states can apply for non-refundable financial support for infrastructure development, while the regulations of potential Chinese credit lines are not in accordance with EU procurement law. Therefore, Chinese loans are not

attractive, while any attempts to pay off Chinese construction companies from European funds might likely provoke political turbulences. Both sides are looking for something different, which is a fundamental problem, with the exception of non-EU member states on the Balkans, where Chinese investment into infrastructure has been more successful.” (Matura, 2017: 59.) Matura is right in pointing out the different access opportunities to capital; however, this situation can easily change with the adoption of the new EU budget.

#### **4. A Summary of the Hungarian Interpretations**

Generally, it can be stated that the One Belt, One Road initiative has been featured positively in the Hungarian media, while negative comments are usually linked to the criticism of Hungarian politicians and/or parties. The two initiatives – 16+1 and OBOR – are usually featured together, and that is the reason why it is difficult for the average Hungarian to distinguish between them.

There are clear differences in opinions between pro-government and opposition media, the latter ones stressing the negative, or seemingly negative elements of the projects, while pro-government press is emphasizing economic benefits. The perception of the 2017 16+1 summit in Budapest and the One Belt, One Road initiative is rather mixed in the academic circles, and that is more understandable because academic discussions evolve rather around the future world economic and political role of China than the project’s direct possible economic effects. However, if comparing criticisms against Russia, or Putin’s visits in Budapest, the tone is mild, even among opposition partners, since they are aware that China’s manoeuvring room is larger when it comes to investment in Central European countries.

It must be added that there is one element rarely emphasized by Hungarian politicians and experts: China offers an alternative model of development policy to the developing countries of Asia, Africa, South America and to the Central and Eastern European countries as well. If there is something that one can miss from the branding of this initiative, it is to emphasize that the different Chinese initiatives can put the whole Central European region into the centre of the world economy offering the region a one-time chance of catching up.

## Notes

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1. In the Hungarian academic circles, the number of scientists focusing on China is limited, that is the reason why the selection of these analysed papers was complicated, since China-focused think-tanks cannot be found in Hungary, only researchers scattered in the different institutions, like the World Economy Research Center of the Hungarian Academy of Sciences, the Budapest Business School, University of Applied Sciences, the

Budapest Corvinus University and the Catholic University (Péter Pázmány Catholic University).

2. The document can be found here: [http://index.hu/assets/documents/belfold/szkt\\_2\\_0.pdf](http://index.hu/assets/documents/belfold/szkt_2_0.pdf)
3. In Hungarian Forints, based on data of the Hungarian Central Statistical Bureau (KSH).
4. In economics, the middle-income country trap dilemma refers to difficulties of countries relying on cheap labour, struggling to find new competitive advantages when incomes are already on the rise, and the difference in labour cost begins disappearing. It is clear that both China and Hungary face the same dilemma; however, China's manoeuvring room is larger in resetting the course of the economy due to the large market and abundant capital.
5. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Macedonia.
6. In Warsaw, Poland (2012); Bucharest, Romania (2013); Belgrade, Serbia (2014); Suzhou, China (2015), Latvia (2016) and Hungary (2017).
7. In this paper, the author only discusses pro and con arguments related to the OBOR; it does not focus on the way how events are presented in the media. In the quoted *FAZ* article, the support of the Russian and Turkish Prime Ministers does not make the best impression on German readers. This support is often emphasized in the article and the negative impression is clearly an effect the author of the article wanted to achieve.
8. The original text: "Als enge Partner ermutigen wir China, Reformen und Marktöffnung zu liefern."
9. The full name of the initiative is Silk Road Economic Belt and the 21st Century Maritime Silk Road.
10. It was issued by the National Development and Reform Commission (Ministry of Foreign Affairs and Ministry of Commerce of the

People's Republic of China).

11. The original text: “Mivel hagyományosnak tekinthető kelet és délkelet-ázsiai érdekszférájában az USA fokozott jelenlétének a háttérbeszorításához erősebb flottára lenne szüksége, Kínának új lehetőségeket kellett keresnie. Ezt a célt hivatott az Egy Övezet, Egy Út program megvalósítani, amelyet egyben a korábbi alacsony intenzitású külpolitikájának végét, és Kína új hatalmi helyzetéhez méltó nemzetközi aktivitást jelent.”
12. The original text: “Amikor Hillary Clinton 2011-ben meghirdette Amerika csendes vagy csendes-óceáni évszázadát (America's Pacific Century), vagyis az amerikai külpolitika “keleti nyitását”, a kínaiak sem késlekedtek sokáig a stratégiai válasszal. 2013-ban nyilvánosságra hozták nyugati nyitásuk programját Egy övezet, egy út kezdeményezés néven (One Belt, One Road Initiative).”
13. György László refers to Hillary Clinton's article “America's Pacific Century”, that signaled a definite turn of American foreign policy in 2011, when she wrote: “The future of politics will be decided in Asia, not Afghanistan or Iraq, and the United States will be right at the center of the action.” (Clinton, 2011)
14. The original text: “Több célja is van. Egyrészt Kínának rengeteg a befektetni való tőkéje és kihasználatlan építőipari kapacitása, az útvonal mentén kínai cégek által végrehajtott rengeteg infrastrukturális beruházás segíthet ezeket lekötni. Másrészt Kína igyekszik mind importforrásaiban, mind piacaiban a lehető legtöbb lábon állni, hogy kevésbé legyen kiszolgáltatott.”
15. The original text: “Az Új Selyemút projektum legkönnyebben azonosítható célja a nyersanyagok importútvonalainak biztosítása. A gazdaság dinamikus növekedésnek köszönhetően, az 1990-es évektől kezdve Kína egyre több nyersanyag importjára szorult.”

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## **East European “Big-Bang” Revisiting East Asia? Why Chinese “Gradual Transition” Can End Up with “Shock Therapy”**

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### **Abstract**

Polish and Russian “shock therapy” policies in 1990 and 1992 respectively were in fact forced deregulation packages aimed at preventing total macroeconomic and institutional collapse. Some important features of these packages were contrary to neo-classical prescriptions, since the “shock therapists” operated in unprecedented setting of imploding “command economy”. This setting as such never was a subject of neo-liberal theoreticians before it became empirical reality. Marxist-Leninist single party-state regimes are prone to macroeconomic implosion, since the socio-economic actors they create during forced “transition to market” prefer neither “plan” nor “market”, but a grey “no-man’s land” between the two. This position allows them to “privatize the profits” and to “nationalize the costs”, contributing to accumulation of tremendous macroeconomic imbalances on the aggregate systemic level. It also creates socio-economic, political and

institutional impasse of financial deleveraging, which may eventually turn into a forced “big-bang” package amidst systemic implosion. Chinese “gradual transition” – with all singularities – still fits quite well into this dynamic empirical pattern. Sharp decline in the Chinese growth rate since spring 2013 was a man-made phenomenon. The leadership intends to deregulate interest rates and upgrade financial discipline of scared investors, making them to withdraw money from the state and non-state assets. The overall systemic setting increases the chances of financial deleveraging in China to turn eventually into a forced “big-bang” upheaval.

**Keywords:** *China, Russia, economic models, shock therapy*

### **1. Some Reflections on Neoliberal Economic Theory – “Big-Bang” Reforms and Transitions in Eastern Europe, Russia and China**

“I have talked to Yegor [Gaidar – Prime Minister of the Russian first post-Communist government, author of the Russian “big-bang” price deregulation in January, 1992] and he agreed: he did neither market reforms, nor “shock therapy”... He did exactly what any responsible government would have done in his place... There is no politics in deregulating prices, just as there is no politics in appendectomy. If you don’t do it, the patient will die.”

(Aven and Koch, 2015: 20-21)

“Bankruptcy and default are, perhaps, the only unexpected choices which may be able to break the hidden security guarantees in China [and] save the Chinese economy and financial system.”

(Zhu, 2016: 418)

The students of political economy of anti-neoliberal breed are especially merciless in their critique of “shocking” market-oriented reforms, which accompanied the very last stages of communist regimes in Russia and Eastern Europe and effectually marked their transition to post-communism. The following extensive quotation from Adam Przeworski is quintessential: “The neoliberal ideology, emanating from the United States and the multinational agencies ... is not justifiable in the light of contemporary economic theory ... [it] value efficiency over distribution to the extent of justifying social horrors, it places economic considerations over political ones. If the ostensible purpose of market-oriented reforms is to increase material welfare, then these reforms must be evaluated by their success in generating economic growth. Anything short of this criterion is just a restatement of neoliberal hypothesis, not its test ... Yet, unless we insist on thinking in terms of growth, we risk suffering through a long period of tension and deprivation only to discover that the strategy ... was erroneous ... The ultimate economic criteria for evaluating the success of reform can only be whether a country resumes growth at stable, moderate levels of inflation ... Standard neoliberal recipes ... induce economic stagnation, they incur unnecessary large social costs, and they weaken the ... democratic institutions.” (Przeworski, 1995: viii, 69, 85)

To our mind, this passage has at least two important logical discrepancies. First, Przeworski denounces “neoliberal reformers” for placing economic considerations over political ones, while the “ultimate criterion for success” emphasized by him – economic growth – is of purely economic and – we would argue – abstract economic character. Abstract in the sense that it indeed does not consider vicissitudes of political institutions and constellations of social actors. Second, the eloquent author seems to be very much worried about the “weakening of

democratic institutions” in the countries where – at the time of “shock therapy” implementation – these institutions were basically non-existent.

We are very far from soliciting in favour of (or against) neoliberal economic theory regarding post-communist transitions. We take it as *just an economic theory*, whose influence on practical policy decision-making in Eastern Europe or Russia in respective period – contrary to post-factum assertions – should not be exaggerated. In fact, market reforms in Marxist-Leninist one-party regimes were never a special subject for the partisans of the economic neoclassic. Their main point of preoccupation was “structural adjustment” in developed or developing non-communist economies. It seems that the eloquence of Przeworski, for example, betrays rather his passionate rejection of capitalist inequality as such, than profound understanding of the practical alternatives available for the imploding “socialist countries”. Hence his – to say the least – disputable statement, that “[the] relation between the state and the public firms in Eastern Europe was not qualitatively different from that between state and large private and public firms in Latin America ...” (*ibid.*: 67)

Only when empirical history has – quite unexpectedly – staged the dramas of communist regimes’ collapse, the “network” of neoclassical theories was stretched to East-Central Europe and Russia. However, in this region the “network” turned out rather leaky. First, only the countries with overt macroeconomic catastrophes (in fact, not even all of them) employed “shock therapies”. Second, even if the “neoclassical recipe” was in the air of this region at that time, it was perceived by reformist policy makers rather in the sense of ideologically attractive goal setting, than in terms of consistent package-style practical implementation. As far as the latter – i.e. practical implementation – is concerned, quite a lot of its actual dimensions could not help but run counter to neoclassical implications designed for the economies with

already existing market institutions and were clearly inappropriate for the economies where such institutions were still to be constructed. Paradoxically, in this region it was the representatives of ideological opponents and the “losers” of transition in the broadest sense who were in the deepest way convinced and outspoken, denouncing and depicting “shock” and “non-shock therapies” as consciously and consistently implemented “alien theories imported from overseas” (Grachev, 2015: 348-351).

On the contrary, the proponents of “big-bang” policies were much more reticent in this respect. They either tried to explain the “inevitability” of radical change or pointed to its actual “inconsistency” due to specific conditions of original “non-market” institutional setting of communist regimes and to the extreme “weakness” of state capacity amidst macroeconomic implosion (Aslund, 1995: 6). Some of them went as far as to argue that what was done was not the “shock therapy” derived from neoliberalism, but the least costly – in the given situation – deliverance from the overall socio-economic collapse and even probable civil war (Gaidar, 2012: 465-564; Aven and Koch, 2012: 20-21).

Anyway, for those deeply dissatisfied with the social costs of “big-bang” transition and its impotence to generate economic growth in the East-Central Europe and post-communist Russia there seem to have been a good example: gradual market-oriented reforms in China. Chinese dynamic gradualism, so runs the argument, brought the country to the fore of socio-economic progress and increased immensely its global power without transitional recession and institutional collapse. In other words, it will not be far-fetched to assume that the Chinese – gradually – managed to solve the set of systemic issues, which turned out to be totally or partly unsolvable in the East of Europe either in “shock” or in “non-shock” way.

Not only Beijing propaganda machine, but also quite authoritative Chinese economists and social scientists elaborated at length on “political economy of gradual market reforms”, their “much less costly success” and even “international importance” (Fan, 1996: 150-160; Zhang, 1997: 45-90).

These Chinese calculations were echoed in the West by a variety of respective theoretical conceptions. In 1995 Peter Nolan lamented “Russian fall” due to the policy of irresponsible “shock therapists” and saluted “China’s rise” thanks to the country’s attempt at finding the “third way between socialism and capitalism” (Nolan, 1995: 5-7). Also in 1995, Barry Naughton put forward the idea of market economy gradually “growing out of the plan” in China (Naughton, 1995: 123-129). In 2004, Joshua Ramo argued in favour of existence of the so-called “Beijing Consensus”, which put in the forefront institutional continuity and social stability in defiance of neoliberal “Washington Consensus” emphasizing economic efficiency, budget balance and private property (Ramo, 2004). In 2006, Csanadi elaborated the scenario of the Chinese planned economy system’s gradual “self-withdrawal”, leaving more space for the “forces of market” (Csanadi, 2006: 70-71). Lamentations regarding delay in political liberalization were certainly present, however this was somewhat downplayed by asserting the “authoritarian resiliency” of the one-party regime in Beijing (Nathan, 2013: 65-76).

In fact, after the hopes for democratic transition in China were dashed in 1989 and the country entered two decades of impressive growth, the positive discourse on the regime’s “resiliency” became almost overwhelming among Western China watchers (Laliberte and Lanteigne, 2008: 159, 165, 170-176). Doomsday prophesies were out of the mainstream. Predictions about China’s collapse failed literally each

time they were made, while some of them indeed looked not very convincing from the beginning (Chang, 2001).

A few other researchers of East European and Chinese market transitions seemed trying to find deeper explanation for their different dynamics and outcomes: “[There] is no relationship between the speed and breadth of economic reforms and the rate of economic growth ... Eastern Europe and the former Soviet Union were already industrialized urban societies, with state employment covering 80% or more of the labor force ... China and Vietnam were overwhelmingly subsistence peasant agricultural economies. The lesson is that economic reform in Hungary, Poland and Russia meant inducing structural adjustment, while economic reform in China and Vietnam meant allowing normal economic development” (Parker, Tritt and Woo, 1997: 14-15). That all sounds fine, except for the lack of conceivable detailed explanation of what is “structural adjustment” and “normal economic development”, especially bearing in mind that we deal here with one-party states, originally designed to implement Marxist-Leninist or Maoist utopias without market economies whatsoever.

It is only rather recently that the tune of optimistic expectations regarding China’s future development started to change (Pei, 2006, 2016; Walter and Howie, 2012; Shambaugh, 2015; Karpov, 2016). Attention was gradually shifted from “the delay of democracy” or “unsustainable growth” to fundamental problems of the Chinese systemic setting. However, according to our knowledge, so far nobody dared to predict that “gradual transition” in China may plausibly end up with the forced “shock therapy”. So, here we dare to do exactly this.

## **2. Why Marxist-Leninist Regimes Implementing Market-Oriented Reforms Are Prone to Macroeconomic Implosion?**

In our opinion, depicting “big-bang” economic “therapies” at the end of communist regimes as “structural adjustment” is indeed too obscure, albeit a sophisticated language. In fact, these were *forced* financial deregulation measures, very often ad-hoc and inconsistent, dictated by the perception of exacerbating systemic collapse. They aimed to secure market-based exchange of goods amidst speedy overall macroeconomic and institutional implosion.

To comprehend the practical imperatives of “big-bang” transition strategies in former socialist countries, it is pivotal to sort out the fundamentals of given political regimes. It may be perfectly true – albeit in purely technical sense – that “[there] is no politics in deregulating prices, just as there is no politics in appendectomy” (Aven and Koch, 2015: 21). However, all such technicalities are driven very much by political circumstances of institutions and players.

