Contemporary Chinese Political Economy and Strategic Relations: An International Journal

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Diplomacy and
International Relations
Mask Diplomacy – China-Africa Relations
in the Light of the Coronavirus Pandemic

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Abstract

The coronavirus pandemic that emerged in 2019 had a profound impact on the world economy, trade, and international relations. The long-term effects of the pandemic are not yet known, but the countries of the world – including the global powers – have tried to adapt according to their own interests, and find the right answers to the challenges so that the pandemic might not decrease their international power. The study seeks to answer the question of how China, as a growing world power, has sought to address the pandemic disease in its policy relations with African countries. Economic and political relations between the Black Continent and the Asian superpower have been developing spectacularly since the 1990s. This system of relationships has its own peculiarities, which have already been addressed in several studies. What characterized the relationship between the two parties during the pandemic in the first months of 2020? What new challenges have threatened the relationship and what were the answers to these? What role do these issues play in the global competition that China and the United States are facing? The study is seeking to examine the events that
happened internationally, since the outbreak of the pandemic until the first half of 2020. The sources of literature therefore mostly cover the news from the international press. These events are then to be interpreted in the context of China’s previous policy towards the African continent. China’s interest in Africa did not change during the pandemic; it has pursued the maintenance and strengthening of established relations and alliances. The main tool for this has been aiding poor countries, and thereby display an image of a responsible global power. In this, China could rely on the diplomatic relations it had built during the previous decades. However, the Asian superpower was forced to react to unexpected challenges, which it managed with success. The African allies have helped China to continue with its plans to transform the US-dominated world order towards its own interests.

**Keywords:** China, Africa, COVID-19, international relations

1. Introduction

The coronavirus pandemic that emerged in 2019 came as a surprise to humanity and had a profound impact on the world economy, trade, and international relations. The long-term effects of the pandemic are not yet known, but the countries of the world – including the global powers - have tried to adapt according to their own interests, and find answers to the challenges so that the pandemic might not decrease their international power. The pandemic is thus a compulsion, but also an opportunity for countries to strengthen their position in the global arena by taking advantage of the instability of the international environment. (Brzezinski, 1997)

In addition to the competition of global powers, the epidemic has also become a struggle for political arrangements. The question arose as to whether centralized (authoritarian) or democratically functioning
states were more successful in the fight against the pandemic. This approach has become important when considering China’s communist/socialist regime. China’s global role, and thus its influence in Africa, can undoubtedly be strengthened if the “catching-up states” see the East – China and its political system – as the one to follow instead of the West. In global competition, a country’s epidemiological measures are important not only for the supply of the population of that state, but also because the international perception of this, if positive, is a resource that can be converted into power and influence. (Walt, 2020)

It is worth mentioning the application of soft power, which is an increasingly important system of advocacy in international relations. The soft power definition was first used by Joseph Nye in another context than China. It complements the definition of “hard power” in the struggle for power. While hard power is coercion and force, “soft power” is connected to attraction. Softer tools are suitable for convincing countries and societies that they will benefit if they fall into the sphere of influence of the global power (Nye, 2004).

In our study, we consider Chinese mask diplomacy during the pandemic as part of its soft power. The term itself first appeared in the international press. Mask diplomacy includes the humanitarian assistance provided by China to several countries during 2020, including African states. The assessment of Chinese support is controversial, and it has been since before the outbreak. According to some authors, this support has evidently had a positive effect on bilateral trade (Liu and Tang, 2017). According to Guillon and Mathonnat (2017), Chinese health aid took into account the economic situation of a given state but was not related to the health care needs of African countries. No strong evidence was found that decisions relating to the distribution of Chinese health aid favoured countries that were exclusively rich in natural resources or had important trade relations with China. However, as it
was reported by Dreher and Fuchs (2015) and Dreher et al. (2018), and confirmed in the results of Guillon and Mathonnat (2017), health assistance is used as a part of China’s foreign policy, whose priority area is that the supported country recognizes the one-China principle. Naim (2007) and Lin et al. (2016) suggest China’s aid practices aim to achieve its own political and economic goals the most, i.e. to gain access to the resources needed for its development on the continent and provide export markets for its products. Moreover, it uses the aid policy in international institutions and relations in order to increase its global superpower. Dreher et al. (2018) argue that China uses official development assistance to advance its foreign policy goals, such as forming coalitions within international organizations.

In addition to the perception of the aid policy, the assessment of the growing economic and trade relations between the two parties is not uniform. The literature on this can be divided into two broad categories. Some scholars say Chinese relations help to accelerate Africa’s development. This is especially true for infrastructure developments. In recent decades, the barrier to the continent’s development has been seen by many as the underdeveloped infrastructure. Others, on the other hand, argue that relations have a negligible or rather negative impact on economic growth and competitiveness in African countries, and rather Chinese economic interests dominate relations, the main purpose of which is access to critical resources (Adisu et al., 2010; Busse et al., 2016; Foster et al., 2009; Kolstad and Wiig, 2011). According to Yun Sun (2014), the Asian power is actually re-colonizing (second colonization) the black continent.

This study seeks to answer the question of how China, as a growing world power, has sought to address the pandemic disease in its policy relations with African countries. What characterized the relationship between the two parties during the pandemic in the first months of 2020?
To what extent do these fit in with China’s previous policy relations with the African continent? What new challenges have threatened the relationship and what were the responses to these challenges? We also aimed to place these issues in the context of the global competition that China and the United States are facing.

We examine how during the pandemic Beijing tried to build an image of a responsible great power and what unique features appeared in the so-called Chinese soft power and mask diplomacy. Since the dominant power of Sino-African relations is the Asian superpower, the study also focuses primarily on Chinese actions. In the first part, we outline the most important characteristics of the relations, the nature of trade and the economic relations before the pandemic. In the second part, we examine what characterized these relations during the first half of 2020, to what extent they have been a continuation of the cooperation during the previous period, and how the pandemic affected them. We also investigate how China has mobilized its African supporters for the long-term goal in order to transform the US-centred international institutional system in its favour.

Based on literature, the following hypotheses are proposed in this topic:

**H.1. China has continued the traditions and used the tools it has developed in its policy towards Africa in recent decades.**

**H.2. China has tried to adapt to the changed situation, but still keeping in mind its goal of changing the international institutional system to its own needs.**

**H.3. The pandemic does not cause a break, a significant change in long-term Sino-African relations.**
The sources of the study are mainly news items published in the international press, in international forums - often in the Chinese and the African media. We intended to compare these with the criteria which have been published in several studies and have characterized China’s political relationship with the African continent in recent years. The authors have already addressed the Sino-African relationship in previous studies (Engelberth and Sági, 2017; Sági and Engelberth, 2018). A useful basis for the study is Yun Sun’s *Africa in China’s foreign policy* (2014) for promoting China’s interests in Africa, and Willemien Viljoen’s “The China-Africa trade relationship” (2019) study in negotiating trade relation. China’s aid policy concerning Africa before the pandemic situation is analysed in detail by Guillon and Mathonnat (2017; 2020).

2. Soft Power, Responsible Superpower and Mask Diplomacy

The oldest continuous civilization on Earth can no longer afford the millennial “tradition” of turning only inward. At the same time, greatness also comes with responsibility, a responsibility for the development (survival) of human civilization. As such “ideas” can be found from the Roman Empire to the political (imperial) ideologies of the United States. With this policy, China not only emphasizes its responsibility for the world, but also legitimizes the system itself domestically. Therefore, it is more applicable to use an intermestic approach which allows China’s policy preferences to influence its domestic actors as well.

Nowadays, the world has become much more globalized than the previous decades or centuries, which must be considered by Beijing decision-makers as well. With its Open-Door Policy, China has become a global player since 1978 at an increasing pace, and therefore, events in
Africa can only be interpreted accurately in the context of the world economy and world politics. Ultimately, the spread of the virus is itself a “product” of globalization.

China’s increasing integration into the world economy and its growing economic power results in more and more advantages in relation to the global world economy. Africa is an increasingly important territory for its global presence. Many approaches suggest that the Asian superpower is actually re-colonizing the black continent (second colonization) (Sun, 2014: 5-8). However, this would be a too simple approach. Relations have several characteristics that distinguish today’s Chinese politics from the former European conquest. Chinese policy also seeks to build on these characteristics.

The Chinese worldview is largely based on Confucian ideals that time is infinite and continuous. That is why the Chinese strategy is considering a 50-100 year horizon. The other important principle is order or stability. These are goals in themselves, not just tools to achieve the goal. It also follows that in the Chinese worldview, collective goals often override the rights and interests of the individual. This can be partly explained by the fact that in international relations the individual does not choose between political systems, but is willing to do business with “anyone”.¹ Applying the approach above: cooperation with dictators can also help the flourishing of people. Party due to this, Beijing politics are often seen as pragmatic and unprincipled. as criticized by Western thinkers. In our view, the Chinese ideology described above obscures the true face of dictatorship and serves only its own interests of power.

China can also rely on the fact that it used to be as undeveloped as African countries. Therefore, according to the Chinese narrative, it is better able to understand the problems of the continent than the Westerners, especially as the former colonists caused so much suffering.
They cared solely about the exploitation of resources, instead of the eradication of poverty and backwardness. China is also trying to position itself as a model that shows that it is historically possible to break out of the vicious circle of poverty in a very short time. Chinese politics in Africa operates along the lines of belongingness, resulting in solidarity, (previously) similar development, common destiny, and interests. China will never go on a colonial path as some countries have done (in the past). Neither will it allow colonization to reappear in Africa, said the Chinese Foreign Minister said before his trip to Africa in May 2020. *(SCMP*², 5th May 2014)

During the first months of 2020, Chinese soft power was associated with the term ‘mask diplomacy’ in the international discourse. China has sought to present itself as a responsible and helpful proactive superpower and to help with medical equipment almost everywhere in the world, including Africa. In this regard, mask diplomacy could build on the achievements that China has made on the black continent in recent decades. China tried to adapt flexibly to changes and unexpected events during the pandemic. Examples of the former are the international criticisms of the Chinese treatment of the virus or atrocities against Africans in China. We have seen adaptation in proactive Chinese actions – in contrast to the more reactive policy of the US. Other examples were the so-called health care Silk Road plan, or the intensification of the Chinese (central) communication in the online space (“Twitter diplomacy”). In the course of these activities, an image emerged that the Asian politics went beyond Africa, the continent being one of the arenas of the global game aimed at transforming the global world order. In sum, in reinforcing the image of a “responsible superpower”, the pandemic has not only created a threat but also a favourable opportunity.

The idea of China as a responsible superpower preceded the pandemic. At the same time, the situation provided an opportunity to
reinforce this message about itself through the tools of mask diplomacy. This was preceded by the “peaceful development” policy announced in 2003, which states that China is a responsible power that avoids conflicts at the international level and focuses on internal prosperity and development. It is open to the outside world, using primarily soft power methods and not interfering in the affairs of other states. Then in 2005 the doctrine was supplemented by an updated theory of the “harmonious world order” dating back to the Csou-era (11th and 3rd centuries BC), which meant a multipolar world order, which is free of conflict, cooperation and a suitable environment provided for the development of all the nations around the world (Boros, 2017). The Chinese leadership thus interprets the Chou-era’s view of a harmonious society in accordance with its own political-power interests. China has been spending billions of yuan on soft power for years, and aims to become a “socialist cultural superpower,” as marked by a 2011 Central Commission resolution. In 2013, Xi Jinping, China’s leader (president and party secretary), used the expression “Chinese dream,” which has also become a symbolic expression for today’s Chinese soft power (The Economist, 24th May 2019).

China has provided significant assistance to countries around the world in curbing the disease. A variety of medical equipment, such as masks, played a key role in this. China combined traditional, gift-based relationship building with the situational advantage that the pandemic first appeared there, so it got through the crisis first. Thus, it gained experience and knowledge about the disease. On the other hand, it had huge capacities to produce the necessary equipment. Thus, China intended to act as a kind of saviour of humanity in the fight against the pandemic. This provided an excellent opportunity for Beijing to strengthen its image as a responsible superpower.
During the first months of the pandemic, as part of the soft power and the mask diplomacy, a new form of Chinese political communication has been reinforced: the so-called Twitter diplomacy (“Twit-plomacy”). Social networking sites have also played a role in the rapid spread of information criticizing the pandemic situation in China, and this has been the case in Africa too. Although only about 43% of the population of sub-Saharan Africa has a mobile phone and about 23% has mobile internet, the region is the fastest-growing mobile phone market in the continent. In order to strengthen the role of social platforms, the political machinery of the Asian country also tried to adapt even before the pandemic. In addition to the usually positive and optimistic messages from the Chinese – most often – state media, diplomats opened more and more Twitter accounts as far back as 2019. In October 2019, the Beijing Foreign Ministry also opened a Twitter account (CGTN, 15th January 2020). This is notable since Twitter is banned in China. But African leaders did not want to be left out of the process either and many politicians – e.g. the Nobel Peace Prize-winning Ethiopian prime minister – became a constant “actor” in social media.

3. The Geostrategic Role of the Sino-African Relations

Nowadays China sees an ally in the African countries which are helping its steps to transform the US-centred global order towards its needs. Besides, African states, which make up a quarter of the world’s countries, are strengthening the international legitimacy and recognition of the People’s Republic of China. In the past, this had two key elements. In 1971, in accordance with UN General Assembly Resolution 2758, the People’s Republic of China took over the position of Taiwan in the Assembly, including the Security Council. Beijing received 26
votes from African countries out of the 76 votes. After the events in Tiananmen Square in 1989, much of the developed world “considered” introducing sanctions against China. There was a chance that the Asian state, which at the time was not as substantial a player as it is today - would be isolated. In this situation China was saved partly by African states which refused to follow the “West”. In gratitude, every year the Chinese foreign minister’s first foreign trip is to Africa. In January 2020, the foreign minister visited five countries: Egypt, Eritrea, Djibouti, Burundi, and Zimbabwe (SCMP, 4th January 2020). At the very least, according to the announcements, the threatening pandemic and its possible consequences were not discussed at that time.

China’s global presence is strengthened by the fact that, with the support of African states, Beijing has gained strong positions in several international institutions. In 2020, four of the 15 UN specialized agencies had Chinese leaders.⁵ There is no other Member State that has so many senior positions in the organization’s specialized institutions. (SCMP, 14th March 2020, Chandler et al., 2017) Until 2017, the Director General of the World Health Organization (WHO) was also of Chinese descent. At this time, the former Ethiopian Foreign Minister, Tedros Adhanom Ghebreyesus, who is a doctor as well, was elected to the post with the support of the Beijing diplomacy.⁶ (Margaret Chan was widely criticized for her handling of the 1997 H5N1 avian influenza outbreak and the 2003 SARS outbreak in Hong Kong (especially in the case of the latter, for taking for granted misleading information shared by the Mainland China authority – the same reason for which Tedros Adhanom was later criticized), though that was when she was Hong Kong’s Director of Health, before she became the DG of WHO.)

It is important to address a geopolitical aspect of China’s policy towards Africa. The location of the country is one of the most unfavourable among the global powers. The rapid economic growth of
the 1980s required raw materials, including crude oil, an essential source of energy for modernization. (China has become a net importer of oil since 1993.) Major oil regions have become the areas of influential rival superpowers. In the Middle East and Latin America, the dominant role was played by the USA, the Siberian fields by the territory of the neighbouring rival – the Soviet Union and then Russia. In addition, the country is in a rather isolated position in terms of geographical location and political stance.) To the north and west, it is bordered by deserts and mountains, to the east and south by the ocean and the seas. The country lives in the “embrace” of rival superpowers, with India on the west, Russia on the north, and the economic and political presence of the US on the east and south. But the relationship with Japan or the Islamic world is not without its problems either. Economic development has required a “zone of influence,” and in the face of the geopolitical and ideological isolation the African expansion could have meant a window of opportunity.

4. Economic Relations before the Pandemic

During the cold war, China’s interest in Africa was mainly driven by ideology, and restricted in the field of economy to bilateral trading and the Chinese aid for the countries of the region. Even in the 1960s and 1970s, the Chinese actions which were concentrated to Africa, were mainly ad-hoc (Vörös, 2015: 35); and it was only from the 1980s they started to be part of a well-designed strategy. The later process was intensified by the foundation of the Forum on China-Africa Cooperation (FOFAC) in 2000. This cooperation got a new dynamism, as investments, the infrastructural and financial cooperation, as well as tourism started to develop fast, alongside the intensification of commerce. Initially, the continent’s raw materials, and later the market
of mass-produced products, so called “crappy products”, initiated China’s presence in the black continent. Nowadays, Africa is the continent with the most rapidly growing population – and with youngest population as well – which provides cheap inputs for labour market and for investments. During the past decades, the increased purchasing power of the middle classes have made the continent more attractive for the modern Chinese products.

In the 1950s the bilateral trading was worth only 12 million, but it increased to 166 million by 1990. However, China’s share was around 1% of African foreign trade; and increased to only 3% (with US$10 billion) in 2000. After the millennium, spectacular growth began. In 2008, bilateral trading volume exceeded US$100 billion, which made China the biggest partner of the continent, overtaking the USA. Trading volume exceeded US$200 billion in 2015, US$185 billion in 2018, and over US$209 billion in 2019 (SCMP, 18th January 2020). In contrast, Africa owns only 5% of China’s 4-5000 billion global trading volume. In the previous years, trading did not develop in the same way. In 2014, China’s minister of foreign affairs set the aim of reaching US$ 400 billion by 2020 (SCMP, 5th May 2020). From the data we can assume that Africa is not an important trading partner for China per se, but the continent’s development prospects are what provide further opportunities for the future.

The slowdown of the Chinese economy and the world economy has led to a decrease in China’s export volume by 3.8% to US$95.5 billion even before the pandemic emerged. During this period, imports increased by 7.9% to US$113.2 billion. As a result, in 2019 the net volume of bilateral trading increased by only 2.2%, compared to the 20% increase in the previous year. One of the main reasons was the low price of raw materials, especially petroleum, which is the main import for China from the black continent. Its share is usually around 30-32%,
which significantly supports the diversification of energy imports of the
Asian state (Biedermann and Kiss, 2017).

**Figure 1** China-Africa Trade (in billion US$), 1992-2018

![Graph showing China-Africa trade from 1992 to 2018.](image)

Source: Own editing, John Hopkins University (China Africa Research Initiative).

The structure of trading is mainly unilateral and reminds us of the
colonial times. Africa has mostly transported raw materials and energy
resources to China, in exchange for manufacturing products and services
which have become more modern and higher quality over the years.
From the point of view of Africa, the trade balance has shown a deficit,
except for the years when raw material prices (e.g. petroleum) were high
worldwide, like throughout the 15 years after 2000. The structure of the
trade and the Asian surplus provide a strong argument for those who
accuse China of the re-colonization of Africa, by taking advantage of the region with cheap exports. (SCMP, 18th January 2020)

Nowadays the well-known Chinese companies are also present in the countries of the black continent. It is more and more important for them to produce their products at lower labour costs than in China. They often finance the construction of industrial territories and free trade areas, where they can produce inventories on a large scale from shoes to electronic goods, which otherwise were imported from China. These products are then usually forwarded to European and American retailers. This makes it easier for China to be present in the world economy, because if a boycott or a retributive duty were to be introduced, it would not affect the African manufacturing sites. In the African continent there are more than 10,000 companies which are Chinese-owned. On a yearly basis approximately 12% of the African production, amounting to US$500 million, is made by Chinese companies.\(^8\)

5. The Effects of the Pandemic on Chinese-African Connections

It posed a great danger for Africa that the central focus of the pandemic in the initial months of 2020 was China and from March it was the European Union, its main trading partners. In 2019, China’s proportion was 11% of African exports and 16% of African imports. Europe’s share of exports was 33% and 32% of imports (UNECA, 2020). Both areas were in recession because of the pandemic. The EU’s GDP decreased by 3.5% in the first three months (Eurostat, 2020), and Chinese GDP decreased by 6.8%. The data of the Customs Duty of Beijing shows that from January to April the trading volume between China and Africa decreased by 16.8% compared to the previous year. Chinese exports to Africa decreased by 9.3% while imports decreased by 24.4%. (Xinhuanet, 15th May 2020)
Many international institutions warned about the serious dangers awaiting Africa. The UN Economic Commission for Africa (UNECA) reported in 2020 (April) that the economy would decline after a 25-year-long increase. This recession could be 1.8% or in the worst case 2.6%. Many important sectors were hit worse. The collapse of world market prices deeply affected the export of petroleum, which amounted to 40% of African exports and 7.4% of GDP in 2019. The price of metals also decreased by one-fifth, and the price of African food decreased significantly. Metals contribute 12% to the exports of the continent and foods 11%. Many sectors collapsed, like the textile and fresh flower industry. Tourism – which amounts to around 40% of GDP – completely stopped, as did the supporting air transportation. Africa was deeply affected by a decreasing number of tourists, in contrast with 2020 when there was an increase of 50% (Tarrósy, 2020). According to the report of UNECA, the health and social sector would have needed aid of about US$100 billion. Another US$100 billion dollars would have been necessary to avoid economic-financial collapse, in the field of debt finance, operation of the private sector and commercial finance. (UNECA, 2020.)

There is a fresh “allegation” against China’s African politics, which is about the provision of enormous amounts of loans. According to the John Hopkins University (China Africa Research Initiative), between 2000 and 2018 almost US$150 billion was lent to 49 African countries and to their government-owned companies. (Brautigam, 15th April 2020) According to the World Bank, Beijing held approximately 17% of African debts in 2018, which made China one of the biggest creditors in the world. This opened up a new path with the “diplomacy of debt trap” (Czirják, 2020), or in other words “loan book diplomacy” (Parker and Cheffitz, 2018). As critics say, China disbursed developmental loans
in very large amounts for developing states, so that later these countries could be unable to pay them back. In exchange for the shortage in loan repayments, China is asking for concession rights or other favourable terms which provide them economic advantages. In this way China is gaining not only economic influence in the African states, but also political influence. The principle of the argument was the increase of the debts in recent years, whereas the credit to GDP ratio exceeded 50%. (The World Bank recommends a maximum 40% ratio for the low-income countries)

In the spring of 2020 Beijing hesitated in joining the initiative of debt relief for the African countries. The Ethiopian prime minister, Abiy Ahmed asked the creditors to unleash the interests of part of the nominal value of the loans for low-income states. He also asked for a 10-year redemption period for paying back the remaining amounts of loans, alongside with lower rates of interest. For that the African Union agreed. The African countries asked for immediate financial support as well. The World Bank and the IMF asked the creditors to focus on easing the debts. The G20 in April agreed to postpone for the developing countries the repayment of the bilateral loans regarding the pandemic. China signed the agreement, but tried to withdraw later. They said that those loans which were provided by the Export-Import Bank of the Chinese state were not part of the agreement. One of the reasons was that China basically contracted on bilateral agreements which were part of a bigger economic and trading pact. China gave discounts in these bilateral agreements, as it had done in the years before the pandemic. (SCMP, 3rd April 2020) These Chinese steps drove the opinion that China is not willing to adapt to the initiatives of international institutions if it does not serve its interests.
6. The Authority of China Is in Danger

When COVID-19 broke out it seemed that China could be the loser of the crisis. On one hand, economically, because this was the area where the first restrictions were introduced. On the other hand, China’s emerging global power seemed to lose its international reputation, because of the fact that the virus had started there. Many sources indicated that China is responsible for the emergence of the pandemic. The Chinese restrictions raised questions from politicians and professionals, such as: How trustworthy is the Asian country as an international player? Is China really capable of a leading role in the world? Is China capable of acting as a responsible great power amongst the world countries?

This research aim is not to present the events of the pandemic in China. What is closely related to the subject are the events that happened to the African inhabitants. After successfully handling the pandemic in Wuhan and in its provinces, the authorities introduced strict restrictions in the city of Kanton because they were afraid of the second phase. This seaside city is the most important centre for the African diaspora in China. Around 4,500 African people in the city were put into the fore of the events, but according to some sources this number could be higher, around 15,000, if we take into account illegal immigrants. Eleven Nigerians were diagnosed with the disease, and for that reason strict restrictions were introduced for the Africans, and they were hit by many retaliations in other cities as well. The affected people had been put into quarantine, banned from shopping in supermarkets, and forced to leave their homes (i.e., move out of their apartment, leave their hotel rooms). News appeared quickly in the media about these atrocities, mainly through the internet. They spread worldwide and reached the black continent as well. The tension was indicated by the fact that many African politicians – e.g., in Nigeria – tried to forge political capital in
the social media by instigating anti-China sentiment. As a result of the outrage, accusations of racism were brought to the authorities, but also to Chinese society as a whole. The bilateral relations have been put to the test by this situation. The Chinese movements of the past decades to be recognized by the African habitats were forced by danger. The ambassadors of the countries of the continent and the African Union officially protested in Beijing because of the events. In Nigeria and Ghana, whose citizens were most affected, the Chinese ambassador was ordered to provide an explanation, an unprecedented event.

There were several novelties in this situation. On the one hand, the debates in Sino-African relations have so far been formulated behind closed doors, but now they have been quickly introduced to the public.\textsuperscript{11} The Beijing diplomacy apologized – this had not happened with Europe or the US before – and indicated that it would remedy the problems. They emphasized the importance of maintaining fruitful relations with African states. The phrase that the Chinese foreign spokesman used when referring to the protests was as a “reasonable concern”, which reveals a lot (\textit{Politico}, 16th April 2020). Another novelty of the events, although not without precedent, was the increased contribution of social media to shaping the image of China.

Relations with Nigeria have become particularly tense. This has been well illustrated by the fact that the parliament decided in April to examine the legality of Chinese citizens and their businesses based in a West African country. At the end of May, Nigeria evacuated 268 of its citizens from China. Typically, this event was posted on Twitter by the country’s minister of the foreign affairs. (Anadolu Agency, 31st May 2020) It is important to highlight the situation in Nigeria because the country is the largest economy on the continent. Its biggest import partner is China, but it exports mostly to India. Nigerian politics is particularly sensitive to external intervention (Neszmélyi, 2018) and has
acted boldly against Beijing. Similarly, there have been no reports of serious conflicts between China and other African partners.

Losing authority was a threat to China not only in Africa but globally too. Right after the virus appeared in North-America, the US leadership noticed the opportunity of opening a new front line – e.g. a customs war, 5G conflict and the interlinkages between the Chinese companies and the government. The main point was that China is responsible for the pandemic. Moreover, one of the US president’s economic advisers had already spoken in mid-May about China paying compensation for the damage it had caused. President Donald Trump, for example, called SARS-CoV-2 the “Chinese virus”. The pandemic became part of the fight for the global leading power between China and the United States, and one of the important fronts of the “fight” was the Black Continent. Beijing rightly thought that if they want to win this “war” they also have to win on the side-lines first.