“Resource creating reforms” (Csanadi, 2006) in Marxist-Leninist one-party regimes are actually a political undertaking, since “[The] key to explaining the classical socialist system is an understanding of the political structure. The starting point is undivided political power of the ruling party, the interpenetration of the party and the state, and suppression of all forces that depart or oppose the party’s policy.” (Aslund, 1995: 3)

The term “totalitarian regime”, proposed by several experts at the early stages of the former Soviet studies, carries somewhat ambiguous connotations due to serious drawbacks in its explanatory potential (Friedrich and Brzezinski: 1956). So, here we propose to call such regimes integrative – clearly differentiating them from the liberal democratic and corporatist authoritarian. In an integrative regime, the ruling party-state, legitimized by teleological Marxist-Leninist ideology,



not simply controls but integrates all socio-economic and socio-political institutions, corporations and players. In other words, there is no clear – either institutional or practical – boundary between the latter and the ruling party-state.

What is of pivotal importance for our analysis is that the key mechanism of such an integration is an ideologically based and consistent policy aimed at elimination (extreme marginalization) of the market economy. This policy has been implemented for years and even decades – quite often by openly terrorist means – by the ruling party at the initial stages of its domination in respective countries. In our view, it was the underestimation of the overall systemic consequences of exactly this policy that brought some Eastern Block watchers in the West to conclude that political regime in the Soviet Union after Stalin became “authoritarian” and to explain its internal dynamics in terms of “corporatism”, “institutional pluralism” etc. (Mueller, 1997)

Due to the systemic consequences of the soft-budget constraint, the classical socialist system at a certain point starts to face fundamental resource shortages, which force it to embark on “transition to market”, i.e. resource creating reforms (Kornai, 1992; Csanadi, 2006). However, since bureaucratic coordination on the systemic level has already substituted market coordination, institutions as well as actors of the market economy are either non-existent or too small in scale, weak, marginal or even squeezed out into criminality. That is why the ruling party-state, embarking on “transition to market”, is inevitably compelled to create the “long forgotten” actors and institutions of the “new socialist market economy” basically from scratch and from within herself, forcing or allowing growing number of her part and parcel to participate in revisiting “market transactions”.

It would be, however, premature and optimistic to suppose, that these new “socialist marketers” would rush to the opportunities and

responsibilities of free capitalist competition. More specifically, they would grab the opportunities of “no-man’s land” between “plan” and “market”, in which they would inevitably find themselves in the “transition” setting, contriving to privatize the profits and nationalize the costs. Party-state in its turn would try to minimize the damage of nationalized costs by repression or by introducing new “transition measures”. However, even doing the latter, it never would “cut the leash” connecting it with the “socialist marketers”, since this would mean disintegration of the existing political system and inevitable socio-economic implosion. The “socialist marketers” would, perhaps, like to make “the leash” longer, while the intentions of the party-state with regard to the “length of the leash” may be rather ambivalent. However, due to different reasons, neither the party-state nor its “marketers” are indeed interested in cutting the “leash” for good and starting to travel on the waves of “democracy and free competition”.

Such a situation perpetuates soft-budget constraint and leads to accumulation of growing macroeconomic imbalances detrimental to the quality of the assets. Moreover, contrary to the view of some economists and political scientists (Csanadi, 2006), the “transition to market” setting in socialist countries does not weaken, but, in fact, strengthen mutual dependence between the ruling party-state and its “marketers”. Party-state needs more and more resources, created by the “marketers”. The latter, while jumping at every opportunity to look for resources “on the side”, are still well afraid of losing benevolent generosity of the party-state. In such a case, their budget constraints will be hardened and opportunities to nationalize the costs automatically evaporate.

Rational calculations of the players on both sides of the “leash”, connecting the party-state with its “marketers”, on more aggregated systemic levels turn into utmost irrational macroeconomic behaviour. This, in turn, paves the way to institutional and assets’ decay, macro

implosion and subsequent possibility of forced “big-bang” “structural adjustment”. Here, however, much depends on the scale of macro imbalances and degree of the party-state’s legitimacy crisis.

Regarding the reasons for Russian “big-bang” strategy, Anders Aslund, for example, wrote: “Gorbachev managed to break down a multitude of old Communist and Soviet institutions. [His] capacity for peaceful destruction was truly remarkable, but he left the old bodies of government in tatters rather than definitely finishing them off. His legacy was one of institutional chaos... [In] the second half of 1991, the USSR and Russia faced complete financial ruin. There were grave shortages, and most state shops were nearly empty. Queues were unbelievably long, and people could stand in one line for goods for up to a week. The monetary overhang was enormous... [Even] so, open inflation raged, and prices doubled or tripled in 1991.” (Aslund, 1995: 36-49)

Eyewitnesses testify to the fact that when supplies of foodstuff were delivered to the state shops, self-organized brigades of the consumers distributed the food in equal portions to the people who stayed in the lines in front of the shop doors. Thus “corrupt” shop accountants were prevented from ferrying the foodstuff to “black” marketers. Although the perspective of mass physical starvation was, perhaps, not very real (as another eyewitness put it, he never saw a carcass of a horse or a dog carved in the street, as it happened in Petrograd in 1918), however, institutional and macroeconomic collapse was full.

Mikhail Gorbachev’s truly “remarkable capacity for peaceful destruction” without “finishing” the “old institutions” completely lay in the fact that he made the leash between party-state and its newly born marketers, which grew like mushrooms after the rain since 1988, rather long within a very short period of time, but uncut. In our view, it was his very much rational choice, since both party-state and marketers were

eager to stretch the leash, but neither meant to cut it for good. Academician Leonid Abalkin, Deputy Prime Minister of the USSR and a key mastermind behind Gorbachev's early economic reforms, recalled how controversial was the position of the enterprise directors about implementation of the so-called *khosraschet* or the producers' cost self-accounting. "On the one hand, all speakers demand [economic] autonomy, abolition of the ministries' dictatorship, decrease in state order quotas. And simultaneously insist on guaranteed state material and technological supply ... [It] should have been clear, however, that since you achieved the abolition of state order, by means of which the state collects resources, you cannot enjoy the right to demand from the government to guarantee your supplies." (Gaidar, 2012: 369)

Gorbachev's and the party-state's, perhaps, sole rational choice turned into totally irrational behaviour of the whole bunch of actors in the given systemic constellation. Wholesale prices were de-facto freed between 1988 and 1991. By the end of 1991, the Soviet government could not subsidize retail prices anymore. Key systemic players still did not want to cut the leash connecting them. There were two strategic alternatives: either to liberalize retail prices in a "big-bang" way, or the state must have commenced *prodrazverstka* – the term known from the time of Bolshevik revolution which meant the stoppage of market mechanisms and forced confiscation of produce. Nobody at the top wanted these alternatives; more exactly, most were terrified by both perspectives. "Big-bang" price liberalization was fraught with unpredictable social consequences, while there were well-founded doubts regarding the potential of state capacity in case of macro-confiscation. This latter path, proposed by Gorbachev's another adviser Yuri Skokov, could have even exacerbate the speed and scale of institutional implosion and, perhaps, could indeed lead to a severe civil conflict.

The famous Russian political analyst, Georgy Sattarov compared political and economic discussions of that time to the endless council of physicians at the bedside of a virtually dying patient. When the latter was already in the state of a clinical death, the doctors suddenly parted and allowed a group of their young and seemingly inexperienced colleagues to undertake a complicated surgery. The surgery turned out to be successful in the sense that the patient survived, albeit with severe postoperative complications. However, ironically enough, when the death retreated, the older and apparently more experienced physicians again closed their ranks by the patient’s bedside and went on even more eloquently discussing what should have been done and if the undertaken surgery was indeed necessary and useful. (Nechaev, 2010: 104-105) This group of young and inexperienced physicians was exactly the team led by Egor Gaidar.

Personal views of Gaidar regarding economic theories may well have been neo-classical, or Keynesian or – most probably – both to a degree. However, what was done by his team in the given circumstances cannot be described in terms of either neo-classical or Keynesian economics. As a matter of fact, it ran contrary to both. The government of Gaidar undertook one-stage retail price deregulation in the economic setting still de-facto monopolized by the state assets. Implementing privatization in any form was at that moment out of question due to complete lack of time, space and respective actors.

One certainly may look at it technically as a “financial deregulation”. In fact, it was something much more than simply this. The package of “deregulating” measures was a forced and in many ways indeed reckless attempt to save “normal” market commodity exchange on the micro-level. At the same time, by means of freeing retail prices in the given setting, “deregulation” cut the leash between the collapsing

party-state and its marketers resolutely for good, thus laying the foundations to a qualitatively new socio-economic and political institutional arrangement. This arrangement – contrary to all of the doomsday prophecies – survived and became sustainable in the years to come. Unfortunately, it did not consolidate in the shape of liberal democracy (could it after all, by the way?), but clearly in the shape of a market economy driven by demand.

So, the questions are: were Russian “shock-therapists” indeed crazy neo-liberals and were their “big-bang” deregulation a complete disaster? Sober analysis of all factors and parties concerned may lead us to the answer “No” to both enquiries. In our view, “big-bang” deregulations in the socialist countries at the last stage of their one-party regimes are perhaps arduous, however, inevitable prices to be paid by societies for the decades of integrative non-market development with its soft-budget constraints and uncut leashes.

### **3. China as “Agreed Economy”: “Big-bang” Perspectives Revisiting?**

The Chinese case of “market transition” – with all its undeniable singularities – fits very well into the dynamic pattern of relationships between the party-state and its “marketers”, which is of utmost detriment to the country’s macroeconomic situation.

Chinese mechanism of perpetuation of the soft-budget constraint includes two dimensions. The first one is party-state political and financial monopoly, what I tend to call simpler “party-money symbiosis”. It is embodied in still penetrative institutional characteristics of the Chinese party-state in general, and such characteristics of it in the national financial system, particularly displayed by decisive role of administrative macroeconomic regulation. Politically motivated

repression on capital in China is still of pivotal importance to guarantee systemic socio-economic and political stability.

The second dimension is a very specific “market-oriented” price reform, which Chinese experts usually call “double-track”, meaning the parallel existence of “plan” and “market” pricing in the national economy.

In fact, instead of “double-tracking”, what emerged from this gradual reform was rather a “multiple-track” price setting. Each “track” is, in fact, a sum of conditions on which different units-players of the system participate in the domestic “market”. This sum of conditions for a certain unit is achieved through non-transparent bargaining between this unit and the related level of party-state authorities or between mutually depending units under control and patronage of the related party-state organs. By such bargain economic players in the given setting define the scale of quotas of raw materials and processed produce to be procured or sold on “plan” and “non-plan” prices. (Karpov, 2014: 159-185)

Although the setting looks queer and opaque, there is clear regularity in one aspect. Both producers and sellers have been eager to get raw materials and equipment at “plan” prices and to sell their production at “market” prices. As early as in the mid-1990s Chinese experts pointed out: “So far as currently market prices are considerably higher than planned prices, the producers want to sell their produce at market prices but to buy raw staff at planned prices. Volume proportions of used planned and market prices for the most part is subject to bargain between enterprises and the government. Thus, it is extremely difficult to say what these proportions are.” (Yang and Li, 1993: 111)

The practice of such bargain became indeed the genetical code of the Chinese version of “market socialism”, having penetrated not only the commodity pricing mechanisms, but also those of credit, stock

market, property relations etc. As a matter of fact, bargain over price “track” is also, perhaps, the most important leash, connecting party-state and her “marketers”, which both sides by no means want to cut. The whole edifice of the Chinese “market economy” is nothing else but a queer setting of “agreements” between the “marketers” and the party-state under politically and financially guaranteed integrative control of the latter. Moreover, the so-called “deepening of market reforms” in China through the whole period of recent 30 years was nothing more than structural and dimensional multiplication of “multiple-track agreements”. Any reform or “market experiment” undertaken in China through all these years was constructed in the way to guarantee the dominant integrating positions of the existing Leninist one-party state with rather long (sometimes, indeed, very long) but uncut leashes to its “marketers”. If any measure in the process of Chinese “transition to market” imperilled party-state dominance or threatened with cutting the leashes, it was either abolished or reformatted to include both these key systemic elements. Hence, it would be more correct to call Chinese economy not a “market” one, but rather an “agreed” one.

This structural and multidimensional “agreed” character of the Chinese economy which has been growing and increasing since, at least, early 1980s, produced and is still producing tremendous macro-economic tensions and greatly complicates macro-economic regulation. Chinese domestic debt, by most conservative estimations, has exceeded 200 percent to GDP and monetization of the Chinese economy (M2 to GDP) is also around 200 percent – one of the highest in the world. (Walter and Howie, 2012: 214)

The debt – which in given conditions is virtually a debt of the party-state to herself – is constantly written off or swapped, while low penetrability of the “multiple-track” deals decreases the level of trust and increases moral hazard between the parties concerned, forcing them to



prefer operating in cash. Macroeconomic regulation in China in the recent three decades has been invariably a trade-off between preserving overall macro stability and financial or – sometimes – administrative and political repression against those “marketers” who either “violated conventions” or simply could not be financed anymore by the party-state. Macroeconomic regulation “with Chinese characteristics” inevitably involves direct administrative actions like politically motivated pointwise money distribution and stoppage or limiting of certain credit lines. Moreover, empirical experience testifies that these administrative actions indeed play the decisive role in achieving relative balance in each period of macroeconomic instability. Each cycle of investment-led growth ends up in administratively orchestrated austerity campaign, coinciding with “political cycle” running from relative liberalization to renewed repression against real, potential or imaginary opposition within the party-state and outside of it.

In such a setting one should not expect “mass democratic movement” or a “global conflict” to topple the regime. Sheer inadequacy of macroeconomic adjustment on level ground may very well sparkle some signal catastrophe, forcing the parties of “track deals” to non-normative action.

Most recent events of 2013-2016, with Chinese GDP growth rate sharply decreasing, testify to rather low adaptive capacities of the constructed setting. This fall in GDP rates was largely a man-made phenomenon: key economic players got frightened by the new leadership’s intentions to experiment with the partial credit interest rate and capital account deregulation. What followed was money withdrawal from the economy and subsequent decrease in growth rates. The actual quality of Chinese assets turned out to be too bad for the investors to allocate their money without the “integrating guarantees” of the ruling party-state.

In fact, the original motivation of the party-state to experiment with partial financial deregulation was indeed very much market-oriented. At the heart of it there was a perception that after four billion Yuan stimulus packages in 2008 internal debt grew inadequately high and moral hazard in the field of finance increased to unacceptable dimensions, almost completely ruining budget discipline, especially at the provincial and sub-provincial levels. It was technically impossible to punish administratively all violators. So, the decision was made to clamp first the so-called “shadow banking” – private or quasi-state legal or semi-legal financial institutions operating predominantly with the state money, which they received through white, grey or openly black channels from the big state-owned banks (Zhu, 2016: 39). Between March and May 2013, the State Council (People’s Republic of China’s key executive body) made it clear to the big banks that their current accounts will not be refinanced from the state budget, as it was the rule before. The banks were advised to work more actively on the market and to look for stock options, instead of placing their hopes on the generous party-state. In other words, the State Council of PRC openly announced that to improve budget discipline on the eve of the planned partial deregulation, it was ready to cut the traditionally existed leashes between the party-state and its biggest financial “marketers”.

What followed was de-facto technical default. By means of such statement the party-state’s leading executive body made the party-state break its fundamental systemic commitments as the lender of last resort and key financial (and, certainly) political integrator. All this led to an abrupt credit crunch and shortfall in the cash market in the country, where M2 to GDP stands no lower than 200 percent! Shanghai interbank overnight lending rates (SHIBOR) rose from 3 percent to 30 percent with repo rates exceeding 25 percent (Quah, 2015). Subsequent sharp decrease in growth rate and the whole bunch of negative events such as

stock market crashes in 2015 and 2016 were the direct or indirect consequences of this governmental threat to cut the financial leashes of soft-budget constraints and political integration. To put it simply, key “marketeters” in financial and real sector got terrified by the perspective of the party-state to cut unilaterally the leashes connecting the former to the latter. Needless to say, announced plans for partial financial deregulation never came true. Since late 2015, the party-state renewed showering money into the Chinese economy, thus helping to normalize the situation to a certain degree.