While China has often received criticism from the states of the modern world, when the pandemic started to evolve, the African leaders did not make such statements. In fact, when the virus started in Wuhan more than 50 African leaders expressed sympathy and support for the Asian country. Many South-African companies even donated cash and various resources to fight the virus. (Mail & Guardian, 29th May 2020)

As an international institution the World Health Organization became a scene of the conflict. The organization has an African leader, and he has a significant authority in the continent. The WHO has been criticized, perhaps rightly, for being lenient with the Chinese authorities’ international obligations regarding the reporting of data and information. According to Western, mainly North American, criticism in January and February 2020, the organization engaged in communications that were in Beijing’s interests and was wary of dissecting responsibility. They often preferred to praise the country’s anti-epidemic efforts. The President of
the United States also withdrew U.S. support from the WHO and even suspended the country’s membership in May 2020. His reasons included that Beijing actually persuaded the WHO to focus on the positive features of Chinese measures and ignore the negative ones. In doing so, it significantly helped the Beijing government’s propaganda campaign, which hid the mistakes made during the outbreak, as well as its human, social and economic costs. (Feldwisch-Drentrup, 2020). China responded quickly: added US$2 billion to WHO’s financial support on the grounds that “the Asian country wants to strengthen the organization’s activities in emerging countries”. In doing so, China could strengthen the approach and show that even as the US was turning away from poor countries, like the ones in Africa; China was a responsible, proactive helpful power. (Reuters, 18th May 2020) It was even announced that African countries would be the first to receive the Chinese vaccine, for free.

In Chinese communications, a new plan appeared called as the “Health Silk Road” initiative, which was designed to strengthened the image of China as the responsible power. This, and the name itself, was not born during the pandemic. China and the WHO, in the presence of the president of China, Xi Jinping and the Chinese director of the WHO, Margaret Chan (between 2006 and 2017) signed a declaration in 2017 to work together to extend the One Belt One Road (OBOR) initiative to health care. With this, the WHO became the first UN organization to join the initiative. (China Daily, 19th January 2017) In August 2017, the newly appointed leader of the WHO, Tedros Adhanom Ghebreyesus, spoke at a conference about the initiative: “If we are to secure the health of the billions of people represented here, we must seize the opportunities the Belt and Road Initiative provides.” (Axios, 5th April 2020) OBOR has been seen as a synonym for Chinese expansion. But with this, OBOR could have been supplemented with a fundamentally
humanitarian, aid-oriented content. The long-term thinking of Chinese politics and how they try to fit the “moment” (pandemic and its consequences) flexibly into long-term goals is evident in this.

In the spring of 2020, the UN Security Council, whose presidency was held by China in March, also became a “battleground”. That is why the representative of China decided what to put on the organization’s agenda. The extent of the pandemic was the largest in the Asian state during this period, and it spread to other regions of the world. (Europe slowly became the epicentre.) Many members of the international organization have suggested that the Security Council should address the issue, as the pandemic poses global threats, including security. However, Beijing diplomacy – intending to reduce Chinese responsibility – has steadily delayed discussions on the issue. At the meeting of the Security Council on the 27th of March 2020, China vetoed an agenda proposal to this effect, and was supported by Russia and by its largest African trading partner, South Africa as well. (Republic World, 27th March 2020) The majority of the Council then overcame China’s resistance and, mainly under German pressure, held its first virtual meeting about the pandemic on the 9th of April.

The extraordinary, China-Africa summit virtual meeting in June 2020 was particularly instructive, where, besides the Chinese President, 13 African States were attending, including the president of South Africa as the President of the African Union. The meeting, which was about the economic and health consequences of the virus, strengthened the Sino-African alliance. This was indicated in particular by the fact that the joint declaration – on an issue far from the pandemic – drafted that they support China’s efforts in Hongkong to protect its security policy interests. At the same time, China expressed its intention to share the virus vaccine with the developing world in the future. (The EU made a similar statement, but the US did not.) The statement – according to
China’s interests – stated that the disease should not be used for political purposes. In the text, it was also mentioned that the virus was natural and not specifically Chinese origin. Thus, on numerous points, the summit sent an indirect message to the US and advocated China on a number of points of contention. (ECDMP, 22th June 2020)

7. Mask Diplomacy in Africa

The “formation” of the virus in Wuhan, and then the Chinese “events” that have often been criticized globally, have intensified the increased use and “refinement” of the soft power-diplomacy tools. In early 2020, China had to start, in addition to the communication offensive from previous years, a counter-offensive. The latter was intended to properly interpret the question of the Chinese “responsibility”. The unfolding so-called mask diplomacy can also be seen as having to fit steps due to a sudden “struggle” (pandemic) into the original strategy: strengthening global positions and getting out of the situation as a winner. Nor should we ignore the fact that the Chinese leadership, by withholding information, during the first months of 2020 caused the virus to spread.

The first coronavirus case in Africa was recorded on the 14th February 2020 in Egypt. In Black Africa, an infected person was registered for the first time in Nigeria on the 27th of February. In the countries, the restrictive measures already learnt from other parts of the world, were taken relatively quickly. On the other hand, because of the hundreds of millions of poor people, the predicament appeared much tougher: Does the coronavirus or the impoverishment due to the coercive measures (food shortage, the spread of other diseases, etc.) cause more problems in society? Due to the latter, it has become extremely urgent to help these countries. The situation of the continent was also aggravated by the fact that, in the modern world’s mentality, Africa was (is) still the
home of the problems of poverty, diseases, hunger, wars, and corruption. As an expert said: “When it comes to African healthcare the world is captivated by endless panic and helplessness.” China has sought to prove – as it has done in the past as well – that it sees the continent differently.

The Chinese media, through the increasing number of TV broadcasts in Africa, has sought to broadcast that the Asian state is successful in pandemic management and provides a kind of model for the world, including poor states. China has traditionally positioned itself as an experienced partner to follow. But the information offensive was not just about that, of course. A conscious, well-thought-out image-building began and continued during the pandemic. One of the aims of this is to set an example for Asia. On the other hand, it was intended to overshadow the Chinese shortcomings in connection with the emergence and treatment of the virus. The informational “warfare” – the spread of the Chinese narrative of the “story” – became one of the “legs” of the Chinese actions, the other “leg” is the efforts to concretely help the troubled states. (Peragovics, 2020)

The efforts were supported by the fact that the Asian state had the most experience and knowledge about the disease, and also by the fact that China had globally the most production capacities for the necessary tools (Deutsche Welle, 25th March 2020). The help – as it was common in previous years as well – came to Africa in the form of financial support and humanitarian aid. Already during the Ebola pandemic in 2014-2015, West African countries received major support.

The grants were made primarily in kind and not in cash. This was significant because the global market for medical equipment and protective devices quickly became “overwhelmed” in the first months of 2020. At the same time, the Africans were in a difficult position to get them. On one hand, while the prices also multiplied rapidly, they did not
have enough financial resources for the purchase. On the other hand, a “global race” had evolved and the ability of the continent’s states to assert their interests – given their economic weights – was limited. “The West bought most of the materials for the tests… and we are in the end of the queue,” said Robin Wood in April, a physician at the Desmond Tutu HIV Centre in South Africa. (ORF, 28th May 2020) Since it was not possible to accurately predict the effects of the virus, many countries were prepared for the “bad or worst-case scenario”, which only increased competition further. National selfishness made opportunities difficult, as almost every state tried to limit the sale of medical devices by taking their own interests into account. “Politicians instinctively try to protect their own people and “we know that sometimes the worst in human behaviour comes out,” said Simon Missiri, African director with the International Federation of Red Cross and Red Crescent Societies. (Africanews, 9th May 2020) Procurement was also hampered by the fact that some poor states were often unable to provide international administrative and logistical conditions for purchases, but they also received help from China in this as well. In contrast to Beijing, the EU has sought to provide a significant aid in the form of many billions of euros for African states. However, the cash nature of this could help the countries less, so its geopolitical importance was also weaker. (ECDMP, 11th May 2020)

Chinese health shipments have often been criticized in Europe or America for their quality and lack of usability. The Chinese authorities tried to pay attention to these over times, as this did not help build the positive image required by the strategy. In African states, however, this was not the case, and the local media was not overwhelmed by the information about it. To what extent this is the “merit” of the African authorities or a consequence of the Chinese shipments of the right quality, is questionable.
Help was not limited only to the gifting of protective and medical equipment. Chinese medical teams came to the continent and often tried to share their knowledge and experience with their African colleagues in online professional forums. As part of the Twitter diplomacy, the Chinese foreign spokesman regularly reported information about this. On May 13, 2020, for example, he wrote that China sent 5 teams of experts to Africa, held 30 video conferences with Africa since the outbreak of COVID19. More than 40 Chinese medical teams shared their experience with 20,000 local health care workers in 400 pieces of training. "Accordingly, it was communicated that “China-Africa brotherhood bolstered in joint anti-pandemic efforts”. As of June 2, to help the fight against COVID19, China has sent a total of 148 medical workers to 11 African countries.\textsuperscript{13,14}

Algeria was the first African country in March 2020 to receive Chinese health assistance. A team of 13 specialists arrived in the country to provide the equipment needed to fight the virus – e.g., medical ventilators – worth US$450,000 in total. China made a promise to build a hospital that can provide the care of thousands of local and nearly 4,000 Chinese guest workers. (In Algeria, most guest workers came from China.) (SCMP, 28th May 2020)

On April 3, 2020, the Nigerian government announced the arrival of an 18-member Chinese medical team to the country, including doctors, nurses, and health consultants who also brought medical equipment with them. In this, but also in the case of Algeria, the cost of protective equipment and medical staff was not paid by the central government, but by Chinese state-owned companies that operate in the two countries. In the North African state, the China State Construction Engineering Corporation, while in Nigeria a combination of more companies managed the help. (The Africa Report, 6th April 2020)
The presence of China has not always been fully appreciated in Africa. Thus, the provision of help was not received with the same enthusiasm everywhere. In Nigeria for example, local doctors protested against inviting Chinese health professionals and their action was also supported by other organizations such as the Trade Union Congress (TUC) or the Union of Journalists. The anti-China sentiment and local financial interests in the country may have played a role in this widespread protest beyond health care. The TUC was also in a heated debate with the government over the creation of a 5G network – possibly to be done in China. (This Day, 5th April 2020)

It has become a feature of Chinese aid that Chinese cities, companies, and even private companies have become involved outside the “central government.” By May 2020, Chinese aid for the coronavirus had reached US$280 million. Half of this was provided directly by the companies, and the government’s share was only 17% during this period. (Deutsche Welle, 8th June 2020)

**Figure 2** Main Sources of Chinese Covid Aid (% until early May)

Chinese diplomacy played a role in the distribution of shipments. International echoes show that Chinese aid is not selective among African countries, as evidenced by the fact that the Asian superpower has sought to offer its assistance - thus building a global image of a responsible superpower - in almost every region of the world. For example, virus-related donations have also arrived in the US as well.

One of the “brand ambassadors” of donations has become Jack Ma, who, as one of the richest people in the world and a former founder of Alibaba, has sent a lot of donations to all parts of the world, including Africa, through his foundations. He regularly posted his activity – in connection with twitter diplomacy. The Chinese continued the practice of not linking the aid to any political-human rights conditions. In Zimbabwe – which was hit by international restrictions due to its dictatorial regime – Chinese companies donated half a million dollars to the Wilkins Hospital to renovate the country’s primary COVID-19 treatment centre. Sudan, which has also been heavily criticized, also received support, with the Chinese embassy donating more than 400,000 surgical masks to the government at the end of March. On the 23rd April, Chinese doctors held a video conference with their Sudanese colleagues to share their experiences. At the end of May, an Asian medical team arrived in the country. *(Global Times, 5th June 2020)*

8. A Few Conclusions

Chinese politics quickly discovered the need to adapt to the new situation that has occurred from the outbreak of the COVID19 pandemic. Moreover, it perceived the pandemic as a suitable tool to get out of the crisis more strongly, and increase its international influence and reputation across the world. On the one hand, it associated the “momentary coercion” with its long-term goals. On the other hand,
China saw the pandemic not only as a threat but also an opportunity. An opportunity for the world’s most populous country – to develop further its previous strategy – to present itself as a kind of global saviour and as a responsible superpower.

The pandemic also provided an opportunity (to an extent) to simplify the situation for competition between China and the US in which it is important which party can perform better than the other. American isolationist policy has given room for China to act as an initiating, proactive power in many areas. In the first months of 2020, both the Chinese and American leadership were concerned with pandemic management errors, which they tried to cover up or “over-shout” with many various “techniques”. The Chinese opted for an increased international presence, “mask diplomacy,” for this purpose. In contrast, due to its inward-looking nature, American politics found the main culprit in the outside world, international institutions, and China. In 2014, the U.S. was still the coordinator of international assistance for the Ebola epidemic, whilst it had to deal with its own issues in 2020. (Deutsche Welle, 25th March 2020) Based on these, we accept our hypothesis that “China has tried to adapt to the new situation, but still keeping in mind its goal to reshape the international institutional system to suit its own needs”.

China’s interest in Africa did not change during the epidemic, the Asian state continued to try to maintain and strengthen the established relations and alliances. The main tool for this was to continue the aid policy that had been pursued in the past and to adapt it to the new situation. Thus, it could rightly rely on the diplomatic links built in previous decades. At the same time, it tried to react to unexpected events. This adjustment, also due to the flexibility of Chinese diplomacy, has, in our view, been successful.
With the appearance of the pandemic in Africa, China’s assistance has, of course, intensified. The characteristics of China’s Africa policy remained the same even in the new situation. It tried to show its selflessness and solidarity, its policy still did not make a difference based on the political system of the countries. It tried to take the circumstances into account and help in those areas that – due to their level of development – were problematic for Africans. Assistance in kind was a response to the lack of financial resources in Africa, with logistical assistance to the underdevelopment of infrastructure. At the same time, the pandemic has increased the attention of ordinary Africans onto China – partly because of the origin of the disease and partly because of the aid. The Chinese soft power adapted to this, of which the mask and, as a part of it, the twitter diplomacy presented in the study became important parts. At the beginning of the study, we formulated our hypothesis as “China has continued the traditions and used the tools it has developed in its policy towards Africa in recent decades.” In our interpretation it has been fulfilled.

However, the answer to our third hypothesis formulated at the beginning of the study – “A pandemic does not cause a break, a significant change in long-term Sino-African relations.” – is far from clear.

The coronavirus pandemic can be interpreted as a contest of different political systems: are (more) authoritarian systems or liberal democracies able to protect their societies more effectively against “external danger”? In the first months of the epidemic, autocratic tendencies and state policies that endanger human rights intensified in some African states. For example, the report of the Konrad Adenauer Foundation or the Human Rights Watch forewarned this. “Parliaments are being closed, the media is being suppressed and the elections are
being postponed. Police and the military have received such permits that have resulted in disproportionate violence.” (ORF, 28th May 2020)

However, in the first months of 2020, divergences in the political arrangements became more pronounced in the Sino-African relations than ever before. African leaders – because of Chinese atrocities against Africans – wanted their voters to comply on social media, so in many cases they made strong criticisms of China. This reinforced the differences which previously were discussed and solved behind closed doors. Now, however, diplomatic messages and actions have been taking place in public. This may predict that conflicts between African states and China may arise in the future. This may be due in part to differences in political systems. In China, it is inconceivable that certain news would spread freely on the Internet. But it can also increase tensions if the Asian country is free to be criticized by African states with democratic features. These could even jeopardize China’s positions in the long run. The question is if China will turn to a direction in the future that seeks to influence the political system of these states. (The former has not been done so far, or in a very polite way.) The question may also be: to what extent can the Chinese model set an example for African societies? Is that the political regime that broke out of poverty in a few decades and now “is handling” the pandemic well.

Chinese efforts may be aided by the unexpectedly severe consequences and costs of the virus in Europe and the United States. These cast a shadow over the West, and about global actors that were previously able to respond well to any disaster, through their strong democratic institutions and developed economies. The international community has viewed them not only as dominant military and economic powers, but also as models of social well-being, and implementers of good and effective governance. The pandemic caused by the coronavirus has thus become not only a health challenge for them,
but also one of the most serious “stress tests” of good governance that has often been voiced by liberal democracies.

The question is that what kind of effects the pandemic will have on the functioning of the world economy, including the Sino-African relations. After these events, will globalization stop or turn around? Several analysts predicted that during the pandemic the production chains around the world would change, disintegrate, and shorten radically. The events may force transnational companies to rethink and some of the European ones may decide to replace Asian or Chinese suppliers with closer partners. The large number of free and low-wage African workers can be a good argument in this regard. Especially North African states – due to their geographical proximity – can take advantage of these opportunities. This process was partly observed even before the pandemic. (Deutsche Welle, 13th May 2020) At the same time, it would not be favourable to those plans that aim to make China the world’s originator under the “One Belt, One Road” initiative. The latter is a centre that connects Europe, Africa, and the rest of Asia with modern routes.

Regarding the economic impact of the epidemic, it is also a question of how China will be able to finance future projects, such as infrastructure developments supported by the “One Belt, One Road” – which aims to increase the influence of the Asian superpower on the continent. Debt repayment, which is becoming more difficult for African countries, may increase Beijing’s influence on the continent.

All this, of course, can be overridden by how long the coronavirus pandemic will be with humanity. What are the social and economic implications beyond this? These can start new processes and bring new consequences. Therefore, what is said in our study can be considered as a snapshot that the future can rewrite, even very quickly. At the same time, in our opinion there is a continuity, a kind of predictability in
China’s policy towards Africa. This will certainly remain the same in the future, with possible changes, though.

The pandemic has created new opportunities for the great powers, including China. Successful vaccine developments have made it possible for these countries to seek to represent their geopolitical interests through their vaccine deliveries. The geopolitical aspects of emerging vaccine diplomacy raise interesting and important questions that could be the subject of future studies.

Notes

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1. There is one condition for cooperation on the part of China: the so-called “One China Principle”, Beijing demands also that its African partners do not recognize the Republic of China, i.e. Taiwan.

2. *South China Morning Post* (Hong Kong)

3. Data for the end of 2018. (GSM Association, 2019.)

5. FAO (Food and Agriculture Organization of the United Nations), ITU (International Telecommunication Union), UNIDO (ENSZ United Nations Industrial Development Organization), ICAO (International Civil Aviation Organization)

6. As the head of the WHO, one of the first steps taken by an Ethiopian politician was to appoint the Zimbabwean dictator Robert Mugabe as the WHO’s goodwill ambassador, which may be related to Mugabe’s good relations with Beijing. The position of charity was eventually withdrawn by the WHO as a result of international outrage.

7. According to the Chinese Ministry of Commerce, the value of bilateral trade in 2014 was over US$222 billion.


9. Although the Beijing government does not publish accurate data on loans.

10. However, as the researchers state, these are not accurate data either, as they do not contain everything. For example, how much a given country has already paid back. But it also happens that a loan agreement does not use the full amount of a state. But it also happens that the loans are partially or completely released by Beijing.


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China or Taiwan?
The Tricky Dilemma of Diplomatic Recognition:
The Salvadorean Experience

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Abstract

This article analyzes the dilemma facing Salvadorean President Nayib Bukele of whether or not his administration should recognize China or Taiwan. Based on the theoretical approaches of Asymmetric International Relationships and Peripheral Realism, we discuss the principle of nation-state sovereignty and how such notions of sovereignty come into play when small states wish to take autonomous decisions, as well as suggesting that the margin of action is limited by asymmetric relationships. It is in this way that we analyze how El Salvador maintained its autonomy by holding fast to its decision to recognize China in the face of pressure from the United States. It was only possible for El Salvador to maintain this posture however by making significant concessions on immigration to the US. The objective of this article therefore is to contribute to explaining the concept of sovereignty from the perspective of small states, a currently under-researched topic.
Keywords: Diplomatic Relations, Asymmetric Relations, China, Taiwan, El Salvador

1. Introduction

In August 2018, Salvador Sánchez Cerén, President of El Salvador, announced the decision to establish diplomatic relations with China\(^1\). The president affirmed that: “I am convinced that this is a step in the right direction, which corresponds to the principles of international law, international relations and the inevitable tendencies of our time.” (China Daily, 2018a). Subsequent to this declaration, Foreign Ministers Wang Yi and Carlos Castaneda signed an agreement establishing diplomatic relations between both nations in Beijing. This statement established that “the People’s Republic of China and the Republic of El Salvador, under the interests and wishes of the two peoples, have decided to recognize each other and establish diplomatic relations” and that “the two governments agree to develop friendly relations based on the principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in the internal affairs of the other, equality and peaceful coexistence.” (Spanish Xinhuonet, 2018). Sánchez Cerén later affirmed: “the establishing of diplomatic relations with China is the most important foreign policy decision of my administration.” (Abbot, 2018).

According to the vision of the Chinese Communist Party (CCP), there is only one China in the world. In consequence, both the Chinese mainland and Taiwan belong to one China and Taiwan is part of China. In this way, the diplomatic recognition of China implies the denial of Taiwan as a sovereign state. The decision, therefore, to recognize China involves negating the status of Taiwan as a sovereign state. The reaction of the bureaucratic elite of Taiwan was immediate, with the Taiwanese
government using Twitter to announce: “It’s with a heavy heart and great sadness” the end of diplomatic relations with El Salvador, confirming that between both countries “all cooperation programs ended.” The Salvadorian government was further accused of abandoning Taipei as the latter “was not willing to continue” acceding to continued requests for financing by the former. In essence, Taiwan was unwilling to enter into monetary competition with China, and wary of encouraging dollar diplomacy that would inevitably result in a diplomatic debt trap (MOFA, Taiwan, 2018). It was further claimed that Taiwan had rejected El Salvador's repeated requests to provide financial assistance for the construction of a port, maintaining that the project was unfeasible. This was the first time that Taiwan announced the formal ending of a relationship with a diplomatic partner before the partner nation had officially announced its decision.

The break in diplomatic ties with Taiwan happened in the context of growing Chinese pressure to further isolate Taiwan. Since Tsai Ing-wen and the 2016 Progressive Democratic Party triumph in the Taiwanese presidential elections, the number of nation-states no longer recognizing Taiwan has been increasing\(^2\). However, non-recognition of Taiwan has not previously incurred such negative reactions on the part of the United States. After the election of Nayib Bukele as president of El Salvador, the possibility of the small Central American nation once more officially recognizing China came to the fore, rapidly presenting a dilemma: whether to continue recognizing Taiwan, a decision which could be interpreted as resulting from U.S. intervention, or whether to support the building of new diplomatic links with China and benefit pragmatically from the new alliance.

The establishing of diplomatic relations with China was not only questioned but also viewed with suspicion within El Salvador. As a presidential candidate, Nayib Bukele expressed his intention to
reestablish diplomatic links with Taiwan if his campaign was successful, although the government of Sánchez Cerén accused Bukele of receiving orders from the United States to cut ties with China. In the first of five tweets regarding the recognition of China, Bukele wrote: “The Chinese Vice-Minister of Foreign Affairs promised not to interfere in our elections, just as we do not intervene in his internal politics. China is sending 6 million tons of precooked rice that can only be used as a gift in the middle of the official election campaign.” (El Mundo, 2018).

The competition for international recognition between China and Taiwan in the framework of the traditional interference that the United States has had in Central America is a key element in understanding the decisions of the Bukele government in the international arena. This case also exemplifies how, on the international stage, the decision-making of small states is conditioned by a system where two superpowers are constantly jockeying for position. Assuming the theoretical approach of the asymmetrical power dynamic in international relations, this article proposes that when there are two rival regional players, small states can apparently increase their autonomy. Appearances however can be deceptive, as these small states frequently accede to the requests of the more powerful nation, meaning that for the weakest countries, autonomy is just an illusion.

The objective of this article is to analyze Salvadorean decision-making regarding the subject of China-Taiwan recognition, and it is organized in the following way. First, we discuss the concept of sovereignty and analyze theoretical assumptions of asymmetric relationships. Second, we consider the international context of the growing dispute between China and Taiwan framed by the rivalry between the United States and China and we discuss the geopolitical influence of the United States in Central America. Third, we analyze the factors and events that explain the position President Bukele assumed
regarding the issue of diplomatic recognition of Taiwan. Fourth, we analyze the pressure exerted by the United States on the Bukele government to reestablish diplomatic relations with Taiwan. We subsequently examine the most recent decision made by the government of El Salvador regarding the recognition of China, and finally, in the conclusions, we indicate how, although two world powers are competing for international hegemony, the asymmetric structure of the international system prevents weaker states from exercising genuine autonomy. This article contributes to a much deeper understanding of the dilemma of international recognition from the perspective of small states and the influence of asymmetric structures.

2. International Relations in an Asymmetric World

The world that emerged from the Peace of Westphalia accord established the foundations of the modern international system, making sovereign states the main actors in international relations. The sovereign state is a geopolitical reality and a legal concept, and, at the same time, sovereignty is the political doctrine on which the state is founded (Sutch and Elias, 2007). Sovereignty therefore has come to be seen as one of the most important concepts in the contemporary international system (Kaufman, 2013). It is today the basic norm on which international society is based (Jackson, 2005). Sovereignty embodies the idea of self-determination and implies that each state is independent of all others (Slomp, 2008). Sovereign states are therefore equal under international law, and this principle guarantees equal participation of each state in the international arena (Griffiths, O'Callaghan and Roach, 2008). The nation-state and the concept of sovereignty are social constructs and are redefined through different principles and practices, including the practice of mutual recognition that emphasizes the existence of concrete
borders and the principle of non-violation of those borders (Özlük and Cemrek, 2010). In order to obtain recognition from other states in the international system however, even the smallest and least powerful state must satisfy certain basic criteria, such as having a defined territory, a permanent population and government capable of maintaining effective control over its territory (Wilkinson, 2007).

Although recognition of a state should be a sovereign decision, on numerous occasions this choice is conditioned by internal and external factors that evidence the presence of multiple interests behind a pronouncement of this nature. In this way, how, when, and why some states respect the sovereignty of others suggests that the international system is no more than “organized hypocrisy.” (Krasner, 2009). This hypocrisy derives from the interests of the great powers (ibid.). In contrast however, the presence of states which are not internationally recognized is evidence of an anomaly in this system (Harvey and Stansfield, 2009). These unrecognized states exist in the shadow of those which enjoy all the privileges granted by international recognition, living in a kind of “limbo” (Caspersen, 2012). Once sovereign recognition is awarded to a state, it is difficult to remove it later, and this is a consequence of the type of arrangements that are agreed between states but which are not generally disclosed thoroughly (Krasner, 2009).