These circumstances raised fundamental questions regarding ability of the Chinese “agreed” economic and political setting to conduct systemic reform. *The Economist* commented in 2016: “It is hard to say precisely, when or why, but deleveraging [in China] at some point is inevitable ... Chinese adjustment would require either a really big depreciation, or would be slower and more painful, or a bit of both.” (*The Economist*, 2016)

With given scale of macroeconomic imbalances and the constellation of political and economic actors looking not much yielding to change, the chances of the Chinese gradual transition turning at some future point into forced “big-bang” deregulation have increased. And for sure, in case it indeed happens, it will not be provoked by the Chinese inspirations in neo-liberal economic theories or “Washington consensus”.

#### **4. Some Concluding Remarks**

In the light of what was said above, those observers, who place too much hope on successes of Chinese gradual “transition to market” so favourably different from the “failures” of East European and Russian “neo-liberal” “big-bang” strategies, may be fundamentally wrong.

Despite all clear cultural, institutional, social and demographic peculiarities, systemic megatrends of Chinese transition are very much like those of the USSR and former countries of the Eastern Bloc in the respective times. Despite almost three decades of impressive economic growth and indeed tremendous infrastructural, social and even mental changes, the Chinese gradual reformers were and are still unable to overcome the historic curse of all integrative, originally non-market party-state models – to cut the leashes of soft-budget constraints and political integration connecting ruling party-state and its “marketers” without institutional disorder, financial upheavals and transitional recession. This apparent inability in China – as previously in Gorbachev’s Soviet Union or other Eastern bloc countries – aggravates fundamental macroeconomic misbalances and paves the way for possible forced “big-bang” deregulation sometime in the future.

Be it in Poland, in Russia or possibly in China, these forced “big-bang” transformations are something much more significant than simply “structural adjustments” or “financial deleveraging”. These are without exaggeration institutional and social revolutions, qualitative leaps from “totalitarian” integrative settings into not necessarily liberal democratic but undoubtedly more free and multi-polar forms of social existence. They were and will be by no means inspired by “neo-liberal” economic theories per se, but led by critical existential perceptions of ruling elites and social groups under the conditions of deep and, perhaps, extremely traumatic systemic crisis or even catastrophes of the respective party-state integrative models. So, the key criteria for the “successes” or “failures” of such qualitative leaps cannot be purely economic, like growth rate or rate of inflation, etc. Technical economic side is surely important, but in these cases more significant dimensions of positive or negative results should be the overall ability of the new non-integrative settings to survive and consolidate. This by no means should do with any

economic theories – neo-classical, Keynesian or any other – or with “Washington” or “Beijing” consensuses. It depends on the arithmetic mean of such aggregate factors as political culture, constellation of actors, institutional arrangement, new political class formation and, undoubtedly, on the results of economic performance, however, in somewhat longer run.

## Note

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## **Emergency Management Governance: Examining Leadership Styles across Cultures**

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### **Abstract**

While Taiwan is a modern culture, it is also a deeply traditional one, and Taiwan's public administrators often struggle to implement new and innovative disaster response programs in the nation that accommodate these two disparate influences. This research examines leadership styles that are employed in Taiwan with those used in Japan, as well as in the West. Much of the research on leadership styles across cultures is being conducted in the field of business administration, which has value for public administrators as well. In order to understand the qualities required of effective emergency managers in East Asia, particularly Taiwan, and how these qualities differ from those of emergency managers in the West, it is essential to take a culturalist perspective on the issue.

**Keywords:** *culture, leadership, Taiwan, Asia-Pacific, emergency management, corporate culture, teamwork, management*

## 1. Introduction

In September 2013, then Minister of the Interior Lee Hong-yuan (李鴻源) raised the idea that the Republic of China (ROC) government should follow the example of many nations in the developed world and establish a mechanism to provide disaster insurance at the governmental level. The idea was a hard sell. Lee, who had just returned from a fact-finding tour in Europe, bolstered his argument by citing reconstruction costs of over US\$1.4 billion over the previous fourteen years in Taiwan. Moreover, such schemes have been instituted in countries such as the United States and Japan, which have often served as inspiration for public institutions and mechanisms in Taiwan. Nevertheless, despite Lee's best efforts, reception to his idea was lukewarm, and little has been accomplished in the intervening period.

There are several cultural barriers in Taiwan to the widespread embrace of such disaster insurance programs. For one thing, it is a society that values relationships, especially in business, and as a result there are very few business or personal lawsuits filed, in contrast to the much more litigious West. Thus, liability insurance has long been regarded as largely unnecessary – a fact to which the nation's relatively undeveloped tort system can stand as evidence. Until the present generation, Taiwan has also been a culture in which saving is lauded, and thus insurance payments used to be seen as a drain on income, as well as a redundancy. Moreover, Taiwan remains a superstitious culture, and the purchasing of insurance – especially disaster insurance – may be regarded as bad luck, and courting misfortune (Chu, 2001).

Nevertheless, Taiwan today is also a modern culture, and one in which leaders must contend with the often opposing forces of modern needs and traditional preferences. The struggle of Taiwan's public administrators to adopt new and innovative disaster response programs in the nation presents itself as a unique opportunity to examine how

leaders in such situations walk the razors edge between doing what is necessary to ensure that the population have access to the advantages of the modern world while respecting the cultural sensitivities that can often stand in the way of administrative progress.

Some of the most cutting-edge researches on leadership styles across nations are being done in the field of business administration, and while public administration differs in many important respects, this research nevertheless has value in the present context. In seeking to identify the qualities required in effective emergency managers in East Asia, and especially how these attributes might differ from their American counterparts, an essential aspect is a consideration of culture, and the role that the cultural context in which it is exercised plays in effective leadership.

By using a comparative approach, the differences between organizational needs and hence leadership styles are more easily highlighted, and therefore a comparison of leadership in Taiwan with Japanese leadership becomes instructive, especially when juxtaposed against an American leadership ideal that is perhaps more widely understood, and which has certainly received more attention from researchers. How do public administrators in Taiwan and Japan see their leadership roles, and what are the salient differences in these perceptions?

It should be acknowledged in advance of undertaking such a comparison that nations do not equate to cultures, and therefore it would be disingenuous to assert that “all managers in Taiwan do this” or “all Japanese leaders behave that way”. Not only are there different personal styles among leaders within a particular culture, and different organizational values defining the context of the leader’s role, but there are different cultures within a nation, and so any observations contained herein with regard to Taiwan, Japanese or American leadership styles run

the risk of being accused of dealing in generalizations. While Japan is a culturally homogeneous nation, Taiwan is somewhat less so. It is therefore important to read these results not as a guide for understanding all managers or managerial decision-making within that particular country, but as an attempt to distil the importance of the culture in which leaders must operate. As amply demonstrated by the work of Hofstede (1980; 1994), such cross-cultural comparisons not only have value to the researcher but are extremely instructive in more practical applications as well. Moreover, the predominant cultural attributes within which a leader operates are arguably one of the least ephemeral influences with which he has to contend, and thus are worthy of greater study.

## **2. A Confucian Influence**

Some of the earliest formal studies of leadership in Taiwan identified a tendency toward the “morally superior individual” approach to leading large groups or enterprises. Robert H. Silin, using interviews with upper management and employees in various Taiwan corporations, found that Taiwan, like Japan, was greatly influenced by Confucianism (Silin, 1976). Unlike Japan, there has traditionally been a low general expectation in Taiwan of the ability of individuals to work together effectively in large groups, or to maintain solidarity for long periods of time. Thus, in large-scale Taiwan enterprises, it falls to the leader to undertake the role of the morally superior individual. In part because of this imputation, the leader in a Taiwan context is truly alone at the top, at least in how he is regarded by group members, with even his closest executives being symbolically separate and apart from him, especially in the eyes of subordinates.

In order to preserve group stability, there can be only one leader in the Taiwan organization, and thus individuals who demonstrate

leadership potential, outstanding productivity or excessive competence are often deemed a threat, not just to the leader's position, but by extension to the stability of the group. Therefore, for the good of the group, these individuals must be prevented from overtly demonstrating this competence or developing their potential. As a result, there is a disinclination to share authority or delegate important tasks in the Taiwanese organization.

In Japan, there is a predisposition toward seeking input from all group members prior to choosing a course of action, and this is considered an essential trait of a competent leader. It may stem, according to Ouchi and Jaeger (1978), from the Japanese concept of *wa* (和), which encompasses harmony, peace, and balance. Chinese culture, which is a major influence on Taiwanese culture, also has the concept of harmony, but this is expressed in a disinclination on the part of subordinates to disagree with the leader. Thus, there is a tendency for Taiwan leaders to centralize decision-making, which can result in an apparent arbitrariness on the part of leaders<sup>1</sup>. This leadership style has been termed paternalistic, and indeed, the leader's role is reminiscent of the sole authority wielded by the father figure, who rules the group as he would his family – with benevolent ethics and moral integrity (Cheng *et al.*, 2004).

In a study of top leadership and subordinate relations at large-scale enterprises in Taiwan, Cheng *et al.* identified four characteristics of the type of authoritarian leadership style common to his subjects: the assertion of authority and control, degrading subordinate competence, building a lofty image, and adopting a didactic style in managing employees. Subordinates were expected to respond to this leadership style with compliance, obedience, respect, shame, and especially fear (*ibid.*). This latter response – emotional fear of the leader – was identified by the authors as the psychological mechanism by which the

authoritarian leadership style continues to operate. Silin (1976) likewise identified fear as an important employee response to interactions with the leader; specifically, that the fear of being fired should be ever-present in a properly functioning enterprise. This is not to say that leadership operates on fear alone: authoritarian leadership must operate in conjunction with what Cheng *et al.* (2004) termed benevolent leadership and moral leadership. The psychological mechanism propelling benevolent leadership is the feeling of indebtedness that the subordinate has toward the leader. Moral leadership, meanwhile, operates predicated on an identification process the subordinate goes through by which he acknowledges the leader's role as the morally superior individual and seeks to emulate his behaviour.

Given the exalted position that the leader holds in the estimation of his subordinates, it is considered extremely bad form for a subordinate to question a decision made by the leader. In terms of communication, the focus is on positivity and positive outcomes, as it is only through a positive attitude that thought can be translated into action. Thus, negative communication (bad news, opposing viewpoints, or suggestions that run counter to the leader's perception) are often greeted with negative reinforcement. Such expressions of alternate opinions are taken, at best, as expressions of a lack of trust in the leader and, at worst, as an attempt to "take down his table", or attack him (Silin, 1976).

The only exception to this rule is in private communication by trusted interactors (interaction time with the leader, and not rank or seniority, is considered a better measure of influence), who will agree with the boss in public, but then tactfully express their honest opinion afterwards, and only in private. Thus, the hierarchical model assumed to be the default structure of East Asian organizations is less representative in the case of Taiwan, with power concentrated at the top, and the most influential power brokers at lower levels not necessarily inhabiting the

penultimate rungs of the corporate ladder, but rather those interactors – individuals of any rank – who have access to face time with the leader.

Given this cultural predisposition, the American example and not the Japanese may be a more appropriate one for Taiwan administrators to follow. Writing on the topic of collectivism, Huo *et al.* (1999) note that the old truism of America being a culture that embraces and rewards individualism, in this case, is accurate. Leaders are not averse to soliciting opinions and different viewpoints from the group, especially in the modern organizational environment in which this is often taught as good management practice. In reality, however, such inclusiveness in the American decision-making process is usually employed merely as a method of overcoming group inertia and defusing resistance, rather than a genuine attempt to seek alternative perspectives. In this way, it differs from the Japanese leader's building of consensus and is more akin to the tendency in Taiwan for the leader to avoid delegating authority, except insofar as even the mere appearance of soliciting input would seem to go against the traditional dynamic at play in Taiwan.

This dynamic may seem counterintuitive, especially considering the work of Hofstede (1980), whose research identified an even higher level of collectivism in Taiwan than in Japan. He defined "individualism" as the degree to which people prefer to act as individuals rather than as members of a group (Hofstede, 1994), the definition of "collectivism" being the converse to this. And indeed, Huo *et al.* (1999), who interviewed corporate managers in Taiwan, noted that leaders emphasized the importance of securing cooperation from employees, but this is distinct from the consensus-seeking employed in Japan. How this collectivism is expressed therefore must be different in the two countries.

The characterization of Asian cultures as "collective" is a view – indeed, almost a stereotype – that is rarely challenged, and yet according

to Wong (2001), it is too easy to simply accept the popular assumptions about the collectivism of Chinese work behaviour. The findings of his examination of the characteristics of Chinese collectivism in the workplace noted that it differs greatly from that in Japan, as well as between Sinophonic societies (Hong Kong, China, Taiwan, etc. ...). By incorporating vertical and horizontal components into the Hofstede measurement of collectivism, Wong concludes that Chinese collectivism is mainly reflected as loyalty to the family, whereas Japanese collectivism includes allegiance to workplace. Indeed, in the Chinese cultural context, the well-being of the family is more important than that of even family-run businesses (Cheng *et al.*, 2004). If accurate, these findings have great implications for how Taiwan managers might best choose leadership styles to emulate and institutional frameworks to adopt, whether from America or Japan.

### **3. The Importance of Communication**

One of the most oft-cited qualities in a good leader is the ability to communicate, and yet even within this relatively straightforward concept there is significant room for deviation among cultures. Leaders in the United States tend to equate the ability to communicate with the ability to speak well, and thus there is a skewed perception about the importance of giving speeches compared to the ability to listen. In Japan, in contrast, leaders with good communication abilities are widely perceived as being good listeners. According to Huo *et al.* (1999), Taiwan walks a middle path between these two extremes.

The idea that subordinates might have valuable input that must be taken into account in the decision-making process assumes a worldview wherein the leader does not have a monopoly on wisdom. Huo *et al.* (1999) credits the influence of Confucianism for this tendency among



Eastern administrators to hold the view that leaders are not necessarily smarter than their followers. This is expressed in different ways, however. In Japan there is the aforementioned leadership prerequisite of being a good listener and seeking input from all members of the group, whereas in Taiwan, leaders are wary of overtly competent subordinates and those with leadership potential. Both paradigms assume the existence of wisdom and leadership abilities among the group, yet react to this in different ways.

Americans, meanwhile, believe strongly in the individual and his ability to rise to great heights in a system that rewards virtuous traits such as intelligence, ability and tenacity. In such a meritocracy<sup>2</sup>, the leader is promoted over others because he is more deserving, and therefore the one most qualified to make the hard decisions unaided. As a result, the importance of listening is overlooked in favour of being a good motivator. Hence, the leadership quality of communication is often conflated with the ability to speak well – to articulate the corporate vision, or verbally rally the troops to work toward a common goal. This focus on effective speaking abilities is found in Taiwan, as well: once an individual assumes a leadership role within a group, there is the tendency to attribute his success to the ideological or value-oriented beliefs that he holds, and it is part of his job as the morally superior individual to effectively verbalize these beliefs for the betterment of his subordinates (Silin, 1976).

There is little cross-cultural research to date on the qualities of leadership specific to the emergency management (EM) profession. While communication is just one of many skills an emergency manager must have in his leadership toolbox, it is one that has perhaps received the most attention from cross-cultural researchers. In terms of EM and crisis control, Low *et al.* (2011) used Hofstede's model to examine how culture affected the crisis strategies employed by leaders in Taiwan and

the United States in their respective efforts to communicate with citizens for the purposes of image repair following major disasters and perceptions of government failure. In Taiwan, the decisions examined were those made by the administration of ROC President Ma Ying-jeou following the August 2009 devastation wrought by Typhoon Morakot, while the American example was the response by the administration of US President George W. Bush after Hurricane Katrina struck the Gulf Coast in 2005. Both disasters incurred great loss of life and massive destruction of property and infrastructure, and in both cases the polity blamed their governments for mishandling the events, accusing them of responding too slowly, being unprepared, and exhibiting a lack of compassion for the victims (Low *et al.*, 2011).