In the case of small states, their ability to make their own independent decisions on international affairs is proportional to their material capacities in a system that is anarchic (Brown and Ainley, 2005). The capability of these states to make independent decisions can lead, in effect, to challenges to their sovereignty (Neumann and Gstöhl, 2006). However, relations between states neither originate nor develop in a vacuum; on the contrary, these interactions are framed by material and ideational structures in which each state plays a specific role, one derived from a set of ideas and a system of norms (Jackson and
Sorensen, 2003).

This aforementioned set of norms and system of ideas is also shaped however by frequently asymmetric relationships between states. As Brantly Womack suggests (2016), this asymmetry is concerned with relative capability, not because the biggest side wins, but because the two sides of an asymmetric interaction are grounded in different perspectives: this is how asymmetry theory emphasizes relational structures based on disparities of power. The decision by El Salvador to recognize China can be seen therefore as one framed by an asymmetric structural relationship, one determined not only by China but also the United States. Despite the considerable influence wielded by the United States and its desire to ensure that El Salvador allied itself with the cause of Taiwan, the new Salvadorean president ultimately preferred to continue diplomatic links with China. We suggest that as a result of this decision, El Salvador had to pay an excessive price in terms of immigration issues.

Womack proposes that asymmetry is a general theory that can help to analyze all asymmetric relationships “However, the intended contribution is not an explanatory key that makes asymmetric relationships predictable, but rather an interpretive model.” (Womack, 2016: 3). Two basic assumptions of asymmetry theory are that differences in capacities produce systemic variances in interests and perceptions between the stronger and weaker states involved in the relationship. Mutual perceptions and interactions in an asymmetric relationship will essentially be molded by the distinct situations of opportunity and vulnerability experienced by each state. In addition, although asymmetric relations are frequently contentious, they also tend to be robust. In other words, stability might not be an accurate definition of asymmetry because differences in interests and perceptions between the states are a constant source of tension (Womack, 2006). It can be
said therefore that asymmetry produces a difference in perspective. The decision taken by the government of El Salvador demonstrates how the perspective of states in an asymmetric relationship differs, the significance of these differences and how they impact and define the crucial interests of different states.

As Womack (2010: 24) suggests, “Even in a normal asymmetric relationship, disparities of power are real, and they fundamentally affect the perspectives of the participants.” Therefore, the powerful state has less to win or lose in the relationship, and frequently has more important concerns, both foreign and domestic. The weak state is more exposed to opportunities and risks and has minimum control over the relationship. This essential difference in interest generates a difference in attention. The powerful state will tend to act concerning strategic relationships of friendship, normalcy, or hostility, while the weak state will be more active and less credulous of the total environment of the relationship (Womack, 2010). Consequently, the decision-making capacity of small states is conditioned by the asymmetric relationships in which they are embedded.

The fundamental formulation of asymmetry theory as regards bilateral relations has been previously explored, but global concerns of multipolarity require an extension of asymmetry theory from individual relations to the structures of relations. In this way, Womack (2016: 27) affirms that: “The picture of the world order that emerges from asymmetry theory is that of a matrix of countries of various capacities that are relatively stable overall, but one that is composed of individual relations of relative strength and relative vulnerability that can create tensions and misunderstandings.” These tensions were reflected in the case of El Salvador’s recognition of China.

However, despite these asymmetric relationships, small states like El Salvador can enjoy greater autonomy due to different perceptions of
reality when two powerful states are competing to have greater influence. In this sense, it is possible to suggest that, in a context of asymmetric relations, El Salvador took advantage of the situation derived from the rivalry between the United States and China to rescind recognition of Taiwan and, by doing so, obtain more benefits from China. This small victory for self-determination was however overshadowed by US pressure to control the immigration crisis. In the following section, we explore the international situation, marked by the growing rivalry between China and the United States and the role of El Salvador in recognition of China.

The theoretical perspective of asymmetric relationships proposed by Womack can be enriched by the theoretical approach of Carlos Escudé (2020) regarding peripheral realism. Peripheral realism proposes that as long as the international order is built by unequal states, it can never be democratic or egalitarian. An egalitarian system would only be possible if there were a cosmopolitan world regime with a single supranational state. Without such a framework, the world system will inevitably be imperfect and incipiently hierarchical. Faced with this reality, even the States do not even legally have the same rights since the Charter of the United Nations establishes the legal inequality of the States. Thus, the most powerful states – including China and the United States - have the power to shape the rules, while the vast majority are forced to behave according to the norms established by that oligopoly. Paradoxically, despite the enormous differences between Taiwan and El Salvador, these states share their inability to create new rules of the game regarding sovereignty or any other matter of international order. Therefore, both States must play with the rules already established regarding international recognition. The decision-making capacity is reduced to which other States can recognize and what advantages they would obtain from such recognition. Escudé (2020) reveals a third category of States
that, without having the power to establish those rules, rebel against them, paying very high costs to revert to their inhabitants. In other words, three types of states interact in the interstate order: the rule-makers, the rule-takers, and the rebels. Under this assumption, weak states that defy order – the established rules – tend to lose because the exactions they must impose on their societies to continue competing with the power increase to infinity. The Salvadorian case shows that by recognizing China instead of Taiwan, in the context of asymmetric relations framed in a relationship that is also peripheral, is that this country had to pay a high price for changing its international recognition to the detriment of Taiwan, an ally of the United States. However, this fact did not challenge a principle of international recognition as a guarantor of sovereignty. In contrast, China has a new role as a global rule-maker and cannot act following prevailing international law, which could be further motivation for El Salvador to want to be on the side of a new rule-maker.

3. The Competition between China and Taiwan for International Recognition

Bukele’s decision to maintain diplomatic ties with Beijing once he assumed the presidency of El Salvador took place in the larger context of the Chinese desire to further isolate Taiwan. Since 2013 when Xi Jinping was appointed as both Chinese president and General Secretary of the Communist Party, Chinese foreign policy has undergone a significant change. According to Lee (2016), it has morphed from a policy which was in line with existing international rules, to one that creates new rules and institutions more closely aligned with the Chinese perspective of world order. Xi has established an ambitious agenda aimed at making China a world power as a way to reach its “core interests” (Arase, 2016).
The idea of the rejuvenation of the Chinese nation and the Belt and Road Initiative represent two of the main axes that drive this new stage in the history of Chinese foreign policy (Men and Tsang, 2015). At the same time, Xi has promoted a new vision that includes a different relationship between China and the United States (Byun, 2016).

The pressure to reduce Taiwanese participation in international forums ranges from limiting its presence in international organizations, such as the World Health Organization, to boycotting its presence at international sporting events (Woods, 2019). A key element in this strategy is to gradually reduce the number of states willing to recognize Taiwan as a sovereign state. China has been accused of buying the loyalty of its new partners through loans and donations of infrastructure works, and employing astronomical amounts of money to persuade Taipei’s remaining partners to switch diplomatic ties to Beijing (Scott, Morris and Ma, 2019).

The rivalry between China and Taiwan for international recognition dates back to the year 1949 when the triumph of the Communist Party meant the withdrawal of the Kuomintang government to the island (Hutchings, 2001). The nationalist government on the island was proclaimed as the legitimate government of all of China and with the support of the United States, it maintained its representation in the United Nations until 1971, the year in which the General Assembly voted for the expulsion of Taiwan and the restoration of China (Spence, 1999). In 1979 the United States recognized China diplomatically and agreed to withdraw all US military from Taiwan, accepting that the island was part of China (Salvini, 2017). However, through the Taiwan Relations Act, the US government attempted to ensure that American support for the island’s defense would continue, and that diplomatic links would be retained with Taiwan at a high though superficially informal level (Manthorpe, 2009).
Since the triumph of the Communist Party, the complete unification of Chinese territory has been a priority for the communist government. Even in the 1950s the Chinese government’s preparations to invade Taiwan were frustrated by President Truman’s order sending the United States Seventh Fleet to neutralize the Taiwan Strait (Meisner, 1999). However, when Deng Xiaoping emerged as the main leader of the Chinese Communist Party in late 1978, he favored a peaceful reunification (Mark, 2012). In 1981 Deng Xiaoping assured the people of Taiwan that China no longer planned to recover the island by force, although China has not renounced the right to use military force against Taiwan if necessary (Roberts, 1999). At present, Taiwan is the last significant barrier to full national unification (Meisner, 1999). The Chinese government considers any concessions on territorial issues that affect the idea of “one China” as potential threats to its security (Lawrence, 1998). In 1992, the Chinese and Taiwanese governments signed an agreement recognizing the principle of one China. The resolution stated that both sides of the Strait insist on the principle of One China, but the two sides have different views regarding its meaning (Chen and Cohen, 2019). Therefore, it is not established how or when such reunification will take place.

On other hand, the countries of Central America had traditionally been allies of the Taiwanese government. The region is strategically important for Taiwan because Central American states have maintained international recognition in exchange for development aid (Lemus-Delgado, 2017), and through public diplomacy in this region of the world, Taiwan has found a way to guarantee security issues breaking the isolation (Alexander, 2014). Over the last few years, however the situation has changed, with Central America no longer being a homogeneous region supporting Taiwan. The first state to abandon Taiwan and recognize China was Costa Rica in 2007, and this was due
to a dynamic of rivalry between China and the United States (Rodríguez, 2013). This dynamic is the scenario in which El Salvador is currently involved.

In this context, the Democratic Progressive Party (DPP) and Tsai Ing-wen’s triumph signified a shift in Taiwanese foreign policy, with an increased focus on achieving greater international visibility. As a result, China assumed a more aggressive posture designed to further isolate Taiwan on the international stage. The unexpected triumph of Donald Trump however represented implicit support for the Tsai government, and, in consequence, relations between China and the United States have already moved beyond traditional bilateral concerns, these being superseded by larger issues of geopolitics, geo-economics and geostrategic competition (Wang and Zhu, 2015). President Trump even congratulated President Tsai by telephone for her electoral victory (The Washington Post, 2016). This fact was entirely against the policy of One China, and the Chinese government condemned the act as direct interference with the principle of non-intervention in internal affairs. Trump’s presidency soon signaled a longer-term confrontation with the Chinese government, with both a commercial tariff war and the issue of Taiwan being part of a wider strategy intended to gain hegemony on the international stage. For this reason, the decision of El Salvador to withdraw international recognition for Taiwan and work on establishing ties with China was greeted with dismay in Washington. The Central American nation had traditionally been under US supervision in a context of asymmetric relations, and the decision was not deemed to be in line with the regional interests and influence of Washington. The US government however ultimately took advantage of this change in Salvadorean foreign policy by using the asymmetrical relationship to gain an advantage on an issue of domestic importance: the containment of migration.

On February 3, 2019, Nayib Bukele was elected president of El Salvador at the age of thirty-seven. When he presented the plan for his new government, he did not reference foreign policy or mention the China-Taiwan dilemma. He made passing reference to his desire to improve international relations and that his government would attempt to attract foreign direct investment.

In his position as president-elect Bukele visited the United States, and it was during this trip that he accused China of not following international rules and intervening in the affairs of other nations. Bukele said that China is promoting “... projects that are not feasible, leaving countries with huge debts that cannot be paid ...” He also emphasized: “we want to be friends with China, but China has to be our friend with respect and not with money and investments.” Regarding the question of relations with China and Taiwan, Bukele said he had not yet made the final decision whether or not to revoke the decision of the Sánchez Cerén administration to recognize China diplomatically. Bukele also commented that one of the topics in his meeting with John Bolton, who was at that time National Security Advisor to President Trump, had been how to counteract predatory Chinese practices (Reuters, 2019).

The Chinese embassy in El Salvador issued a statement in response to Bukele’s comments affirming that “China never seeks to intervene in the internal affairs of other nations, but always opens and develops diplomatic relations with all countries, as is the case with El Salvador.” The embassy also confirmed that cooperation between China and El Salvador would not be a “debt trap, but a cake for the benefit of both peoples.” (Embajada de la República Popular China en El Salvador, 2018).
Carlos Castaneda, Minister of Foreign Affairs of Sánchez Cerén, confirmed that the Chinese vice-chancellor, Qin Gang, would attend the inauguration of Bukele as president. However, through a statement, Bukele said that neither he nor anyone on his team had authorized the invitation of the Chinese official and, if such an invitation had been extended, it would not have been signed by the president-elect, but by one of the authorities of the government of Sánchez Cerén. Despite these issues, Bukele agreed to meet with Qin Gang, who later stated that “the facts have shown that the opening of diplomatic ties between the two countries is consistent with the mainstream and the aspiration of the peoples, and is a correct decision that is proof of history.” (Spanish Xinhuanet, 2019a). Bukele thanked President Xi for sending a special envoy to his inauguration and declared his appreciation for China, a country with thousands of years of culture, and one known for its disciplined and industrious people, stressing that “the new Salvadoran government will advance relations between the two countries and will correctly handle issues related to Taiwan.” (Spanish Xinhuanet, 2019a). Bukele took office as president of El Salvador on June 1, 2019. The new president understood that the most pressing issues on the presidential agenda would be confronting violence and addressing migration. One of the first foreign policy initiatives took place only five days after Bukele had taken office, when the new president sent a letter to the Secretary General of the United Nations, António Guterres. In this letter, Bukele recognized the UN for its peace missions in El Salvador and presented his country's candidacy for non-permanent membership of the Security Council, the election for which would take place two days later. With this decision, the government of El Salvador altered the agreement made with the Latin America and Caribbean Group, which had previously decided to present only the candidacy of Saint Vincent and the
Grenadines, the country that was finally elected for the period 2020-2021 (Business Standard, 2019).

On June 15, El Salvador broke ties with the Sahrawi Arab Democratic Republic with the clear intention of expanding its bilateral relationship with Morocco. The new president was critical of the fact that El Salvador had previously recognized and maintained diplomatic relations with a republic that did not exist, and was without both territory and population, being effectively a virtual republic. These decisions by Bukele reveal a foreign policy not founded on significant reflection, and it would not outside the realms of possibility therefore if the agreement by the government of El Salvador to recognize China was reversed at some point in the future.

During Bukele’s first month in office, he held a press conference in which he stated that: “Today we have diplomatic relations with China, they are full and we have to recognize the status of China in the world: we are talking about the world’s second largest economy”. He added that, despite the animosity that the decision to establish relations with China had caused with the United States, El Salvador would work hand in hand with the nations it decided were the most appropriate partners. Bukele stressed: “We are going to do not what suits China or the United States, we are going to do what is convenient for El Salvador” (EFE, 2019). The isolated reference made to “full relations” and the lack of detail offered about what this actually meant was an attempt to avoid a definitive stance on the matter and leave an ambiguous message of neutrality which could be left open to interpretation.

In September, during the General Debate of the 74th Session of the United Nations General Assembly, Bukele took advantage of his visit to New York to meet with State Councilor and Foreign Minister of China, Wang Yi. Wang stressed that the establishing of diplomatic relations between the two countries had opened a new chapter in bilateral
relations, adding that China was willing to support El Salvador’s national development as much as possible. He noted that “that the measure is an independent decision taken by two sovereign countries and fully conforms to the fundamental and long-term interests of the two countries and peoples” (Spanish Xinhuanet, 2019a). On that occasion, the Salvadoran president said that “The establishing of diplomatic relations between the two countries will unleash the development potential of El Salvador and open ample space for bilateral cooperation.” Bukele also noted that El Salvador hoped to strengthen and expand cooperation with China in order to obtain tangible results as soon as possible, with the intention that people from both countries could benefit from the new relationship.

5. Pressure from the United States for El Salvador under Bukele to Reestablish Diplomatic Relations with Taiwan

Bukele’s meeting with Wang and the announcement made at the end of the reunion reaffirmed the position of the Salvadoran government to consolidate the relationship with China and definitively leave behind diplomatic ties with Taiwan. However, the debate was resumed due to the position taken by the U.S. Principal Deputy Assistant Secretary in the Bureau of Western Hemisphere Affairs, Julie Chung. In her visit to San Salvador, Chung declared that the United States government was disappointed by the “opaque” way in which El Salvador established relations with China, and she subsequently made strong representations regarding the continuation of El Salvadoran diplomatic relations with the nation. She affirmed that China was not known for its stance in the fight against corruption and asked the Bukele government and Salvadorans to question what kind of countries they want to stay closer to, those committed to democracy and the rule of law or countries like China.
which do not respect the rules of international diplomacy. In addition, she hinted that although for El Salvador the link with China may be financially attractive, such agreements are often attached to complicated conditions involving loans or the appropriation of natural resources which may ultimately prove impossible for the receiving nation to pay. Chung emphasized that “This relationship is like a sweet that looks delicious but is going to rot your teeth.” Finally, she invited the Salvadorean government not to cut all ties and to maintain the closest possible relationship with Taiwan (ElSalvador.com, 2019).

The reaction inside El Salvador was immediate. Deputy Manuel Flores of the opposition leftist party, Frente Farabundo Martí para la Liberación Nacional, said that “The statements of this lady are irresponsible and interfering, but like her, all US officials who arrive in Central America make the same speech, without respect to the sovereign decisions of each state.” (Sputnik, 2019). The Chinese embassy in El Salvador also condemned Chung’s declarations, calling them “irresponsible, unfounded and hypocritical,” (ibid.) and insisting that Taiwan “is an inalienable part of Chinese territory” (ibid.) and urging the US government to manage issues related to Taiwan prudently to safeguard peace and stability in the Taiwan Strait.

The US ambassador suggested that China might be looking to establish a military base in Salvadoran territory in order to turn public opinion in El Salvador against China, warning that the Asia-Pacific Xuanhao company intended to establish a special area in the territory. It was suggested that this measure was part of China’s attempt to set up an alternative trade route to the Panama Canal, and to establish itself in a privileged site which would permit the expansion of intelligence capabilities closer to Washington. The allegation was based on the 100-year rental by China of a 2787 square-kilometer area of El Salvador – 13 percent of the country’s surface – where tax exemptions were required.
The reaction of US officials to the decision to cut diplomatic ties between El Salvador and Taiwan was based largely on Bukele’s uncertain stance. During his election campaign, Bukele “recognized the United States as a key ally.” As president-elect, Bukele traveled to Washington in May; Secretary of State Mike Pompeo visited El Salvador in July and Bukele met with US President Donald Trump in September at the General Debate of the UN Assembly. The initial impression therefore was that Bukele was willing to turn his back on the alliance with China in order to maintain an excellent relationship with the United States.

As previously mentioned, the construction of relations between El Salvador and China initially began during the presidential election campaign, despite the then-candidate Bukele being significantly irked by the Chinese donation of pre-cooked rice that, according to Bukele, was destined for delivery to ruling party supporters and thus electorally benefit his rival. Bukele subsequently declared: “That is why China negotiated with an outgoing government, because it is cheaper to financially support an electoral campaign than to help develop a country over five years.” (El Mundo, 2018). His exasperation was echoed by the government of the Donald Trump, although this was probably unrelated to the issue of solidarity with Taiwan. In fact, In May 2017 Bukele traveled to Taipei as Mayor of San Salvador to participate in the Smart City Summit and Expo. On that occasion, he was received by President Tsai Ing-wen, who celebrated his participation and highlighted the policies that were implemented in the Salvadoran capital. It is important to note that this reception was out of deference to Bukele as he was not a Head of State but the mayor of the capital of El Salvador (El Periodista, 2017).

The Trump administration reacted angrily to the announcement that El Salvador was abandoning its relations with Taiwan, a phenomenon
not heretofore experienced along of the Trump administration. The White House press secretary released an official statement, something that had not been done when other Central American nations recognized Taiwan, declaring the belief of the US government that the decision would not only affect El Salvador but also the economic stability and security of the entire Americas region. The statement affirmed that “The El Salvadoran government’s receptiveness to China’s apparent interference in the domestic politics of a Western Hemisphere country is of grave concern to the United States, and will result in a re-evaluation of our relationship with El Salvador.” (The White House, 2018).

In response to the US declaration, Beijing stated that there was no reason for anyone to interfere with El Salvador’s decision to establish diplomatic ties with China. Lu Kang, Foreign Ministry spokesman, asked the United States to have a “correct vision” of ties between China and El Salvador. Lu made the comment in response to the assertion by the US State Department spokesperson that Washington was “deeply disappointed” by El Salvador's decision to break ties with Taiwan and that the Trump administration would be reviewing its relationship with the Central American country (China Daily, 2018b). Washington’s disappointment at the decision taken by the Salvadoran government was shared by some members of the Legislature, who raised the issue of the US cutting aid to countries that abandoned diplomatic recognition of Taiwan (Sullivan and Lum, 2018). Senator Marco Rubio (2018) posted on his Twitter account that “It would be a terrible mistake for the government of El Salvador to switch diplomatic recognition from Taiwan to China. Maybe they think Chinese money will help the governing party win elections in 2019. But it will cause real harm to the relationship with the U.S., including their role in Alliance for Prosperity.” In a second tweet, Senator Rubio threatened El Salvador: “The U.S. response to Panama and the Dominican Republic switching
recognition from Taiwan to China is not the way we will react if El Salvador does the same. If they do this, I will have no choice but to immediately begin work to end their funding and remove them from Alliance for Prosperity plan.” After Bukele established formal ties with Beijing, Rubio commented that both he and fellow Republican Senator Cory Gardner would be raising the issue of ending US aid to El Salvador with President Trump. Both senators subsequently introduced an amendment to restrict US funding to El Salvador (Gardner, 2018).

Although the United States government sought to undermine El Salvador’s international recognition of China as a way of supporting Taiwan, this issue was not a priority in the relationship between the United States and El Salvador. As asymmetric relations theory supposes, the asymmetry produces different perceptions about what the critical interests are for each state. The support offered by the US to Taiwan therefore could take a backseat to the issue of waves of human migration. Allowing El Salvador to continue with diplomatic ties with China therefore became a bargaining chip in helping to force further concessions on the issue of migration.

Immigration has repeatedly proved to be an issue of significant concern for President Trump, one which is also very profitable from an electoral standpoint. Trump’s relationship with Northern Triangle countries has been extremely rocky due to the perceived failure of these countries to collaborate with the United States on the issue. Trump maintains that these countries do nothing to stop migratory flows, and the relationship was strained still further when in January 2018 he referred to El Salvador as a “shithole”, from whence many criminals migrated to the US: “Why are we having all these people from shithole countries come here?” (Revista Factum, 2019).

When the problem of migrant caravans became more pressing, Trump then resorted to blackmail, threatening Mexico with raising
tariffs on its products. To the Northern Triangle countries, Trump simply announced the suspension of the aid that these countries receive from the US government. The aggressive posture of Trump caused the Mexican government to sign an agreement with the United States to improve security on its southern borders and impede the free passage of migrants, with Guatemala and El Salvador subsequently following suit. All three countries have pledged to receive those who have applied for US asylum and not forward them to another nation until their immigration application is resolved: in effect, a “safe third country” agreement⁴.

This was the context in which in September 2019, the US embassy in El Salvador announced that the acting Secretary of National Security of the United States, Kevin McAleenan, and the Chancellor of El Salvador, Alexandra Hill Tinoco, representing the governments of Donald Trump and Nayib Bukele respectively, would sign a bilateral cooperation agreement on asylum. The communiqué established that the two governments would undertake to address the issue of migration jointly and humanely, endeavouring to improve both the prosperity and security of the region. This agreement is part of an integrated strategy designed to combat organized crime, strengthen border security, reduce forced migration and people-smuggling and tackle illegal trafficking. The US government is satisfied with the treaty and has referred to it on several occasions, such as in the speech delivered by Trump at the General Debate of the United Nations Assembly where he said: “To our country, I can tell you sincerely: We are working closely with our friends in the region — including Mexico, Canada, Guatemala, Honduras, El Salvador, and Panama — to uphold the integrity of borders and ensure safety and prosperity for our people.” (U.S. Embassy in El Salvador, 2019).

Another issue that required resolution was that of the Temporary Protected Status (TPS) humanitarian program⁵. The program was
initiated as a response to the two earthquakes that shook El Salvador in 2001, and allowed Salvadoreans to live and work legally in the United States. In January 2018 however officials from the US Department of Homeland Security reported that the government intended to terminate the agreement. Salvadoreans are the largest group of migrants to benefit from TPS, and although the figures are variable, approximately two hundred thousand people are believed to have taken advantage of the scheme. El Salvador was one of the first countries to become involved in the program due to the ongoing civil war. The right of Salvadoreans to take part in the program expired in 1994, but it was subsequently reinstated due to the earthquakes, and although this particular emergency has long been over, the scheme was extended due to the violence prevailing in El Salvador. The eventual deportation of these Salvadoreans would greatly affect the extremely vulnerable economy of their nation, 20 per cent of which is comprised of remittances sent home by those working in the US. El Salvador, with a population of six million inhabitants, has more than one million citizens in the United States, making it particularly dependent on its larger and more powerful northern neighbor.

The decision of Trump to terminate the TPS program was appealed in court, resulting in the temporary suspension of the intended termination. In October 2019 the U.S. Ambassador Ronald Johnson announced that the Department of Homeland Security would extend the validity of work permits currently held by Salvadoreans under TPS until 4th January, 2021, making it clear that the scheme would remain in operation at least one year after the current litigation in the US courts ends. “This is in recognition of the good work of the Nayib Bukele government,” Johnson said in the video (El Economista, 2019).
6. Endpoint: El Salvador and the Recognition of China

Speculation about the continuity or breakdown of diplomatic ties with China ended when it was announced that Bukele would tour the Asian continent. The visit to China included an interview with President Xi Jinping and was billed a “State Visit.” In his welcome to Bukele, Xi said that the establishment of diplomatic relations opened the door to bilateral cooperation, laid the groundwork for historical development, and was consistent with the fundamental interests of both peoples. At the Great People’s Palace in Beijing Xi praised Bukele’s decision to maintain and develop relations between China and El Salvador, stating: “You have shown strategic vision as a statesman and assumed historical responsibility.” It was also emphasized that China welcomed Salvadorean participation in the construction of the Belt and Road Initiative and that China was ready to import more products such as sugar and coffee from El Salvador (Spanish Xinhuanet, 2019b). Bukele declared China to be a great nation, one which played an important role in the international sphere, and he mentioned his admiration for China’s history, culture, and achievements. Bukele also pointed out that the development of relations with China could generate more opportunities and benefits for its people in El Salvador, and stated explicitly that El Salvador adhered to the one China policy and supported the Chinese aim of peaceful reunification. In an oblique message to the United States, Bukele further referred to his commitment to the development of a long-term friendship with China, in parallel with other important bilateral relations. The speech clearly reiterated that the Chinese government is the only legitimate government representing the whole of China and reinforced the belief that Taiwan is an inalienable part of Chinese territory. For its part, the Chinese government committed to the execution of projects such as the construction of a national stadium, a
new national library, and water treatment plants in Lake Ilopango and the Puerto de La Libertad area.