Of Hofstede's five dimensions, uncertainty avoidance and power distance were used to compare America with Taiwan in terms of crisis communication, as they perhaps best contain clues as to how a culture perceives risk and crisis (Taylor, 2000). While the study examines only one aspect of how the two governments behaved during the respective disasters (i.e. image repair), it is instructive from a broader perspective as well inasmuch as communication between authorities and the public is one of the most important aspects of EM.

The research found that in Taiwan, which rates much higher on the uncertainty-avoidance scale, there is a need for a formal structure and clear, well-defined rules governing behaviour. The authors suggest that this dynamic may have influenced Ma's decision to apologize to the families of the victims after being accused of a slow response to the crisis and lacking compassion for the needs of the people. In contrast, the United States is a culture with low uncertainty avoidance, which could be why Bush resisted any acceptance of blame for the handling of Katrina, and was slow to take corrective action in response to such criticisms.

Moreover, Taiwan's high power-distance level implies a dependence on more powerful people in society's hierarchical structure, and that members of this culture want strong leaders to take decisive action. Thus, in the initial stages of the post-disaster fracas, when the Ma administration tried to blame villagers for their own plight (such as for failing to evacuate, etc. ...), the wider society saw it as unseemly for a president to shift blame to society's powerless in such a way, and upbraided him for this failure to take appropriate responsibility as leader.

Taiwan's high scores in both the uncertainty-avoidance and power-distance dimensions have an effect on what leadership strategies developed in the West might best be employed in Taiwan, and more importantly, how they can best be adapted to suit local contexts. Consciously or not, successful leaders tend to adopt a leadership style that follows the values and mores of the culture, and Western leadership models directly imposed upon a Chinese society without modification might result in unfavourable outcomes (Cheng *et al.*, 2004).

In a comparison of the effectiveness of the "transformational" style of leadership in the United States and Taiwan, Spreitzer *et al.* (2005) likewise invoked Hofstede's power distance, expanding the variable to a construct of traditionality, built upon that employed by Farh *et al.* (1997), to encompass "expressive ties among people manifested in values such as respect for authority, filial piety, male-domination, and a general sense of powerlessness" (Farh *et al.*, 1997: 424). The values represented by traditionality identify that every relationship is hierarchical, with a power holder and a submissive, each with clearly defined roles and a range of appropriate behaviours permitted to them. Leaders in traditionalist societies such as Taiwan's value harmony and conflict avoidance over productivity or performance.

#### **4. Oriented around Relationships**

The task-oriented dimensions of transformational leadership (those of articulating a vision, setting high performance expectations, and intellectual stimulation) were found to be perceived as less effective given the Taiwan concept of leadership, at least among traditionalists. The relationship-oriented dimensions (providing individualized support, an appropriate model, and fostering group goals) showed much stronger support among traditionalists, as these would seem to support Confucian-influenced values such as preserving harmony. In short, a transformational leadership style, so effective in the United States, is not regarded as particularly useful among Taiwan's more traditionalist leaders.

What implications do these differences have for public administrators in Taiwan? Administrative bodies from the United States are commonly used as templates that Taiwan administrators attempt to follow<sup>3</sup>. At the sub-national level, some Japanese prefectures have adopted interesting public-private partnership models to anticipate and mitigate losses from natural disasters affecting them regularly – models that might serve as exemplars for Taiwan. The question of interest here is whether, in the current focus, such templates and lessons are applicable to the Taiwan context, and so an examination of the cultural characteristics of Taiwan and how they may coincide with or differ from those in Japan and America is in order.

In Western nations, governments take the view that the wide-ranging effects of almost all types of emergencies and disasters render these events too large and too all-encompassing for a single agency or jurisdiction to handle alone. As a result, there has been increased attention paid to the practice of using Community-Based Strategic Planning (CBSP) techniques to draw other stakeholders into the process.

An example of this process is very much in evidence in the city of Vancouver, Canada, with the emergency management structures they have in place. The EM infrastructure in British Columbia, especially in the City of Vancouver, is one with which the author is personally familiar, and while it may not represent a standard used across North America, it is nonetheless a fairly typical example and therefore useful as an illustration of the Western method of using CBSP in EM.

In BC, various governmental and non-governmental stakeholders contribute to the common task of emergency preparedness from the very beginning of the process: that of mission focus. Through negotiation and consultation, a mission statement is composed in such a way as to ensure buy-in by all stakeholders, mitigate mission-drift, and heighten the capacity for inter-jurisdictional and inter-agency cooperation. An example of such a mission statement could be to develop and maintain a comprehensive plan to prepare for, respond to, and recover from all types of major emergencies that might occur in the jurisdiction.

This process is known in BC as a “Framework for Cooperation”, and it illustrates very neatly how duties and responsibilities are portioned out to various stakeholders, including non-governmental organizations (NGOs), businesses, charities and various agencies in the federal, provincial and municipal governments. Information provided by Emergency Social Services (ESS) in Vancouver, BC, shows that a variety of organizations, charities, and public and private bodies are actively involved in all aspects of emergency planning and callouts. This model is not provided as a template that should be followed, nor as a standard that must be met. Rather, it is to illustrate the depth and breadth of CBSP structures within the EM community in one part of North America and how this theoretical construct is expressed in a real-world application.

In contrast, the public governance concept of CBSP is not widely employed in EM structures in Taiwan. Indeed, the practice of emergency management and disaster response are solely within the purview of the government, and private sector actors are kept at arm's length. Moreover, EM is primarily seen as the responsibility of the central government, with elected leaders expected to handle such concerns, or at the very least to take a leadership role.

Unlike Western nations, in which local governments generally enjoy a high-degree of autonomy (although they often receive support) from the central-government level, Asian nations in general, and East Asian nations in particular, are partial to a very centralized system. Governments at Taiwan's county, city, and township levels are often not tasked with establishing, on their own, the kind of emergency plans and response frameworks that their Canadian counterparts are mandated to establish by federal law. Rather, such plans, including the charting of escape routes and rally points for citizens fleeing a disaster, are produced at the central-government level and passed down to the towns and villages. This is in direct opposition to the practice in North America, wherein the first step of composing a municipality's emergency plan is to gather stakeholders (citizens' groups, business interests, even the disenfranchised) and begin negotiations about what should be included in that plan<sup>4</sup>. It is generally accepted EM practice that communities take ownership of their own emergency plans and preparations, albeit with material and financial help from higher-level governments, because it is these communities that intimately know what their needs are, as well as exactly what hazards, risks and vulnerabilities they face. In BC, it is believed that, were this job left to a central authority, a standardized, one-size-fits-all plan would be imposed upon disparate communities, and such a plan would stand a very slim likelihood of achieving its mission.

## 5. Hierarchical Structures

East Asia is made up of Confucian-influenced societies, and as such there is a tendency to be very conscious of hierarchy and position. This is often perceived as familism and a concentration of control with the patriarch at the apex of the family structure. It should be noted that this pattern, though imposed from above, is nevertheless a framework in which many Asians feel comfortable, even at the lower levels. For one thing, it reduces the stress associated with making decisions and apportioning responsibility. This dynamic is especially pronounced in a culture that puts a premium on conformity and in which, as the saying goes, the nail that stands out the highest gets hammered down first. Within such a paternalistic worldview, it is not surprising to find that the approach to emergency preparedness, response and recovery is dominated by an expectation that the father-figure – in this context a role played by the central government—is a protector and therefore solely responsible. Indeed, the aforementioned example of the Ma administration's failures in Typhoon Morakot and the steps taken to implement image-control measures bear this out. This cultural trait would make it extremely difficult to implement CBSP structures in Taiwan.

Moreover, the cultures of East Asia have a very strong tendency to employ personal relationships, or what the Chinese call *guanxi* (關係), in all aspects of professional life. It may therefore prove to be that this factors into the way in which CBSP is conducted and roles are negotiated, through the cultivation of long-term personal relationships. *Guanxi* is central to all social and business relationships, and its value is in the reciprocal obligations of the parties involved. For this reason, it is seen in much of Asia as preferable to the legally binding contracts employed by Westerners<sup>5</sup>. Given this attitude toward contracts, it seems likely that CBSP frameworks built in East Asia would be more fragile

than those in the West, as they depend not on institutional continuity but on a web of personal relationships between the heads of the organizations involved. It is therefore unlikely that such mutual-aid agreements would survive intact the replacement of one CEO or top manager, for example, forcing negotiations to begin anew. This would likely have serious consequences for the growth and effectiveness of EM measures, or indeed any endeavour predicated upon these cooperative frameworks. It would also have important consequences in the realm of ethics, as such practices are more easily subverted by corruption.

## Notes

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1. Far from detracting from the leader's esteem among his subordinates (as would be the reaction in an American or Japanese context), this arbitrariness contributes to the mystique that surrounds the leader in Taiwan, and helps build trust in the leader when projects succeed and the boss's seemingly arbitrary decisions are proved to have been the correct ones.
  2. Opinions differ on whether the American meritocratic system is a reality or a myth, and it is not within the purview of this article to assess the assertion. Regardless, the belief is widespread that the American method of success is, at its heart, a meritocracy.



3. For example, Taiwan's National Communications Commission, formed in 2006, was modelled directly on the Federal Communications Commission of the United States.
4. This process is as much to secure buy-in from all sectors of society as it is to develop a workable plan that suits the unique life patterns of the people actually living in the community in question.
5. Chinese culture perceives human beings as being basically good: as such, writing every duty and responsibility of each party down in a detailed contract is a demonstration of distrust.

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## **Changing Role of China in the International Politics of the Last 15 Years in Reflection to the US**

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### **Abstract**

As a result of its 30-year successful economic growth, China has been gradually reshaping its international position. After the end of the Cold War, the US has been the unquestionable hegemon in the world politics and world economy, but after the economic crisis of 2007-08, the US hegemonic power is slowly eroding, the country's capabilities in shaping world politics are decreasing and the international order, led by the US, is in disarray. On the other hand, China has made enormous efforts to reinforce its international positions over the last decade, which suits more to its growing economic power and own interests. The first part of the paper looks into the main theories on the two major powers' possible future relations. In the second and third part of the paper, theories are being examined on practical bases; on the one hand we look at their relative explaining strength using a geopolitical power index, on the other hand, we briefly analyse main events and processes in their bilateral relations of the last decade to see how their relation is formed dynamically. In the summary, the paper attempts to outline scenarios on how their relation will evolve in the future.

**Keywords:** *China, US, geopolitics*

## 1. Introduction

The discovery of the Americas led to the formation of a functioning international order for the first time. Since then – according to the geopolitical international power theories – in the international arena there has always been at least one country, which could be featured as global leader or hegemon. Modelski’s cyclical model (Modelski, 1988) consists of five cycles starting with Portugal in the 15-16th century followed by one Dutch and two British eras. The British cycles lasted till the early 20th century and followed by the contemporary American one. The cycles respectively took about 80-100 years consisting of three stages: rise, peak and fall. The core of the power according to the model is the power capability enabling the control of the world’s seas and oceans. The fall of the hegemonic power and the rise of a new great power was each time followed by a great war to control the waterways. This inevitable momentum of armed open conflict is called the Thucydides trap, a term coined by the American Graham T. Allison.

According to the model, the US started to become leading power in the First World War and took full power during and after the Second World War with the Lend and Lease and Bretton Woods agreements. Given this theoretical background, it can be assumed we witness another slow power shift currently; however, the main question is whether the US can contain China and turn back its decline in global power, as the British Empire succeeded once, or a new power, possibly China, will become the new global leader.

## **2. From the Thucydides Trap to the Harmonised World Order?**

### ***2.1. American Views about Relations with China***

Present day's American discussions on geopolitics and international order start with the thesis that China's rise is a treat to the Asian-Pacific and global power of the US. Influential thinkers differ about the ways and modes how the US should act to reinforce its position in the international order and what the outcome can be. Chinese views are different – they perceive world politics as the continuation of domestic politics, with the main goal to sustain social stability, secure borders and continue economic development with the leadership of the Chinese Communist Party. Chinese rhetoric is openly not questioning the present international order, it only wants to reform it and have a bigger share from its governance, which could help achieve its domestic goals.

In the US, the offensive realists have the most extreme views about the Thucydides trap, in their view the open conflict is inevitable. The theory places principal stress on the security competition among great powers in an anarchical international order. The representatives of this theory are not convinced about capabilities of politicians and diplomats to manage the conflict (Mearsheimer, 2002) The theory's main representative John Mearsheimer assumes that China's rise will not be peaceful and so the US will have to counterbalance Chinese efforts to dominate the Asia-Pacific region (Mearsheimer, 2004). According to the offensive realists, the US should attempt to form different coalitions with its traditional friends and new rising powers to contain China. The representatives also assert that in any case – American success or failure – the open conflict with China is inevitable. If the containment is successful, China has to break out, while if unsuccessful, the US must intervene not to let the region be in the hands of the Chinese because that would mean undeniable decrease of American power.

The constructive realists, whose archetype is Henry Kissinger, believe that the human factor is key to maintaining the peaceful global balance of power. The main contemporary representatives think that China and the US have natural power differences which are deepened by mistrust and misunderstanding. They perceive that the main conflict between the US and China is in the Asia-Pacific region (Rudd, 2015). In the view of the Chinese, the US defies the country's rise by trying to isolate, contain, and encircle the country. The US on the other hand perceives China as seeking to push the US out of the Asia-Pacific region. According to the constructive realists the economic development of China is sustainable, so the country's influence in the Asia-Pacific region is steadily growing as well. Parallel with the rise of China in Asia, Beijing will also become a more active participant in forming and reforming the rules of the international order. Taking into consideration the above-mentioned both side should put more emphasis on diplomacy on the basis of common interests and global goals to avoid open conflict in the long run. The constructive realists perceive open conflict as highly unlikely in the short run, because China is still lagging behind the US at least a decade in military capabilities.

Important American thinkers of the geopolitical school assume that fundamental geographical capabilities set the possibilities of the rivalry between the great powers. According to them, China's capabilities are weaker than the US's, because China has 14 neighbouring countries with many conflict zones in the border regions, while the US only has two neighbours with which the country has had peace for several decades.

China is relatively poor in natural resources and fertile land compared to its population and so its economic development is very much dependent on other countries' resources (Kaplan, 2012). The main import routes to China are maritime, which are currently controlled by the US Navy, thus in case of a conflict, the US could easily cut China off

from its resource supply chain. Around 90 percent of the population and economic activity is concentrated in the Central and Eastern China, so it makes the country vulnerable to military attacks. On the other hand, the US is still the economic leader of the globe. They also claim that the US has many times reclaimed its leading position after military or economic downturns during its hegemon period, because America has the most competitive political, economic, soft power and information control system (Matolcsy, 2015). These geopolitical thinkers assume that the Chinese economic development is unsustainable, so its economic catch-up to the US is bound to slow down or stop within 10-25 years. As the Chinese economy loses its momentum, the social problems of the country will grow parallelly. They perceive that the US is in a very favourable position in the Asia-Pacific region since as China carries on its development, other nations in the region will need the assistance of the US to counterbalance China's growing power (Friedmann, 2010). The representatives do not assess open conflict between the two major powers in the short and middle term.

The so-called "stealth global power gaining model" about the US-China relations tries to identify how the Chinese intent to take the global leader position from a currently weaker geopolitical position. The main representative, Michael Pillsbury, who worked in the American administration with China relations for over two decades, has deep first-hand knowledge about the Chinese culture and way of thinking. He claims that the final goal of the Chinese Communist Party's hawk faction<sup>1</sup> is to take the hegemon position of the world. The Chinese are aware that as long as the US is the leading global hegemon they cannot openly question its power, so they have to implement a long-run strategy.