Julio Fabián, leader of the right-wing Alianza Republicana Nacionalista party, argued that Bukele’s visit to China risked US support for the Salvadorean administration, stating: “One should not bite the hand of the person who has fed him, as the popular saying goes; if the American embassy has accompanied Bukele in difficult times (for the country) I think they (the US government) should have an opinion on whether he travels to China or not.” (El Diario de Hoy, 2019). Tobias Bradford, U.S. Public Affairs Counselor in San Salvador, declared that his government was evaluating whether U.S.-backed programs would be affected by any agreement that the Salvadorean administration made with China. He further emphasised that the U.S. government had advised El Salvador and warned the executive not to fall into the traps that have caused other countries to make agreements with the government of China which have subsequently proved problematic.

7. Conclusions

Although Bukele initially viewed the establishing of diplomatic relations with China with suspicion and accused President Sánchez Cerén of seeking political benefit from this foreign policy decision, he changed his opinion once in office. Bukele believed that recognizing China would be beneficial, and that cementing ties with China would usher in a new era of cooperation. It was envisioned that China would provide El Salvador with support and partnership in areas such as science, culture and social development in addition to offering infrastructure loans, all of which would consolidate domestic support for Bukele. In addition, El Salvador would prove itself capable of resisting pressure from the United States despite the structures of the international system. From
this perspective, therefore recognition of China by El Salvador could be viewed as a significant achievement, with even some sectors of the opposition congratulating the new president on his decision to rescind recognition for Taiwan as a sovereign state. Oscar Ortiz, general secretary of the FMLN, stated that Bukele’s trip to China was a positive development, one which was based on the work that his party had begun in the previous administration, and which strengthened previous agreements. He also pointed out that “The approach that we assume to China was not only correct, but it was also timely, visionary and for the long term”, and the Salvadorean state must continue to cultivate and strengthen (El Diario de Hoy, 2019).

Initial impressions of Bukele’s decision regarding the dilemma of whether or not to recognize China were that the young politician acted pragmatically and intelligently. In addition, he had apparently safeguarded the sovereignty of El Salvador by taking advantage of the rivalry between China and the United States to recognize China despite U.S. threats and the virulent reaction of some U.S. politicians. The election of Bukele was furthermore a clear indicator of his capacity to recognize the increasing importance of China on the international stage, including in Central America. The new Salvadorean president was able to take advantage of the contest for hegemony between the United States and China to overcome the asymmetric structural limitations that have traditionally conditioned El Salvador's foreign policy.

As Womack suggests (2016: 9), asymmetry is a general theory that can help us to analyze unequal relationships by using an interpretive model of the interactions between states. Asymmetry is not however a theory that explains all actions of foreign policy from a deterministic perspective. What it does is to propose that the most important factor behind Bukele’s decision beyond his personality or ideology was the real possibility of action in an international system where not all states have
the same degree of autonomy. This article demonstrates that the Salvadoran government was able to choose between recognizing China or Taiwan. On the other hand, this country did not intend to change the rules on international recognition. As peripheral realism suggests, it could not do so due to the system’s inequality. Even so, in return, El Salvador conceded something more vital for the United States and more important for the future of El Salvador, the immigration issue. While El Salvador was able to recognize China, it was ultimately unable to cope with the immigration restrictions imposed by the United States. For the US government, the priority was migration, not support for Taiwan.

Notes

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1. In this article, we refer to the People's Republic of China as China and the Republic of China as Taiwan.
2. The diplomatic allies to defect from Taipei to Beijing during Tsai’s first term as president have been Sao Tomé, Burkina Faso, Dominican
Republic, Panama, El Salvador, Solomon Islands and Kiribati

3. These Bukele tweets referred to the announcement made by President Sánchez Cerén, reporting $150 million USD in non-refundable deliveries from China to El Salvador over three years (El Mundo, 2018).

4. The agreement with Mexico was signed on 8th June; with Guatemala, on 26th July; with El Salvador, on 20th September and with Honduras on 25th September (Latin America Reports, 2019).

5. The United States Secretary of Homeland Security may designate a foreign state for TPS due to conditions that temporarily prevent nationals of that nation safely returning, or in certain circumstances, where the country cannot handle the return of its nationals properly. The Secretary may designate a country for TPS due to ongoing armed conflict; an environmental disaster or an epidemic or other extraordinary and temporary conditions. Currently, El Salvador, Haiti, Honduras, Nepal, Nicaragua, Sudan, South Sudan, Syria and Yemen enjoy this status (US Citizen and Immigration Services, 2019).

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Implications of China’s Digital Silk Road for US Domination of the International System

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Abstract

While the United States has long dominated the international system, that dominance is being challenged currently by China’s emergence as a new power. While considerable attention has been focused on China’s recent launch of the One Belt One Road (or Belt and Road) policy, less discussed are the digital dimensions of that policy, despite recognition of technology’s importance in the country’s policies. In this paper, the authors show the contribution of the digital aspects of the Belt and Road policy to China’s efforts to establish its position in the international system. Applying Power Transition Theory as pioneered by A.F.K. Organski, the authors show that while China has not fully dislodged the United States from its position in the system, its Digital Belt and Road has succeeded in eroding US’ dominance.

Keywords: Digital Belt and Road, domination, power, status quo, and hierarchy
1. Introduction

The rise of China, generally, and its One Belt One Road (OBOR) policy, in particular, have been topics of much academic and policy attention and deliberations. Less examined is the ‘digital’ dimensions of the OBOR policy, dubbed by some as the Digital Silk Road (e.g., Cheney 2019), and its role in enhancing China’s position in the international system. This paper tackles the topic by examining the impacts of the digital aspects of China’s Belt and Road policy on US dominance.

We first compare data on China and the United States’ military, and in that context, look at of China’s use of the Beidou Navigation Satellite. We then consider China's participation in the International Telecommunication Union (ITU), and its use of the 5G network in its trade war with the United States. Subsequently, we look at the China-US antagonism over the Hong Kong territorial dispute, and relate this to the leadership of former US president Donald Trump and his use of nationalist politics and anti-globalization for foreign policy purposes. Finally, we examine the United States’ actions against Huawei, the launch of an alternative to the US’ GPS system, and its attacks on technological infrastructure – efforts to counter what the US deems are China’s acts of espionage.

Driven by our analysis of the data, the authors in this paper seek to explain China’s dissatisfaction with the United States’ domination of the international system as problematic. Having established the problem, we then show China’s Digital Belt and Road program as its challenge to that dominance. Dissatisfied with much of the world’s dependence on the Global Positioning System (GPS) developed and owned by the US military, for example, China created the Beidou Navigation Satellite. In this way, China succeeded in affecting policy changes in other countries, decreasing US influence, and advancing its own policy objectives.
Using the status quo variable, China can be understood as being dissatisfied with the role and actions of the United States in international institutions as well as the patterns of trade and cooperation between itself and the United States. With the growing interest in AI and 5G networks as part of the Digital Belt and Road program, other countries also have become dissatisfied with the US-led and -dominated international system as the status quo. In terms of hierarchy, China is dissatisfied also with the way the US is the dominant power seeks to resolve territorial disputes on the basis of its narrow interests and ideology. China resolved the territorial dispute involving Hong Kong through a digital development project while advancing the cause of globalization through the Digital Belt and Road.

This paper seeks to complement our knowledge of the digital dimension of China's One Belt One Road in greater depth by applying a theoretical framework of International Relations, namely Power Transition pioneered by A.F.K. Organski. The framework arguably enables us to understand China’s intention to challenge US dominance in technological realm. This paper then contributes to literature on power transition by expanding such framework into the issue of US hegemony on digital technology. This paper is structured according to the following: following a literature review, the framework is then explained be reference to the Power Transition Theory applied by the authors. Next, data and case studies are presented along with the research and analytical methods. The conclusion follows along with suggestions for future research.

2. Literature Review

According to Li Xing (ed.) (2018), it is inevitable that China’s rise and its One Belt One Road policy will disrupt the global order, relations
between countries, and the power structures that make up the status quo (Li, 2018; Karim and Chairil, 2016; Sinaga, 2020). In this way, the United States and China represent the forces for conservatism and revisionism, respectively, of existing international rules, norms, values and systems. The concept ‘revisionist’ is a concept derived from power transition theory, which assumes rising powers to be revisionists (Organski and Kugler 1980). Thus, the recently established Asian Infrastructure Investment Bank (AIIB) and the New Development Bank are the revisionist challenges to the Bretton Woods System dominated by the United States. Li (2016), therefore, sees the One Belt One Road as part of China's efforts to become the global provider of public goods as part of a post-US world economic order. But with disruption and change, China’s rise also poses the prospects of uncertainty, disturbance, and world disorder. It does not necessarily follow that in the aftermath of change, the United States will not emerge renewed dominant once again, raising the specter of unknown and unintended effects to various parts of the world.

However, China’s rise does not only affect the great power politics, but it also has a pragmatic effect on the rest of the world. As argued by Monika Krukowska (2016), the broad scope of the OBOR has the effect of serving to widen China's influence on the world order beyond the more limited effects wielded by Europe and the United States. China’s involvement in development projects in other countries, for example, are peaceful and benefit many parties, and they also increase the number of governments willing to cooperate with China. Through this cooperation, the development projects foster countries’ dependence on China. As a result, many in developing countries see the rise of China to be beneficial to them.

Indeed, that the rise of China to some extent has challenged the traditional global governance supported by the Western powers. These
can be seen in China’s growing ambition to create its global economic order that put China at the centre of the decision-making process. Yan (2014) has shown that in addition to international cooperation and development, China also wields a big influence through the new financial policy instruments it has created, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank. This will certainly reduce the dominance of the US in the IMF, WTO, and World Bank. For now, China’s renminbi, for example, cannot threaten the US dollar’s dominance as a global reserve currency. Yet, it has hindered the effectiveness of United States’ financial sanctions on countries such as North Korea to the extent that the latter transact in renminbi (Bradsher, 2015). Therefore, China’s One Belt One Road has immense potential to change the current status quo, seeing the extent that its influence has already been felt throughout the global order, especially in those developing countries that depend on it for investments and loans, especially of the low-interest variety. One of the conclusions reached by Krukowska (2016) is that if the United States can’t ‘beat’ China and thereby maintain its dominance, another possibility is if the US ‘joins’ the One Belt One Road initiative.

The implication of such situation is that the international system may not be as stable as many scholars of International Relations would predict. Napang et al. (2019) argue that with the emergence of China and its One Belt One Road policy, the United States is no longer the one single power of a unipolar world. China’s efforts at becoming the new hegemon are apparent in the efforts it has made unilaterally, such as the AIIB and the New Development Bank. At the same time, China also is an active participant in multilateral processes in Asia. With OBOR and its financial institutions, China has succeeded in positioning itself in the region as a major source of economic opportunity.
While such reading of the rise of China might be convincing, one must note that China’s rise is not as straightforward as we would like to imagine. Despite being seen as the contender to the US, China is seen as promoting liberalism through its free trade policy. Previously espousing a socialist outlook, China has since taken a capitalist turn and exerted its influence through its leadership of the ASEAN China Free Trade Agreement (ACFTA). Mention has already been made of China’s provision of assistance to countries that support OBOR in the form of low interest loans. Napang et al. (2019) also cite China’s role in resolving territorial disputes, such as in the South China Sea. Through the OBOR’s 21st Century Maritime Silk Road, an agreement on the South China Sea is expected which will be fully binding. Seen through the lens of liberal theory, OBOR is good policy for trade, political stability, and security. While still far from the position of world hegemon that it covets, China has become quite successful at the regional level, and looks inevitably to become a threat to the US position internationally. Hence China’s rise might not necessarily a challenge toward a liberal world order given its ability to accept many of values proposed by the liberal order.

Although China may not challenge the liberal order, it certainly tries to challenge the US leadership within the liberal order. In fact, the US has been particularly seeing the rise of China with wary. Indriani Kartini (2015) discusses the United States’ views of the New Silk Road policy and its financial institutions such as the AIIB as potential threats to the international order that it has controlled so far. The AIIB is seen as undermining existing financial institutions such as the World Bank and the Asian Development Bank by lowering international governance standards. The impact of this new institution could weaken the dollar-based international system by strengthening the renminbi currency as a
global trading asset. The AIIB could also lead to the build-up of a ‘counter’ to the current international financial system, perhaps even to the demise of the international order created and dominated by the United States (Guidetti, 2015). Because of these perceived threats, the United States fears China's rise and has lobbied several countries, such as Australia and South Korea, against joining the One Belt One Road and its financial institutions. Although One Belt One Road makes China appear as a threat to America, some analysts suggest China’s rise poses an opportunity for the United States to cooperate and, thereby, shape that rise and its trajectory. Otherwise, China would be free to create its own power centers through its powerful manufacturing capacity, domestic market, and foreign exchange reserves.