The theoretical framework of the "Hundred Year Strategy" goes back to the warring state period of China (247-221 BC) and it utilizes

the ancient rules of fight in the theory. In our case, it implies Beijing must use deception to keep a low profile in order to hide its real intentions. The main element of the strategy is how can China avoid encirclement and how should it behave with the hegemon and how to know when is the right time to change the balance of power. According to the author, the strategy consists of nine main strategic steps: (1) induce complacency to avoid alerting your opponent, (2) manipulate your opponent's advisers, (3) be patient – for decades or longer – to achieve victory, (4) steal your opponent's ideas and technology for strategic purposes, (5) military might is not the critical factor for winning the long-term competition, (6) recognize that the hegemon will take extreme, even reckless action to retain its dominant position, (7) never lose sight of *shi* (strategic field of power), (8) establish and employ metrics for measuring your status relatively to other potential challengers, and (9) always be vigilant to avoid encirclement or deception by others (Pillsbury, 2015). According to the representatives every time when they used the Chinese stealth strategy in a strategic simulation game against the present-day American strategy China could beat the US.

## ***2.2. Chinese Official Foreign Policy***

The directions of the contemporary official Chinese foreign policy are peaceful development of China, harmonisation of world order and a new type of great power relations. The WTO accession in 2001 gave a huge push to the development of Chinese economy through the liberalisation and market-oriented reforms of the economy. As a result of the accession, China in 2009 overtook Japan, the second greatest economy, in terms of GDP (World Bank database). The growing international mutual dependences strengthened the conviction in advanced Western countries and the US that China should be integrated deeper into the



international economic and political system because it would guarantee higher security for every actor. The peaceful development theory in 2003 gave an answer to the expectations of the Western sphere, stating that China is a responsible power. That means on the one hand that China avoids international conflicts and concentrates its efforts to its domestic economic and social development, while on the other hand it opens to the world with soft power methods and does not intend to intervene in other nations' affairs. The peaceful development theory was complemented with the theory of harmonised world order in 2005. The theory envisages a multipolar world, which is based on cooperation and it assures prosperous environment for development and conflicts are solved through diplomacy. According to this new theory, Beijing settled its main conflicts with its neighbours peacefully and developed further its economic and foreign affairs with the world's nations (Szunomár, 2012)

After the leadership change in the Chinese Communist Party and state in 2012, Xi Jinping announced the conception of a new type of great power relations (Xi, 2014). In his speech, he stated that the Thucydides trap between the US and China should be avoided by any means. In the bilateral relations, the emphasis should be put on problem-solving; however this should occur in a more balanced position of the two powers. Beijing furthermore accepted that China has duties in the world, which can be solved through consultation with other great powers, but on the other hand China is only willing to take responsibility for the world's affairs as far as its capabilities makes it possible.

To sum up China's official foreign policy directions and principles, China does not want to challenge the US's rule-based international order, it rather wants to cooperate with it; on the other hand Beijing wants the US to acknowledge China's great power position in the world and accordingly Washington should not impede the extension of China's

great power influence sphere and its ambition to deepen and widen its international relations<sup>2</sup>.

### 3. Geopolitical Power Index

States want to be prepared for wars, and natural catastrophes. Statistical data enable them to assess their resources and capabilities more objectively and compare their performances with other states over time. Nowadays, there are many types of measurements and indexes for power, which take into consideration different aspects and use different methodologies in accordance with their basic assumptions of power. None of the indexes is perfect because the phenomenon of power is not exact and continuously changing according to our perception and technology and other parameters (Höhn, 2011).

The present section uses the Geopolitical Power Index (GPI) elaborated by the Global Intelligence Review, because GPI 2012 is an index created by an independent Mumbai-based policy think-tank. Using a proprietorial mathematical model to analyse 11 parameters (ranging from economy and governance to military and innovation), GPI measures both the ability and potential of the world's ten most important countries. The GPI ranks countries on a scale of 0-10 across eleven key criteria which constitute the ingredients of geopolitical power. Each criterion is based on five quantitative and qualitative sub-parameters with statistical weightages. These 55 sub-parameters and sub-indices with their specific weightages are analysed drawing upon a range of databases and a proprietorial methodology. GPI rankings are dynamic: a country can trend up, down or sideways. These trendlines are denoted in the accompanying chart by (+) or (-) markings; sideways trends are unmarked<sup>3</sup>.

**Table 1** Geopolitical Power Index (GPI)<sup>TM</sup>, 2012  
(for the period January-June 2012)

	US	China	Germany	UK	Brazil
Economy	8 (+)	9 (-)	8 (-)	3 (+)	7 (+)
Development	8	6 (+)	9 (+)	8	6 (+)
Military	9 (+)	9 (+)	5 (+)	6 (-)	4
Governance	8	2 (-)	9	6 (+)	6
Innovation	9	7 (+)	8 (+)	7 (+)	6 (+)
Geography	7	9	6	6	7 (+)
Population	5 (+)	8 (-)	4 (-)	5 (+)	7 (+)
Culture	9 (-)	7	5 (+)	6	7
Religion	6 (-)	2	4	5	4
History	5	7	4	7 (-)	5 (+)
Diaspora	5	8 (+)	4	5 (-)	4
Total score	79	74	66	64	63

  

	India	France	Russia	Japan	South Africa
Economy	5 (+)	5 (-)	4 (-)	4	5 (+)
Development	3 (+)	6	6 (-)	8 (-)	5 (+)
Military	6 (+)	7 (+)	8 (+)	4	4
Governance	2	4	2 (-)	5 (-)	3 (+)
Innovation	5 (+)	6 (+)	7 (-)	7 (-)	5 (+)
Geography	5	5	9	4	6
Population	7 (+)	5 (-)	5 (-)	4 (-)	5 (-)
Culture	7 (+)	6 (+)	5 (-)	7	6 (+)
Religion	7	5 (-)	4	6	5
History	7	7 (-)	5	4 (+)	7
Diaspora	7 (+)	4	4 (-)	4	4
Total score	61	60	59	57	55

**Table 1** (Continued)

Source: Minhaz Merchant (2012). GPI – index by Mumbai-based policy think-tank Global Intelligence Review. All category rankings are on a scale of 0 to 10. (+) denotes positive trend in a category; (–) denotes negative trend; no marking denotes neutral trend. Highest aggregate score is 110 across 11 parameters.

First of all, the index shows clearly the significant almost 40 years of Chinese development. China is close in geopolitical power to US, but it is still behind with almost 6.5 percent, which is a substantial gap if we consider that the parameters of the index are changing slowly. According to the index, US has relative advantages in development, governance, innovation, culture and religion, while China is better in geography, population, history and diaspora. The two powers are in similar or close to similar position when it comes to economy and military.

From the index, it can be seen that the two countries have different basic features and capabilities in geography, population, and history, but both have strong positions in economy and military. According to the index, China's development has not stopped, which can be perceived by its positive marks at the development and innovation parameters. The US has better basic rates in some of the soft power-type parameters – culture, religion – but its soft power capabilities are declining. China has an advantageous parameter in soft power, that it has a strong diaspora throughout the world which can be used to foster the country's world-wide recognition and geopolitical interests.

#### **4. The Geopolitical Dynamics between China and the US**

In the previous sections, we drew up the main concepts of US-China relations and showed the relative geopolitical power in different parameters of the two powers. This section examines the factors in three

major geopolitical fields – politics, economy, national security – which can stabilize or destabilize bilateral relations. The main characteristics of bilateral relations is the deep interconnectedness and mutual dependence; on the other hand there is a huge mistrust, since both sides have suspicions over the other’s strategic position and the consequences of the possible strategic moves of the other power. In this section, we look into how relations in the three fields developed from 2001 to 2016. The main question we intend to answer is whether the described processes indicate stabilization or destabilisation of the bilateral relations.

#### ***4.1. Politics***

After the accession to the WTO in 2001, China has continued to widen its international relations network; at the same time China on the international scene has been perceived to be more assertive than between 1978 and 2001. The US still has a special position in the international relations system of China, for example China was one of the first countries offering financial and diplomatic assistance to the War on Terror after the 9/11 attacks. The “Senior Dialogue”, which was proposed at the 2004 APEC summit, was a cardinal step in developing the bilateral relations, because the two powers were able to settle many disputes on the forum<sup>4</sup>. During the first period of the Obama administration the bilateral relations improved, which resulted in the development of “The Senior Dialogue” to “China-US Strategic Economic Dialogue”. The acceptance of G-2 concept in 2008 would have meant the next level of the relations and a new framework of the global governance, but Wen Jiabao respectfully rejected the idea. Instead of it, Xi Jinping in 2012 announced “the new type of great power relations”, the main characteristics of which were drawn up in the previous section.

In analysing the last decades of bilateral relations, we can assess that the relations of China and the US has widened and deepened in accordance with the more balanced stance, but on the other hand China was not willing to accept the American G-2 proposal, which would have resulted in a more integrated bipolar model. The idea went against China's multipolar worldview. The G-2 concept would have served as a stabilising factor in the US's geopolitical position after 2008. Through this stabilization, the US could have claimed back its hegemonic position. The G-2 concept would have navigated China into an unbalanced cooperation with the US, where China would have been the smaller "equal" partner. Probably the concept would have secured Washington's hegemon power through taking advantage of its partial advantages over China. Instead of accepting the G-2 concept Beijing has announced its own conception: "the new type of great power relations". The rejection of the American idea and the proposition of the Chinese concept can be interpreted as a conceptional collision between the two leading powers with consequences in the present days.

There has been a significant structural change in the power division in China since Xi Jinping became president – the new president transformed the way of governing. In the new system, power is more concentrated compared to the former shared ruling model of Deng Xiaoping. Xi Jinping possesses the main titles of the state, namely he is the General Secretary of the Chinese Communist Party, the President of the People's Republic of China, the Chairman of the Central Military Commission, the Chairman of the National Security Commission. Beside these titles, Xi also has a substantial impact on China's foreign policy.

The National Security Commission, which is a new formation, was established in 2013 and amongst other goals its responsibility is to carry out counterbalancing decisions against the American moves weakening

the country. Beijing is aware that the global system is getting more complex so if the leaders of the country intend to manage and control the country's security and foreign policy more effectively, they need to make the decisions on a more holistic basis<sup>5</sup>. The features of the Commission are not settled yet because its past is very short, but according to internal information, it functions with many information distortion problems<sup>6</sup>. The abovementioned features lead into two directions: on the one hand, Beijing with a strong leader intends to appear unified on the international stage, on the other hand in case of a conflict, the state and the nation can act more efficiently, more coordinated and directed (Lampton, 2015).

In the recent years several global issues – secular stagnation, terrorism, immigration, global climate change – have surfaced, and the solutions would necessitate global political commitment. The representative of two great powers frequently have meetings and discuss global issues, but sometimes these meetings seem to be trapped by the great power games, despite the urgency of these global problems. However, there have been some positive signs for cooperation, for example the Paris Agreement in 2015 was signed by both sides, thus it could come into effect.

#### ***4.2. Economy***

High level of interconnectedness must be mentioned among the economic stabilisation factors in the first place. The economic relations of the two countries have become very close since 1978; however, unbalanced trade resulting in Chinese surpluses contributed to tensions as well. High level of integration can be perceived in the field of division of labour, because American companies moved their production to China to take advantage of cheap Chinese labour. Many international firms relocated high value-added production to the Asian country, as China

became more and more integrated into the international system. As a result of the process China has become the “world factory” in the first decade of the 21st century.

Through the international investments, China has gained high-end knowledge and technology, which was absorbed by national companies. As the Chinese reserves grew because of their successful economic model, Chinese firms made determinate steps to acquire shares in Western companies, so nowadays important American firms are often (partially) owned by the Chinese. It is also noticeable in the bilateral economic relations that China is the sole producer of some rare resources<sup>7</sup>, which are essential in certain industrial sectors. In case of deterioration of the relations or an open conflict this dependence on China would temporally paralyse these productive sectors.

The main destabilizing factors in economy are intense trade relations and the long-lasting effects of the Global Financial Crisis of 2007/08. Because China’s development is based on its export-oriented economic structure, Beijing keeps devaluing the RMB against the USD, which results in a trade asymmetry in the bilateral trade. The artificially distorted RMB/USD exchange rate has been often debated between the US and China. The US expects from Chinese exchange rate liberalisation a stronger RMB and the rebalancing of the bilateral trade. On the other hand, China is not able to implement totally free-floating exchange system since if the exchange rate were appreciated, several state-owned companies would face export difficulties, which would have escalating effects in the financial sector as well. The problems of the financial system would probably impact the economic development as well, so the whole process would lay foundations for unacceptable social unrests. The American and international pressure resulted in cautious Chinese steps toward a less managed exchange rate regime and China pledged to form its exchange system gradually into a free-floating one.



The growing indebtedness of the US and China makes their cooperation more difficult. After the 2007/08 Crisis, both launched significant stimulus programmes for different reasons<sup>8</sup>. The programmes resulted in higher levels of indebtedness, which even limits their economic development through lower level of private investment (Summers, 2016). In China, the debt of the municipalities and the shadow banking system are the main problems while in the US, federal debt is in the focus. Problems of debt management impact bilateral relations, because China is the second largest owner of the US debt, while on the other hand US is one of the biggest investors in China. As the issue of change of economic structure and soaring level of debt will receive more attention, it will affect the Chinese reserves. That means China would spend less on buying American government securities and would use its USD-denominated reserves on managing and alleviating the economic problems of the country.

The bottlenecks and hardships of the global economic development are on the one hand managed in multilateral and bilateral forums<sup>9</sup>, where the US and China collectively try to solve the problems, on the other hand both sides have their own ideas about new trade integration forms and infrastructure programmes. The Obama administration coordinated its efforts in establishing new free trade agreements – Trans-Pacific Partnership (TPP), Trans-Atlantic Trade and Investment Partnership (TTIP) and Trade in Services Agreement (TiSA) – which would have resulted in formalizing the rules and regulations of trade and provided services in the concerned regions. Although the new American president withdrew from the TTP after his inauguration and the TTIP agreement talks has halted because of social and national opposition in the EU, it is sure that the American administration will relaunch the initiatives in new forms in the long run. The special feature of these initiatives is that the US excluded China from them.

On the other hand, Xi Jinping in 2013 announced the One Belt One Road (OBOR) initiative, whose final goal is to develop a Eurasian economic zone including even African countries. The main land routes of the OBOR connect China with Europe, the northern route through Russia, while the southern route is planned to go through the Central Asian countries and Turkey. The maritime route focuses on Southeast Asia reaching Africa at the shores of Kenya and Djibouti, then it reaches Europe through the Red and Mediterranean Sea. China has many times invited the US to participate in the project; however, the Americans assess the project as being too risky involving financial, geopolitical and security concerns as well.

Stability could be strengthened if the two countries were able to coordinate and involve the other party in the new global economic initiatives since due to their sheer volume these projects would influence the global economy positively. In recent years, Beijing has offered a lot of opportunities to the US to join the OBOR, while the USA has neglected the proposal and ruled out China of its own initiatives. If the processes tend to continue in a similar way, based on historical examples the intensification of conflicts is expected to ensue between the US and China<sup>10</sup> (Luft, 2016).

In order to improve their trade positions, the Chinese have frequently subsidized their export products; their goal has been to reach substantial market share in the world market. Thanks to the subsidies and originally low production costs, China has been able to determine the dumping margin of the world market for certain strategic products that other market players were unable to compete and therefore were crowded out of the market<sup>11</sup>. This Chinese strategy has affected negatively the national production capabilities of many countries, but before the 2007-08 Crisis, the global credit expansion had enabled these countries to hide the negative effects of these processes. In the currently

stagnant world economy – secular stagnation<sup>12</sup> – in order to preserve jobs, voices in the American society demanding higher protection of the national market and industries have become louder. If trade competition of the two major powers based on their own trade zones is further intensified, the number of protectionist measures is very likely to increase on both sides, leading to partial segregation of the world economy<sup>13</sup>.

#### ***4.3. National Security and Military Power***

Although sometimes efforts to enhance national security and military power can destabilize regions, these are consistent elements of state's sovereignty. At the same time, we have to take into consideration a strengthening factor of stability, namely the nuclear deterrent force, which prevented the two major powers in the Cold War from an open conflict. The overwhelming majority of nuclear powers are aware that if one party submits a high-powered atomic bomb within a military clash<sup>14</sup> it will be fatal to both sides. The nuclear force of the contemporary two major powers is not equal, the US at least has five times more atomic bomb warheads than China.

In the field of traditional warfare, both sides spend significant sums on the maintenance and continuous improvement of their armies. The US defence budget is around 600 billion USD per year according to available public military budgets information<sup>15</sup>. In China, the exact military budget amounts are handled with much greater secrecy; various estimates range from the annual 130 billion USD to over 200 billion<sup>16</sup>. For the time being, the preparedness and development of the traditional military of the two countries cannot be compared to each other. The US has a global military power based primarily on its global network of military bases and maritime and air fleet, China is primarily a regional military power with an increasing military fleet, whose focus is on the

territorial security and defence.

In the field of military alliances, it has become clear in recent years that both major powers try to tighten and deepen their relations. The US can rely on NATO in Europe, and it has close military cooperation with Japan and South Korea. In recent years, the US has made significant efforts on both continents to expand its global missile defence system and to develop the missile defence and radar capability of its allies. Although the USA has implemented its military developments primarily due to alleged Iranian and North Korean threats, neither Russia nor China accept these arguments. The two Asian countries interpret these processes as encirclement and implementation of a restrictive and offensive American strategy. For the above-mentioned reasons, China and Russia have been tightening their military cooperation in recent years, for example through joint military practices, trainings and military development. Moreover, China and Russia are also the core countries of the Shanghai Cooperation Organization (SCO)<sup>17</sup>, which has accepted the accession of India and Pakistan as full member in 2016 and plans to include Iran are on the agenda. Although the SCO operation is still in forming and the dividing lines between the participants seem to be greater than the cohesion force, it can be stated that the number, capabilities and collective power of the participating countries show a strong force even against the US and its Asian allies or the NATO.

Over the past years, there have been many news about the direction in which the parties have developed their military forces and in which areas they try to gain or have a relative advantage over each other. The US is primarily working on a global anti-missile shield and radar system with its allies whose main function is to discover and destroy ballistic missiles of the enemy as soon as possible. In developing its own armed forces, the US puts emphasis on the development of precision warfare strategy and equipment which is capable to deliver a strategic blow

within thirty minutes to any of its enemy's strategic points and routes on the globe. The above-mentioned directions are only the main goals of US military's global development. Beside these directions the cyclical development of traditional military equipment is continuously under way.

The Chinese Army is basically defensive, the focus of their national defence strategy is the active defence, i.e. China does not intend to attack any country, but if any country were to attack them, they would be able to deliver the first preventive blow. According to the strategy, China develops and deploys anti-missiles with the assistance and cooperation of Russia and spends significant resources on the development of surface warships and submarines. On the other hand, China develops a global defensive chain of maritime bases to reach out to Africa's shores. The main goal is to secure the maritime trading routes.

In present days' world politics, world economy and military arena, one of the biggest destabilizing points is the South China Sea. The brief essence of the conflict is that China considers it essential to gain dominant military and economic position in the region and to reduce US's power in order to lay solid foundation for its global power. On the other hand, the US aims to maintain its power and geostrategic position in the region. That can be achieved if the US with its allies is able to limit China's regional rise. In this case, the two great powers need new perspectives and behavioural norms in accordance with the policy of "new type of great power relations". China needs to be careful to avoid seemingly excessive assertiveness and impatience, while the US should not react over-sensitively because of the decrease in its regional power.

In recent years, China has invested heavily in the two decisive areas of modern technology: outer space and cyberspace. As these areas are the latest fields of modern warfare, less information is available on them. As far as it is public, China's space-related activities are basically based

on the development of communication-blocking technologies and anti-satellite activities. The case of cyberspace and cyber-pirating has been on the agenda of the bilateral forums; these questions have been mainly from American side, which support the assumption that the China has substantial capabilities in the field. Some national security analysts allege that China develops a complex defensive system, called Assassin's Mace (*shashoujian* / 殺手鐮), which combines traditional and modern spaces and even able to smite the US Army by targeting its weak points, namely communication and electronic devices (Pillsbury, 2015).

Overall, it can be stated that although the two sides publicly are not preparing for open conflict, they carefully consider their own strengths and the weaknesses of the other side's systems and try to conduct developments and reinforcements accordingly. The rise in defence expenditures over the recent years and the expansion and tightening of military alliances indirectly indicate that the two major powers are actually preparing for the Thucydides trap. We summarize the facts of the fourth section in Table 2.

## 5. Summary

The theories about the China-US relations' future range in a wide spectrum from the inevitable collision to the official Chinese foreign policy directions of peaceful development and new type of great power relations, whose main goal is to avoid collision in any case.

On the one hand, the analysed geopolitical power index showed that China has been closing in on the US, but it still lags behind in "overall power". On the other hand, China has opportunities in hard and soft power parameters, where it can develop rapidly. In the medium term, China has the capability to overtake the US's power.

**Table 2** Factors Enhancing Stabilization and Destabilization in Bilateral Relations

Fields/Factors	Stabilizing factor	Destabilizing factor
Politics	<p>Development of China's multilateral policy</p> <p>Bilateral- and multilateral-based global problem-solving system (economy, terrorism, climate)</p>	<p>G-2 and the new type of great power relations theories – theoretical conflict</p> <p>The South and East China Sea sovereignty problems</p> <p>The transformation of the Chinese political setting</p>
Economy	<p>High level of interdependence and interconnectedness (export-import, finance, production chains, technology and cheap labour, special resources)</p> <p>The symbiotic development of the global economic system (development of commercial areas, cooperative solution of global economic and financial problems and the enhancement of economic development, promotion of multilateral economic regulations)</p>	<p>Unbalanced commerce and USD/RMB exchange rate</p> <p>National/governmental debts</p> <p>Separate economic and trade areas and partnerships</p> <p>State aids and protectionism</p>
National security	Nuclear deterrence	<p>Growing military expenses</p> <p>Expansion and tightening of military alliances</p> <p>Arms race – development of traditional, precision arms and defence systems</p> <p>Competition in new spaces (cyber and outer space)</p>

Source: Edited by author.

In the last section, the analysis showed that in politics the two major powers' concept of global order differs. The US aims to preserve the status quo, the global leader position of the country. China on the one hand accepts the present rule-based global order led by the US, but on the other hand China intends to reform it on the basis of multilateralism and more balanced relation with the US. Economically the two countries are interconnected and interlocked, they depend on each other and the global prosperity mainly is reliant on their economic development. Although there are disputes in the bilateral economic relations, it is the strongest stabilising factor. In the field of national security, the differences are huge, as the basic geostrategic goals run against each other. China intends to form the Asia-Pacific region into its core security area and in this scenario the US should have smaller role in the region. The US on the other hand has long-standing relations in the region and important strategic interests, therefore the US is keen on preserving its military hegemony in the region.

In our assessment, in short and middle term the economic relations and the differences in traditional military capabilities enable more or less stable bilateral relations with minor collisions and fluctuations. However, in the long run the geostrategic differences are so great that conflicts are predictable. The future clashes between the two great powers are most likely to occur in outer and cyber space.

## Notes

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1. He claims that the faction has substantial influence on the high policy of China.



2. BRICS, New Development Bank, Asian Infrastructure Investment Bank, One Belt One Road initiative.
3. <http://blogs.timesofindia.indiatimes.com/headon/india-slips-brazil-and-germany-rise-in-2012-geopolitical-power-index/>
4. Major topics discussed on the forum: Taiwan Strait problem, war on terror, economic and financial problems after 2008 crisis.
5. Too many institutions were responsible for the foreign policy, which caused coordination problems in the administration.
6. The channels of information and responsibilities are not clear.
7. For example, alkali and rare earth metals.
8. US: financial system packages; China: economy-stimulating governmental investments.
9. G-20, China-U.S. Strategic Economic Dialogue.
10. The situation resembles very much the great infrastructure project competition of the German, British and French Empire before the First World War.
11. For example, steel, solar cells.
12. <http://larrysummers.com/category/secular-stagnation/>
13. Chinese and American economic areas or zones of the globe.
14. Maybe the only exception is North Korea.
15. Officially the Pentagon's budget has not been audited for over a decade, so we can assume that the American defence budget is higher than the official.
16. *SIPRI Yearbook 2016* (2016). According to some American estimate – Pillsbury – the Chinese annual military budget is close to 400 billion USD.
17. The SCO's main cooperation fields are the military, economy and culture and it has been in operation since 2001.

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## **Two Major Powers in Captivating Regional Influence and Dynamics: Comparing Foreign Policies of China and United States in Southeast Asia**

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### **Abstract**

China and United States, as the biggest economies and major powers in the world, compete for influence and leadership in the Southeast Asian region through different economic integration schemes and geopolitical approaches. This paper attempts to compare the foreign policies of China and the US toward the forms of economic integration and geopolitical approaches in the Southeast Asian region. The authors compare the motivations of major and secondary powers in that region to accept or contest the claims of the US or China. The US is in a more favourable position to demonstrate military power in the region and emphasize human development while China proposed an infrastructure-driven approach, and uses a military approach in the dispute of South China Sea.

**Keywords:** *leadership, influence, Southeast Asia, China, United States, foreign policy*

## 1. Background

With the dynamics of global politics and economy, two global powers, China and United States of America (USA) will expand its influence in global scale. After USA was successful in the Middle East, particularly in Iraq and Afghanistan, in containing terrorism and securing its interest either with indirect and direct approach (Jeffrey and Eisenstadt, 2016: 14-16), it will find new targets. The traditional containment policy still has a key role in the design of the American foreign policy. Noam Chomsky stated that the strategy of USA in the Middle East is the achievement of “Grand Area” plans (Chomsky, 1991: 14-31). However, USA still has a homework particularly how to create stable democratic states in the Middle East, while Iraq, Afghanistan, and now Syria cannot deal with democratic schemes and are still vulnerable with the existence of ISIS.

On the other hand, China has been accomplishing in improving its profile in Africa (van Dijk, 2009b: 10-11). The economic diplomacy that China established by relying on financial aid and investment has increased the dependency of African countries on China. Until 2015, 15 percent of African countries’ trade accounts are with China (Thrall, 2015: xiii). The unique principle used by the Chinese is the non-interference in domestic politics and military when building relationships with African countries. China also benefits from the security aspect as well; it hugely invests in twelve of the twenty failed states of Africa (*ibid.*: xv). In addition, African countries are keener on economic projects because those countries have suffered from domestic conflicts for a long time and need more stability to avoid future

conflicts. Although the success of China is not threatening American interests in Africa currently, however in the long run, it could be a huge challenge for USA and it can create a more dynamic interaction in that aspect.

Based on the current situation between China and USA, polarity could be characteristic of international relations again and potentially lead to a new Cold War polarity, as noted by Gaiser and Kovač (2012). After 1990, the USA could not authorize unipolarity for a long time. The unipolarity only lasted until 2006 and it crashed in 2008 with the Global Financial Crisis (Gaiser and Kovač, 2012: 49-63). Meanwhile the rise of China as a new major power in global economy only makes the political competition between China and USA fiercer. From American side, the narratives of Huntington (1997) and Fukuyama (2006) maintain the triumph of capitalism and Western civilization over other political and economic solutions shapes the mindset of global citizens who support the expansion of the USA. Those concepts and ideas back up the USA expansion and contribute to the justification of USA security policy, particularly the increase of USA influence in the region. On the other hand, China has an ambition to expand its influence in global politics and become a global player. The “Go Global” strategy that originated in 2001 is the foundation of China’s effort to be the number one in global investment (Thrall, 2015: 10). After China becomes the major power in global economy, it can increase its capability in military and politics as well.

Recently, the potential clash between China and USA is taking place in Southeast Asia, a region where future economic growth is to be expected. Most experts state that Southeast Asia is the most stable region with stable economic growth and its countries can maintain a peaceful coexistence (Archarya, 2014; Narine, 2002: 2). The strong commitment to peaceful solutions can lead back to the suffering from colonialism and

violence in the past, which creates vigorous foundation for stability and peace in the region. Thus, this region will be a new target of both major powers who are supported by their allies.

As part of building up regional influence in Southeast Asia, China and the US focus on economic and geopolitical aspects. The first aspect, which matters in economy, is international trade. As globalization and technology advanced in 90s and later, state borders became less important; the trade barriers, especially trade tariffs, were substantially reduced, since they were viewed as an obstacle standing in the way of trade. This situation drove the countries in the Southeast Asian region to create the Association of Southeast Asia Nation (ASEAN) which established a regional economic integration: ASEAN Economic Community (AEC) in 2015.

The free trade agreement of the AEC is not limited to intra-regional trade, but it intends to create global free trade agreement that can remove every international trade barrier globally. Through this initiative, China and USA penetrated the region by starting initiatives for fostering international trade in ASEAN. China proposed RECP (Regional Economic Comprehensive Partnership) and USA offered TPP (Trans-Pacific Partnership) (Ye, 2015: 206-224). Even though not all ASEAN countries participate in those schemes, the progress shows that most ASEAN countries have an interest in those initiatives while globalization forces ASEAN countries to utilize closer integration forms. Until recently, RECP has attracted several countries from ASEAN since the Silk Road has become an alternative to or competitor of the TPP. Else, from the Pacific common sense, TPP covers more widening scope and area and will be the biggest free trade agreement when it is realized. However, due to the uncertainty of Trump policy on removing every agreement that cannot contribute significantly and shortly to American interest, TPP is starting to lose its grip.



Being between two giants, ASEAN countries are served with several options: choose one side, choose both sides, or create self-mechanisms and become pioneers of an alternative free trade agreement outside TPP and RECP. In the short term, the third choice is very difficult and almost impossible. Thus, in recent position, ASEAN countries will seek certain agreements that can foster development in every country; however, they will be forced to take one or both sides.

In the military sector, USA and China are still struggling to gain more allies in Southeast Asia, and particularly they want to secure national security interests and protect supply of resources from this region. The problematic aspect is that, China is dealing in the South China Sea dispute with 4 ASEAN countries (Rowan, 2005: 414-436) and while USA is regarded as a country that cannot respect the non-interference principal that has been at the core of ASEAN countries particularly in democratization and human rights issues (Mauzy and Job, 2007: 622-641). It seems that both countries have controversies with most ASEAN countries in keeping stability and security.

Although the region has had turbulent times, ASEAN countries hold summits every year and can produce agreements on almost every issue with the emphasis put on the non-interference principle and ASEAN ways and values. In addition, the basic feature of ASEAN is that the door to communication and dialogue is always open.

Because of the region's importance and their determination to dominate world politics and secure national interests, USA and China are contesting leadership in this region through two main factors: military and economy.

## **2. Method and Concept**

The contest between the US and China in dominating Southeast Asia has threatened this region with new conflicts. For example: South China Sea, Rohingya issue, terrorism, and drug trafficking are the issues that must be tackled to create a more stable region. The presence and the participation of USA and China in these issues hopefully are effective and do not steer in the wrong direction and worsen the situation. The country that can solve those issues is more likely to win the leadership contest in influencing Southeast Asia.

The purpose of this research is to compare the actions of China and USA in dominating Southeast Asia. We use the concept of contested leadership in region. The research of contested leadership is done by Daniel Flemes and Thorsten Wojczewski (2010), who categorized the contest by some aspects, namely:

1. Material and ideational resources;
2. Foreign policy interests;
3. Strategies of regional powers;
4. Strategies of secondary powers;
5. Regional Impact on external powers.

By borrowing this concept, we compared foreign policies and examined its impact on military and economic sectors. Additionally, we examined the followership of host countries to the actions of superpowers while comparing the leadership between China and USA. The paper attempts to raise the following main questions:

1. What are similarities and differences between American and Chinese foreign policies toward Southeast Asia?
2. What is the impact of foreign policies on regional leadership in Southeast Asia?

This method relies on the so-called descriptive analytical method; data are from different sources: journals, books, verified news article from online media websites. We used this method to describe a whole picture in comparing foreign policies between USA and China. This article is divided into two parts: the first part describes the differences and similarities of American and Chinese foreign policies toward Southeast Asia including policy actions. The second part discusses how regional member countries (host countries) react to USA's and China's foreign policy and their leadership in the region.

### **3. A Comparison of the Two Foreign Policies**

Both countries are shaping their foreign policies in a different way, since every foreign policy depends on national interests. For China's foreign policy, China has put its interest in reaching superpower status and expanding its leverage. China, as the new emerging power in global economy, prefers to expand its influence mainly by utilizing an economic approach.

The Deng Xiaoping regime could be characterized by openness in international trade that also has become China's basic principle in foreign policy as well (Economy, 2010: 142-152). Jiang Zemin and Hu Jintao were also successful in making economic growth significantly and boosting their military (Zheng and Tok, 2007). Along with the growth cycle, Xi Jinping is to face slow economic growth in his era, but at the same time he has to maintain China's superpower status both in military and economy. China's trade and investment policy with the slogan "Going global" is strongly linked to the Chinese foreign policy that expands its sphere of influence in the world politics. It must be added, China established communist system in which the party has a more important role in shaping foreign policy. High-rank officials in the

Communist Party are decisive in the foreign policy. For instance, Linda Jakobson and Ryan Manuel researched that Wang Huning as the Head of CPC Research Office has higher ranking than Wang Yi as Foreign Minister (Jakobson and Manuel, 2016: 103).

Until this time, China prefers not taking a side in every global conflict, but it follows and supports its allies and avoids direct intervention in conflicts. With the concept of peaceful rise, China, in accordance with the Asian spirit and the historical background of suffering from colonialism, has high respect for sovereignty and prefers tackling problem directly with its partner(s) (Buzan, 2010). There is a strong background why China favours and pursues a non-interference foreign policy. In 1954, China established a treaty with India, which adheres to the five principles of peaceful coexistence (United Nations, 1958: 57-81). These 5 principles are the foundations of China's behaviour in its foreign policy: (1) mutual respect for each other's territorial integrity and sovereignty; (2) mutual non-aggression; (3) mutual non-interference in each other's internal affairs; (4) equality and cooperation for mutual benefits; and (5) peaceful co-existence.

Those principles are applied normatively and effectively as long as China's partner's interests match those of China. Thus, with those principles, China tends to focus more on the economic and social development in agreements and partnerships. However, China also raises its military power by developing its technology and increased its spending on the defence budget (Waldron, 2005: 715-733).

When it comes to economic aspects, China clearly needs to grow faster, and it need more raw material supplies to support the development of its manufacturing industry (Goldstein, Pinaud, and Reisen, 2006). Thus, China has expanded its leverage in searching and finding new trade partners or new locations of production of raw materials that China's industry needs.

This political and economic expansion is in line with the “Go Global” slogan, because China is not only looking for new material resources, but it is also expanding its trade and investment on a global scale. China’s industrial capabilities need to be upgraded and Chinese enterprises must have global experience in running their business internationally. Politically, in a soft way, it is also the perfect way to spread Chinese culture and values.

At the core of the American foreign policy, the same content in a different style can be found. This style very much depends on the leader of the foreign policy. Republicans, f. ex. are more aggressive and try to involve more parties to accept the unilateral world system that USA formed. There are five principles of Republicans to be distinguished in foreign policy (Zoellick, 2000: 63-78), namely:

1. Respect for power;
2. Building and sustaining coalitions and alliances;
3. Judging international agreements and institutions as means to achieve ends, not as forms of political therapy;
4. Embracing the revolutionary changes in the information and communications, technology, commerce, and finance sectors that will shape the environment for global politics and security;
5. Recognizing that there is still evil in the world.

These principles are basically applied by the Republican leaders and nowadays the new American president can follow these principles in shaping the American foreign policy. On the other hand, Democrats are firmer and softer, but they can keep the focus and do more damage to the enemy of the US or effectively assist American allies.

From many general goals of the foreign policy there are only two that have special acts in United States, namely, export control act and foreign assistance act. In the foreign assistance act, USA as advanced

developed country obliges itself to assist development in less developed and developing country normatively. It also creates a positive vibe of USA diplomacy and it attempts to spread American and Western values to the world. The importance of it is underlined by the American academic, Joseph Nye, who coined the term of soft power. He states it can be obtained by special treatment of foreign assistance. In the Obama administration, Hillary Clinton popularized the phrase of smart power that combined soft and hard power in achieving national interest. For instance, the implementation of foreign assistance act took place in North Korea to prevent conflict escalation in Korea – from 1995 to 2005, USA spent over \$1 billion assistance to North Korea (Manyin, 2005).

The arms export control act is a crucial element of the regulation for foreign policy making. The interests of the American arms industry are crucial in keeping stability in the Middle East and any other region. It will determine the placement and deployment of US military to keep the world in order. Arms movements including export administration also must be in accordance with USA interest because arms will determine which region is stable and which is not. For example, USA had an arms embargo on Indonesia from 2000-2006 because it did not protect human rights and democracy values as they are being interpreted for the East Timor Case (Lanti, 2006: 93-110).

Controlling nuclear weapons is also stressed in the US foreign policy. To keep the world in order, the number of nuclear warheads has to be decreased to avoid nuclear war. The limitation on these weapons is the way how USA controls other countries in global security to not involve in destructive conflict.

The American foreign policy has a special character as for dealing as political and military superpower. From Truman, Johnson to the Bush-administration, America has always had a distinctive and special

doctrine on its foreign policy (Merril, 2006: 27-37). America's environment or surrounding areas are geographically important as means of political influence. America does everything to strengthen its national security, particularly when it comes to its own territory. According to this logic, every country must respect those foreign policy doctrines. America attempts to contain countries that pursue policies perceived as an obstacle for America's foreign policy. For instance, a policy of containment coined by George F. Kennan in 1967 had succeeded in containing the Soviet Union and led to the collapse of the Soviet Union in 1991.

Recently, foreign policy in the Trump era is bolder; it does not hesitate when it comes to direct actions particularly in dealing with transnational terrorism (*CNN*, 4 December 2015). Thus, the world is more dynamic, volatile and uncertain than before him. So, based on that situation, it is most likely that Trump will be decisive in every policy decision that can boost his popularity and secure American interests. The Trump administration must play smart in its foreign policy with China and Russia, because those countries are the main actors who will be decisive in the Middle East and Asia.

After the Global Financial Crisis (2008-2009), US must improve and fix the broken economic system. The improvement in global economy includes the creation of new industry hubs (f. ex. Silicon Valley) and these reforms mean the revitalization of financial and manufacturing industry that were hit most by the crisis. Despite the need for action, the Trump administration withdrew from Trans-Pacific Partnership (TPP) to protect American workers from cheap overseas labour, and the deal will probably enter into force after Trump, or his policy alters course. Nowadays, in enhancing America's economic development in international trade, Trump prefers to enter into bilateral trade agreement rather than multilateral such as TPP (Coles, 2017: 24).

#### **4. A Comparison of Capabilities of China and US**

China and USA have the advantage of being permanent member of Security Council in United Nations. It is the crucial position that helps them control the situation in international politics. Permanent members of UN Security Council have the right to veto the resolution that can endanger their interests or those of their allies. That way China and USA have more bargaining power and they can empower their military industry by supplying the infrastructure and troops for their allies particularly in the security sector.

While comparing foreign policies or actions concluded in Southeast Asia, the comparison of American and Chinese capabilities in Southeast Asia is of relevance; these two countries are two most important factors to influence regional dynamics, policies, military issues and the economy.

In military aspect, both USA and China have been deploying its army in massive scale in the Southeast Asian region and use the strategy of deterrence in the host countries. It is important that when discussing security issues, the analysis has to include costs or benefits as well, and thus it is worth investigating and comparing the Chinese and American military sector briefly.

China has a keen interest in becoming top notch in world military power. The largest army in the world (total active military manpower available) and China's expansionism require more guarantees of safety and in order to defend its territory it must be prepared for every kind of manoeuvre to achieve its national interests. In 2017, China increased its military budget up to 7%, which is second largest raise in national budget, after USA (10 percent) in 2017 (*BBC News*, 4 March 2017).

In achieving those interests, China has been increasing its capabilities and the quality of its army. China could also deploy more



squads abroad particularly in securing China's interest in South China Sea (*ABC News*, 28 March 2017). The presence of China's military intends to deter every party that crosses China's interest. In the South China Sea's dispute, China's main interest is to create new artificial islands that become integral parts of China's territory. The protection of the newly created land is to be served by the military best.

**Table 1** A Comparison of Military Capabilities

Sector	China	USA
Manpower available for military service	Males age 16-49: 385,821,101	Males age 16-49: 73,270,043
	Females age 16-49: 363,789,674 (2010 est.)	Females age 16-49: 71,941,969 (2010 est.)
Manpower fit for military service	Males age 16-49: 318,265,016	Males age 16-49: 60,620,143
	Females age 16-49: 300,323,611 (2010 est.)	Females age 16-49: 59,401,941 (2010 est.)
Manpower reaching militarily significant age annually	Male: 10,406,544	Male: 2,161,727
	Female: 9,131,990 (2010 est.)	Female: 2,055,685 (2010 est.)
Military expenditures as percent of GDP	1.99% of GDP (2012)	4.35% of GDP (2012)

Source: <http://www.indexmundi.com/factbook/compare/china.united-states/military>

After the World War II, USA has become the major global military power. The phrase “the winner takes all” vividly characterizes the role of USA in international politics. In order to maintain world peace and stability, USA, USSR and the United Kingdom founded United Nations in 1945. Then currently, USA, Russia, China, France and the United Kingdom are the permanent members of UN Security Council, where they have an indispensable role in determining world peace or conflict.

Nuclear, the ultimate weapon, is the most important weapon of the USA military. It was used by USA to defeat Japan. In the Cold War, the nuclear arms race was the mainstream element of military competition. That race created a stalemate between USA and Soviet Union and the bipolar world. As the second biggest nuclear weapon owner, USA can use its allies to contain the movement of its rivals. That situation gives a real bargaining power for USA in achieving its national interests. Until now, there are seventeen countries that own nuclear weapons. In addition, USA has been developing its advanced and sophisticated technology of navy, air force, and army.

In Southeast Asia, USA has military bases in the Philippines, and Japan. In addition, as the close ally of United Kingdom, USA also gets strong support in Singapore for its military. Furthermore, USA has also deployed its navy in Northern Territory, Australia. Geopolitically, this condition is a strategic advantage of USA, since it has allies and leverage in the region. Surrounding the target is a very effective way to contain the target in broadening its sphere of influence.

China and USA are the biggest economies in the world. Both China and USA have huge markets and production. Both countries can be either a partner or a competitor in international trade. As partners, innovations in manufacturing that were born in this world nowadays are the fruits of a US-China partnership. The US specializes on innovation and product creation while China arranges the low-cost production and

marketing strategy. For example, the Apple products are manufactured in China, but the patents, ideas, and design come from the USA through a Taiwanese company. Despite this circumstance, Trump demands Apple and other American firms to shift the location from China to US (*Fortune*, 17 November 2016). Overall, a comparison of USA's and China's economic power is presented in Table 2.

Needless to say, the USA-China relationship is far from being flawless. Recently, the Trump administration stated that tariff on Chinese import is to be increased by 45 percent. The basis of the decision is that USA has trade deficit toward China (Reuters, 24 November 2016). Trump also implied that China would have a better deal when the North Korea problem is solved (*The New York Times*, 11 April 2017). The rapid change of the foreign policy could change the relations between US and China and indirectly the pattern of other regional interactions.

In China, the goals of future economic development are labelled as the Two 100s, and both are linked to historic events: the 2021 goal of a moderately well-off society is tied to the 100 years anniversary of the formation of the Chinese Communist Party; the 2049 goal of a fully developed nation is linked to the 100 years anniversary of the People's Republic of China (Kuhn, 2013). To reach these goals, China has become the second largest economy in the world and the world's largest manufacturing base. The domestic market is also playing a crucial role in Chinese economic development since it is the world's fastest growing consumer market.

Southeast Asia is the hub for China's economic development, which is why it is the major concern of China. Therefore, China must keep it stable, and control it. Particularly, China has economic development interests in South China Sea as well. These interests in Southeast Asia and South China Sea are suitable with the Chinese "Going Global" slogan. The main reason why South China Sea will decide China's

**Table 2** A US-China Comparison of Economic Power Measured by the Size of GDP, GDP Composition, and Import, Export Partners

About	China	USA
GDP	US\$9.33 trillion (2013 est.)	US\$16.72 trillion (2013 est.)
GDP Composition	Household consumption: 36.3% Government consumption: 13.7% Investment in fixed capital: 46% Investment in inventories: 1.2% Exports of goods and services: 25.1% Imports of goods and services: -22.2% (2013 est.)	Household consumption: 68.6% Government consumption: 18.6% Investment in fixed capital: 15.3% Investment in inventories: 0.4% Exports of goods and services: 13.4% Imports of goods and services: -16.3% (2013 est.)
Import and Export Partners	Import partners: South Korea 9.4%, Japan 8.3%, Taiwan 8%, United States 7.8%, Australia 5%, Germany 4.8% (2013 est.) Export partners: Hong Kong 17.4%, US 16.7%, Japan 6.8%, South Korea 4.1% (2013 est.)	Import partners: China 19%, Canada 14.1%, Mexico 12%, Japan 6.4%, Germany 4.7% (2012) Export partners: Canada 18.9%, Mexico 14%, China 7.2%, Japan 4.5% (2012)

Source: <http://www.indexmundi.com/factbook/compare/china.united-states/military>

economic development in the future is its location, which is strategically important when transporting goods from China to Asia and Africa. Additionally, this location potentially has huge reserves of natural resources and they generate more income to China's economy besides the service sector, which can serve as the hub for connecting China and Southeast Asia (Buszynski, 2012: 139-156).

As the largest industry sector, the Chinese manufacturing wants bigger markets to sell its products and it also needs raw materials to supply the growing production management. That is the reason why China initiated several free trade agreements with ASEAN countries, East Asian countries, Australia and New Zealand. With ASEAN, China has established free trade in 2010. Southeast Asia as the new prospective and emerging region has a key role in China's economic planning. So, China initiated the One Belt One Road project in ASEAN to increase connectivity and boost trade between China and ASEAN countries (Rana and Chia, 2014). Connectivity is a key goal on the agenda to raise China's influence. The connectivity will not be limited the connectivity among ASEAN countries, but it can also increase Chinese trade to ASEAN countries. Thus, China's profile could be more positive, in line with the "Going Global" slogan.

Although the US economy was severely hit by the financial crisis in 2008, the US economy is still the largest in the world in terms of GDP. No surprise, innovations and purchasing power are key elements in US economic development. (See Silicon Valley's created added value!) Besides that, newly found shale gas could be the main supply for US energy consumption and these findings disrupted conventional oil supplies because of its low costs and large volume, even though it also creates vulnerabilities (Brown, 2013). The largest financial industry and the key currency in the world provide the US economy a global impact,

which is how we can explain that after the 2008 financial crisis, the US recovered from the financial shock that swiftly.

In Southeast Asia, Americans are mostly interested in securing their investments and concessions that were established to buttress the US economy. Singapore, Malaysia, and Thailand are the destination countries that US has heavily invested in recent decades, while in Indonesia, there is the largest gold mining site in the world, in Tembagapura, Papua, where the concession is owned by a US company. For international trade, US created Trans-Pacific Partnership (TPP) that could have reduced trade barriers between the US and Southeast Asian countries; however Trump's withdrawal from the TPP seems to mark a policy change. US also needs the guarantee of safety and price when its cargo sails in the South China Sea and through the Strait of Malacca in order to support its goods supply to the Middle East, South Asia, and Europe. So, the US' intentions are clear in the South China Sea which is not to be monopolized by one state and is to be kept as a free shipping zone.

## **5. Host Country Policies toward the US and China**

Leadership is an important aspect in the development and stability of regional integration. It cannot be neglected that global powers exert a profound influence in shaping interactions in the region. The regional leader can be an internal member or outsider that impacts the development in the region significantly.

The Southeast Asian region as the new emerging region has stable conditions and positive economic growth. Whether considering political or economic aspects, this region will be a new centre of global development. With the establishment of ASEAN in 1967, regional integration and stability has reached a new level. The founder countries

of the ASEAN – Thailand, Indonesia, Singapore, Malaysia, and Philippines – are prominent in regional development and have become influential players in regional politics. In addition, new members can be featured positively in terms of economic growth and political stability.

The host countries give responses to the actions initiated by US and China in the region. As global powers, both countries actively seek support of the Southeast Asian countries to join their policies. Seeking political alliances, the two countries have different approaches in dealing with political and economic issues. This political competition between China and the US will create more disturbances in regional stability. However, sovereign Southeast Asian countries can choose which one of the countries to follow when it comes to fulfilling their interests.

The crucial issues in this region nowadays are (1) the South China Sea dispute which involves seven countries and regional economic integration and (2) connectivity determining the future regional economy. The emphasis in the South China Sea dispute is on the stability of the region and international shipping zone, which is crucial for regional development. Meanwhile, the regional economic integration including free trade agreement will determine the future development of this region. Hopefully, it can reduce the development gap between Cambodia, Myanmar, Laos (CML) countries and other Southeast Asian states and enhance connectivity and boost the economies.

In South China Sea, the rivalry of China and the US is still moderate and does not involve high risks. However, the dispute with the Philippines has escalated to international law dispute and settled at United Nations Convention on the Law of the Sea (UNCLOS). Although China's military also prohibits fishermen from disputed territories to conduct their activities in China's reclamation project, China's claim is not legitimate and not acknowledged by international law.

That action has consequences particularly on how the Southeast Asian countries respond in dealing with China. The South China Sea plays a pivotal role in regional stability and economic growth. When the sea is stable, most parts of the region are also kept in peace. Therefore, the Southeast Asian countries use the regional body ASEAN to establish the code of conduct in South China Sea with China and Taiwan to prevent bigger conflicts. With that action, the Southeast Asian countries can at least contain China from destructive steps in South China Sea.

Regarding the vulnerability and high uncertainty in that sea, USA tries to interfere by giving support for its allies and deploys its military in the area. That potentially raises tensions and involves more parties in this dispute. However, the eagerness of USA in participating in this issue has two motives. First, USA wants to show its existence in the region. Secondly, American support demonstrates that the host countries' interests would be supported by USA. The existence is very important because it proves that USA is capable and willing to contain China in the South China Sea region. Second, in gaining support and followership in the region, USA has to be the antithesis of China's movement so as to keep a balance of power in the region.

From that case, it could be seen that the reactions of the Southeast Asian countries differ. These differences could cause the segregation in ASEAN for taking a side whether to support China or not. The country that has common interest with China is Cambodia. In every official meeting about South China Sea, Cambodia emphasized the non-interference principle and rejected discussion about the response to China's action in the South China Sea. In the ASEAN system, resolution must be formed in consensus. Until now, ASEAN could only reach an agreement on the form of code of conduct in the South China Sea with China in resolving the issue. In this case, China and the US hegemonic actions in the South China Sea divided the South East Asian countries



and none of the superpowers obtained full followership from the host countries.

In the economic sector, the China-ASEAN Free Trade Agreement was signed in 2002 and came into effect in 2010, but it only covered a trade agreement between China and ASEAN countries. The Regional Comprehensive Economic Partnership (RCEP) is still being negotiated. The RCEP is more realistic than the TPP from which the Americans withdrew in 2017. This is a clear advantage for China in reaching fully economic integration in Southeast Asia.

China has strong leadership in regional dynamics in Southeast Asia. The program that they offered is a realistic one for the Southeast Asian countries, mainly One Belt One Road and RCEP. However, in the South China Sea dispute, China will face a lot of objections and challenges from ASEAN countries regarding the importance of the sea for regional stability and development. On the other hand, the US has a key role as the biggest power both in military, politics, and economy in the region, but it cannot foster its leadership in the region because USA has to deal with internal problems first and does not have direct right to access the South China Sea dispute. In the economic sphere, the US also does not have any alternatives for competing with RCEP after withdrawing from TPP. Therefore, in recent time, China has more advantage in captivating the influence in the region as long as it keeps this region stable and prosperous.

## **Notes**

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## Book Review

Michael Burleigh (2017), *The best of times, the worst of times: A history of now*, London: Macmillan, 448 pp. + xvi.

Michael Burleigh's book published by Macmillan came out in late 2017. The British historian is a regular contributor to the *Daily Mail*, *The Telegraph*, and *The Times*. The author, who had been holding posts at the New College, Oxford, the London School of Economics and Cardiff, has focused on the history of WWII and the period after the war; however, his new book deals with events and trends of contemporary world politics primarily. His book attempts to find a rationale for recent changes in world politics, mainly focusing on the decline of American political and economic power. By underlining the global power shift in world politics, he tries to collect stories on this power shift piece by piece. That is probably one of the reasons why his book is full of good stories; however, that is also the very reason why sometimes coherency is lost.

In Burleigh's understanding, the transfer of power from West to East, in other words from the United States to China has speeded up over the last ten years, thus creating a more unstable political and economic environment. The main conclusion of his book is that instability will prevail in the world; however, the nature of cooperation among countries will remain peaceful and sudden dramatic changes are not likely to occur.

The book's structure is clear and coherent, since six of the eight chapters approach their topics geographically, so different polities, like the Islamic State, Turkey, China, Russia and the European Union are covered by separate chapters. In each case, a brief overview of political, economic and social trends of the last ten years is provided; however, it is clear that the targeted audience is American or British, since f. ex. the chapter on China unpacks very basic, elementary information regarding the country's history as well, which otherwise would not be necessary to the average reader. This approach cannot be found when analysing events in the American politics. The first chapter attempts to frame landmark events leading to the global power shift. Burleigh maintains that the Iraq and Afghanistan invasion were military debacles and their repercussions were crucial in damaging credibility of the American foreign policy. Credibility has been further damaged by the new American administration, and President who brought a cultural change – for the worse – in American politics. He maintains the other milestone on the road leading to our unstable present was the Great Recession of 2008 and 2009, which made the resilience of the Chinese economy very clear, and on the other hand it revealed the fragility of the neoliberal economies in the Western world.

In the chapter on the United States, it might be surprising, but the emphasis is put on cultural aspects, when the author underlines the definite change in the culture of politics for the worse. The court-like informality of the new American administration is stressed as sign for the new era, which is not worth being emulated by any other country. Regarding the future of the American political culture, the author does not see any chances of change, as he puts it: “The daily synthetic noise from the Trump administration will continue, damaging the US soft power as the Ugly American return as a figure of fear and fun, while visitor numbers to the US have collapsed since Trump's inauguration by



a third to the cost so far of \$11 billion to the tourism industry.” (p. 362). Clearly the losses of the tourism industry are only one side of the coin, the less important side; however, American dominance in the 20th century also meant the prevalence of American values, traditions, and consumption patterns to be emulated overall in the world.

Economic power goes with cultural dominance hand in hand, at the same time, but this is in contradiction to the new American policy. Economic insulation will not create new jobs and increase incomes for the American middle-class, since not only cheap Asian competitors threaten but machines, robots are new factors of these economic changes: “More (white-collar) jobs are likely to be lost to the Fourth Industrial Revolution than will be created to satisfy the former blue-collar constituencies which voted Trump into power.” (p. 362) In addition, protectionist measures, he argues, will accelerate inflation that along with a strengthening dollar significantly deteriorates competitiveness of American firms. However, the author is convinced of the stability of American democracy and democratic procedures: “Attempts to cow the free press and the independent judiciary will ultimately fail for both are tenacious opponents, while Trump’s claque at Fox News have been hit by sexual harassment.” The normality and thus the stability of American politics, the author argues, can be found on various levels of decision-making, since mayors, federal states, governors will pursue their own political agenda – despite or because of the Trump administration, regardless of whether they are Democrats or Republicans.

Weakening soft power, erratic foreign policy and isolationism will ultimately lead to the disintegration of allied blocs of the US, and at the same time the US will not be able to divide its enemies, the author of the book states. Burleigh also emphasizes the importance of stability or predictability of the hegemon power; as he puts it: “Xi’s China is more

stable and predictable ally, especially because for China, everything is ultimately about business beyond a few core regional interests.” In doing so, the author is not optimistic, since he underlines that Chinese development has two different sides which perplex the Western observer: “China has successfully coupled authoritarianism and modernity in ways that perplex some in the West, who imagine that economic progress and commerce must ineluctably lead to Western-style democracy” (p. 197). Burleigh rejects the idea that long-term economic progress must be linked to adherence to democratic values: “Those who confidently predict the (Chinese) system’s collapse may be disappointed at its resilience, or the high satisfaction levels when Chinese people are polled, for, like Putin, President Xi enjoys 80 per cent positive rating because of his aggressive campaigns against Party corruption and muscular foreign policy” (pp. 197-198).

There has been a growing consensus among development economists over the last decades that economic and political institutions are crucial in explaining success or failure, as they are key elements in creating and maintaining a favourable environment for businesses and innovations, as long as they are able to include broad layers of society. In their famous book *Why nations fail?* Daron Acemoglu and James A. Robinson argue that the way institutions within society are organized is decisive in the outcome, in the productivity of the economy and the well-being of citizens. This is a very old debate and an old argument. Seymour Martin Lipset in the 1950s was the first social scientist who connected economic success to democratic pluralism, thus provoking debate. A modern version of this argument is to be found in Niall Ferguson’s book *The West and the rest*, which summarizes all these essential elements of success under six headings: competition, science, property rights, medicine, the consumer society, and the work ethic. These “killer apps” not only characterize Western European countries,

but fast-developing Asian countries as well. Burleigh definitely disagrees with this optimistic assessment of the Western society, and he is clear at this point “To adapt a Churchillian aphorism, Communist rule is better than any conceivable alternative, especially as these seem increasingly dysfunctional.” (p. 198)

The reader might raise the question what the other alternatives are, which are not dysfunctional. At the first glance the Singaporean model might seem a possible future scenario; however, “Hopes of the CCP evolving into Singapore’s authoritarian People’s Action Party – as Deng Xiaoping and Lee Kuan Yew mused – ignore the problems of scaling up what works in a tightly controlled city-state of 5 million people to a complex society of 1.4 billion people in thirty-three provinces (some much bigger than the biggest European states) in a vast country” (p. 198), Burleigh maintains.

According to the author, there were four crucial elements primarily contributing to the success of the Deng era: (1) the sudden and prolonged swell of population helped decrease the dependency ratio; (2) to focus on business and not to invest in war was a crucial element as well; (3) the sheer size of the country enabled Chinese decision-makers to put forward pilot projects and see whether this solution works or does not; (4) at the end, Burleigh adds, Hong Kong and its geographic closeness has vastly contributed to successes. In addition to that, Taiwan grew to be one of the global hubs of electronic industry, “enabling China to become a giant assembly plant for computers and mobile phones as the supplier of Apple and the like moved there.” (p. 207)

Although he later adds to this list the “superabundance of low-cost labour” (p. 207), it is clear that the list is far from being complete: the economic policy freedom which derives from the size of the market, the inflow of foreign capital and technology which could be partly absorbed by the domestic economic players, and the importance of the well-

organized bureaucracy must also be added.

Notwithstanding, features that will decrease average long-term economic potential are mapped by the author properly. He describes this situation this way: “For a start, how else did China’s reforming leaders persuade an ideologically egalitarian party to buy into the rise of the capitalist system, other than by letting the comrades the slices of the pie for themselves.” (p. 213) The connection between the elite infightings and corruption has been analysed in the literature many times, that is a good example how vicious self-reinforcing circles can be brought about. The fight against corruption can be used against enemies and rivals, which helps prop up the effectiveness of the rule of the Communist Party.

There are other contradictions embedded in the system, he underlines: “Paradoxically the Great Firewall, which cuts China off from the American-dominated web, has led to the creation of a few e-commerce champions like Alibaba, but these do not have the global reach of an Amazon or Google.” (pp. 224-225) The quote clearly demonstrates the dilemma of a still not open economy which offers ample opportunities to the domestic firms and at the same time prevents them from growing truly global. Burleigh stresses threats coming from the so-called middle-income country status which refers to countries who had built their economic model on cheap labour as China did, but the successful positioning of the country itself leads to rising wages, that hampers further successes and forces the countries to find new competitive advantages.

Since the book rather focuses on world politics than world economy, the author does not give a proper answer as to how he thinks of long-term perspectives of the Chinese economy, which would be crucial in quantifying economic forecasts. The Belt and Road Initiative (BRI) is analysed by Burleigh; however, the analysis is rather on the geopolitical

consequences of the initiative. There is one important point he makes about the BRI: China's inclusion in the Middle East disputes. As he puts it: "Ironically, having found it useful for first the Soviet Union and then the US to be mired in Afghanistan (and in the latter case Pakistan), Beijing now finds itself being sucked into the space the US is vacating, if only to secure one of the major axes of China's future economic development." (p. 248)

The general conclusion of the book regarding the Chinese model is clear, since it does not consider it as a model. "Developed democracies have nothing to fear from an authoritarian capitalist model that does not trade well, and whose daily arbitrariness and injustices even fervent Western 'Panda-huggers' would not tolerate for five minutes." (p. 253) However, he does not exclude the cooperation with China, because it is a stable and predictable partner, especially compared to Russia and the United States. He states: "With Trump and Putin around, Xi seems like the only responsible adult in the room. Many in Europe think so already, and Washington should not bank on their support in any clash with China that Trump rather than Xi is likely to provoke." (p. 253)

The Russian chapter projects Russia will be able to act as a superpower, and it is very likely to continue its provocations around the world. Improving economy and investment in information war enable it to act in the Middle East, Ukraine and frozen conflict regions. Putin is most likely to win the next election for another six years, although Burleigh states that: "Some claim he is weary of high office, though getting out of it will be even harder than getting in." (p. 364) When it comes to Russia's relations with the West, the main problem, Burleigh states, is the West's failing "to check communication subversion by Russia, notably by not highlighting what is wrong with life for ordinary people in Russia itself or how their own conservative (and sometimes liberal) media are bound up with Russian business interests." (p. 364)

In the case of the European Union, the analysis does not go too far, since it only projects the continuation of already existing trends, as Burleigh puts it: “A general anxiety about the state of the world in 2017 may give the EU a reprieve, though it will almost certainly be unable to agree which way to go at the fork in the road of its sixtieth anniversary and the euro remains a glaring problem.” (pp. 364-365) Despite the gloomy predictions of the author, there is hope in Europe, since there are already straightforward signs of a new impetus to the French-German relations, and the close cooperation of the two major European powers enables a relatively fast euro zone reform. He traces the slowness of the European politics as to the need to form great coalitions between the major political parties, as he argues, that is the only way to exclude the extremist, far-right and nationalist parties from power.

As for the Middle East, some of the author’s forecasts already came true. As he puts it: “Iraqi Arabs and Kurds may go to war over Kirkuk once ISIS is no more, and Iraq and Turkey may clash too should Erdogan seek to realize irredentist dreams.” (p. 367) In early 2018 Turkish tanks started their operation in Syria, as Erdogan was extending the invasion of northern Syria beyond Afrin District, and the city of Manbij was attacked next according to press releases. The author depicts a slow but determined withdrawal from Afghanistan which will be managed by China, Russia, Iran, India and Pakistan, though he signals the “embedded problems”: “Profound differences among these managers will ensure that Afghanistan will never find peace.” (p. 367)

To sum it up, Burleigh’s book is entertaining and very well-written, so it is easy to find passages worth citing, though there cannot be found very new insights, ideas or surprising approaches. Mainstream thinking is accompanied by very good, readable stories. The work is properly propped up by references; a very long list of references can be found at the end of the book, and of course there are in-text citations as well. And

as mentioned before, the book's structure is logical chapter by chapter; however, within each chapter many topics are touched upon by the author simultaneously which might confuse the reader.

The conclusion he has as regards the future for the Western world is again not surprising: "... the West is fading, not as a civilization or powerful assembly of economies, but as the major driving geopolitical force in the world. That is not a counsel of despair, and a world resembling the one in 1890 does not inevitably have to result in another 1914." (p. 369) However, one must heed his advice when it comes to future actions: "We need to study the mistake of the past as much its moral 'lessons' to avoid being trapped into a superficial discourse seemingly imprisoned by the immediate present, or, worse allowing us mentally kidnapped by foreign powers and their lobbyists whose interests are not ours." (p. 369)!

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