The rise of China is rather a threat in the US hegemony in the economic realm than in a security realm. Min-hyung Kim (2018) shows that the Belt and Road policy, the AIIB, and Made in China 2025 as the three things that pose as major threats to the economic hegemony of the United States. The Chinese state might present One Belt One Road as a boost to the economic prosperity of countries along the New Silk Road, strengthening of the various exchanges and mutual benefits between countries, and foster world peace and development (The State Council of the People’s Republic of China, 2015). But the United States view the Belt and Road as the Chinese version of the Marshall Plan, one that would increase Chinese investments around the world towards the end of global domination. Through the Belt and Road, China builds ports and other transportation infrastructure that can be used for both trade and military purposes. So far, China has managed to gain the support of 70 countries that are responsible for 70% of the world's population, 55% of the world's gross national product, and 75% of global energy reserves (ibid.). In this way, China could easily displace America's position as hegemon and those of its allies. In sum, the literature just discussed
present One Belt One Road as a potential disruptor to the current US-dominated international system and one that could spawn new international systems.

3. Conceptual Framework

Given the above discussion, the rise of China has to some extent brought a process of power transition that might disrupt the global economic order. In the case of China’s challenges toward the US dominance in technology through China’s digital belt and road initiative, this article mobilizes the power transition theory incepted by Organski. Arguably such theory is better in providing analytical tool to understand our case relative to other framework aimed to understand such great power rivalry such as balance of power theory.

First, power transition theory enables us to understand how China’s challenges stems from China’s internal development that push it to be hegemon. Balance of power instead focuses on the external aspect of great power rivalry and mainly see internal development merely as changes in aggregate power of the state.

Second, the conceptual framework allows us to view technological realm as hierarchical in which the US is now de facto leader of such realm. As suggested by Levy (2015), unlike balance of power theory, power transition assumes that the international system is hierarchical with a dominant power at the top of the system. This dominant force has the capability to create and maintain an international order. If there is an uneven growth in the international order, then new powers will emerge and, if not satisfied with the prospects of achieving parity, will trigger war. Hence, power transition reject assertion made by balance of power theory in which equilibrium of power where there is parity of power among states would provide peaceful outcomes while preponderance of
power is more likely to lead to war. Instead, according to power transition,

Third, power transition theory also enables us to understand great power rivalry by looking at not only the notion of power but also the perception of dissatisfaction. Balance of power is particularly very static in explaining great power rivalry emphasizing on military power and on the role of alignment politics. On the contrary, power transition is more dynamics emphasizing on the role of internal development and to what extent the other great powers, and many middle and smaller states satisfied or dissatisfied with the current status quo in particular realms of global order.

Despite its analytical power in understanding the great power rivalry, most studies mobilising power transition to understand the rise of China are particularly interested in analysing such transition within the issue of security such as strategic issues (Tammen and Kugler, 2006), territorial conflict (Nakano, 2016), and cyber war (Akdag, 2019). Only a handful of studies applying power transition theory to economic issues such as trade war (Kim, 2019). This article aims to fill such a gap by applying power transition theory in the case of China’s.

In general, power transition theory proposes several variables or basic concepts to understand great power rivalry. These are power; status quo; hierarchy; satisfaction and dissatisfaction. Power is the ability of a country to advance policy objectives by changing the policies of other countries. The indicators that measure the power of a country are the level of economy and political performance. The status quo is the current state of affairs related to political and social issues. Indicators of the status quo are the satisfaction and dissatisfaction of countries with the status quo itself. The status quo refers to the rules, norms, accepted procedures that govern international relations created primarily by the dominant states.
Hierarchy is a description of the power structure at both the regional and global levels. The stable distribution of hierarchies is through coalitions of countries satisfied with the status quo. Hierarchy exists when there is one actor or the dominant state that accumulate and exercise authority over another actor, the subordinate state. However, as suggested by Lake, hierarchy is not a total condition; there is a degree of variety within the hierarchy of international system. In other words, the subordinate state may recognize the legitimacy of the dominant state’s commands regulating actions 1–5, but not that of commands it may issue on other possible actions. Tammen and Kugler (2006) further show that in a system with hierarchy was dominated by preponderant state, the system would impose high costs for conflict and reduces costs for integration. Coalition of countries form alliances to manage competition over scarce resources peacefully. Within each alliance, there are dominant forces that have the support of the coalition. A dominant power receives support because it is able to formulate rules that guarantee international security and trade (Tammen, 2008).

In the view of power transition theory, there are two aspects of power that are important in understanding how rising power challenges the dominant state namely ‘parity’ and ‘overtaking’ are pivotal concepts in the theory’s explanation of major wars. Power parity may translate into an opportunity for a dissatisfied states to alter the rules of the systems resulting in the initiation of conflict or challenges towards the status quo (Lemke and Werner, 1996). Once two states have attained roughly an equal power (parity) in which one is satisfied and the other is dissatisfied, this is what the theory refers to overtaking. Overtaking may create dangerous zone of power transition where the system is unstable (Rapkin and Thompson, 2003).
While power and status quo are pivotal concepts in understanding how the transition would be undergone, it was the degree of satisfaction or dissatisfaction towards the status quo that determines whether there would be a conflict in a transition. In the case of US-China rivalry in the economic realm, China’s satisfaction or dissatisfaction toward the US would primarily come down into several key variables namely institutional similarity, economic interdependence, and the American strategy (Levy, 2015). As suggested by Levy (2015), the more China has a greater economic interdependence with the US, the bigger the degree of satisfaction of China towards the system and the status quo and the more the US able to contains China’s dissatisfaction. We further add that economic interdependence is not enough to provide a greater satisfaction for China not to challenge the system. The degree of US constraints over China’s ambition to take a leadership role may also create China’s dissatisfaction towards the system.

As discussed above, one should note that Orginski’s power transition rests upon two fundamental prepositions. First, country’s power lies in the rates of its internal development. This development has created an opportunity for states to challenges the status quo. Second, international system is primarily shaped by the dominant nation, the hegemon. The condition in which the dissatisfied state who accumulate enough power from their internal development overtakes the dominant power is what we call as power transitions (Kim and Gates, 2015). The insights regarding power transition provided by the theory enables us to understand the case of China’s challenges over US domination in the technological realm through its Digital Silk Road initiative.

It has been widely known that the US has become the leader in technology since the inception of global liberal order in the end of the World War II. Based on global technology innovation survey conducted
by KPMG in 2018, more than a third of technology industry leaders globally have put the US as the world’s leading technology and innovation hub. Hence, we can interpret that the US is the dominant state within the technological realms. China’s rise allows China to catch up with the United States in technology. For the past decade, China’s has focused its economic development to transforming the Chinese economy into a major innovation leader. No wonder, the rise of China’s technology is an implication of state-led technological development. China’s Digital Silk Road is one of the recent policies taken to minimize China's lag in the digital technology controlled by the United States. As we will further discuss in the following section, the realm of technology can be an arena for China’s ambition to overtaking the US and change the status quo.

4. Data, Methods, and Case Study

The data collection techniques used in the research for this paper are archival, document, and Internet-based research. Archival and document-based research is a type of data collection that examines various kinds of documents deemed useful for analysis of materials, while Internet-based research is a technique of collecting data via the Internet. Archival and document-based research took place in the library of Universitas Bina Nusantara. From the Internet, the writers sourced materials from online journal databases as well as online news articles.

Analysis of the data obtained took the form of descriptive and qualitative methods. The descriptive method attempts to answer the questions of ‘who’, ‘what’, ‘where’, ‘how’, ‘when’ and ‘how’; qualitative analysis seeks to answer questions requiring more subjective judgement on matters that are not quantifiable and sometimes non-tangible. The authors hypothesize that if the Digital Belt and Road

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succeeds in overcoming the challenges internal and external to it, then China has the potential to replace the dominance of the United States. This hypothesis is based on a number of considerations, factors, and case studies.

4.1. Power: Balanced Military Capabilities

Recent data on China’s military capacity, for example, presents the following snapshot. China’s People's Liberation Army (PLA) consisted of a ground force of a total of 1,020,000 personnel consisting of 13 army groups; 78 combined weapons brigades; 15 aviation / air attack brigades; 15 artillery brigades; 6 air brigades; 6 marine brigades; 5,800 tanks; and 8,000 artillery pieces. Its naval force has 1 aircraft carrier; 33 destroyers; 54 frigates; 42 corvettes; 37 amphibious transport landing / dock vessels; 22 medium-sized landing ships; 50 diesel attack submarines; 6 nuclear attack submarines; 4 ballistic missile submarines; 86 coastal patrol boats; and 248 coast guard ships. Meanwhile, the PLA naval force has 1,500 fighters; 450 bombers; 450 transport planes; and 150 special mission aircrafts (Office of the Secretary of Defense, 2019).

Around that same period, the United States had 1,026,500 army military personnel with 31 combat brigade teams; 11 combat aviation brigades; 17,394 artillery pieces; 1,609 main tanks supported by 6,547 infantry fighting vehicles; 3,892 armored fighting vehicles; 3,000 armored personnel carriers; and 150,000 light wheeled vehicles. The United States’ naval force has 11 aircraft carriers; 67 destroyers; 12 corvettes; 32 amphibious transport landing / dock vessels; 49 diesel attack submarines; 4 nuclear attack submarines; and 14 ballistic missile submarines. The US Air Force has 483 fighters; 139 bombers; 197 heavy transport aircraft; 87 light transport aircraft; and 278 special mission aircraft (The Heritage Foundation, 2020).
4.2. Power Imbalance: US’ GPS vs China’s Beidou

China’s development of the Beidou Navigation Satellite was triggered by dissatisfaction with the universal dependence of militaries on the United States’ Global Positioning System (GPS). Because of China's own reliance on GPS, the United States military had the potential to access and intervene in any of the locations that China armed forces were present. In addition, the US could potentially, and easily, exercise its monopoly over the system and sell its chips and navigation systems at high prices. For such reasons, China’s Digital Belt and Road program developed the Beidou Navigation Satellite. Since then, the development of the system, the Chinese military has been able to set targets without the interference of the United States. When launching missiles and bombs towards targets, China need not need worry about being stopped by American, or any other military, since it operates using its own navigation system. Second, it has given China’s military independent command and control over information about the location of its own troops, and the ability to precisely target and provide navigation for its military forces and attacks. Furthermore, the Beidou Navigation Satellite can also regulate movement tactics, guide precision weaponry, and communication (Goswami, 1st July 2020).

4.3. Status quo: The International Telecommunications Union

The authors of this paper also consider developments related to technology governance and China's participation in the International Telecommunication Union (ITU) as significant. It was the United States that initiated a non-profit organization called the Internet Corporation for Assigned Names and Numbers (ICANN). However, due to concerns about the excessive centrality of ICANN functions in the United States,
the ITU – whose members were national telecommunication institutions – was eventually chosen to serve as the main international platform for the setting and governance of technology standards and to draft proposals for new standards. ITU currently functions under the auspices of the United Nations and is based in Geneva, Switzerland (Dekker, Okano-Heijmans and Zhang, 2020).

4.4. Trade: Huawei

Also salient to the arguments of this paper is the trade dispute between China and the United States. Observations about the rising volume of imports from China to the United States turned to concern in the latter when such imports began surpassing exports from the United States to China, leading to the current large trade deficit. To overcome this, the US government resorted to applying tariffs on imported products from China. Dissatisfied with its trade relations with the US and seeking to develop its trade relations outside the US, China began, through Huawei, to supply telecommunications networks in emerging markets. In particular, it used a Huawei component that is China’s mainstay, the 5G network, boasting of 5G network’s promise to provide much faster speeds and networks for commercial applications across a variety of industries.

In digital commerce (e-commerce), China has continued to develop China-made mobile payment applications such as Alipay, Baidu Wallet, and WeChat Pay. In this way, it has succeeded in raising the quantity and variety of financial data streams entering China. From this data, China is able to analyze the capacities and needs of other countries and create products that are superior, including to the United States.
4.5. Hierarchy: Hong Kong

Referencing the hierarchy aspect of power transition theory, the Digital Belt can be seen as having been also instrumental for China’s efforts in dealing with the US and the question of Hong Kong. While China’s position has been to assert its rights and prerogative over Hong Kong as part of its political integrity, Hong Kong has sought to assert its special/separate autonomy from China. The United States has tended to weigh in on the issue towards Hong Kong’s favor. As part of its efforts to deal with the issue, China positioned its Digital Belt and Road as the overarching structure for a joint project between the cities of Hong Kong and Shenzhen to establish a technology park dedicated to Artificial Intelligence (AI) research development. Involving universities and authorities on both sides of the border, the project also involved the building of an international center for higher education and technology. In 2017, Shenzhen and Hong Kong – which had long been in dispute over 87-hectare area of land called the Lok Ma Chau Loop – officially agreed to jointly establish the technology park in the area. The jointly-developed technology park is in addition to a science park already established in Shenzhen that includes research facilities involving Chinese technology giants Huawei and Tencent as well as cultural and educational centers. With the realization of the Hong Kong-Shenzhen Innovation and Technology Park, the AI research developed advances, among other aspects, China’s military and economic interests.

4.6. Hierarchy: China Globalism vs US Parochialism

The United States’ rejection of globalism during the leadership of Donald Trump as president also provides an interesting case study in question of hierarchical variables. President Trump had repeatedly
asserted ‘patriotism’ as a major factor for his protectionism and anti-
globalization, citing, among other grievances, American job losses, the
decreasing performance of American companies, and abuse of American
intellectual property. China, on the other hand, has obviously benefited
from, and taken advantage of, globalization – the increased
interdependence and interactions, from the level of individuals up to that
of nations, of trade, travel, culture, information, and other exchanges
(Giddens, 1990). The Digital Belt and Road itself contributes to greater
globalization through the use and promotion of digital technology and
the One Belt One Road’s overall promotion of international cooperation.
In this way, countries have become dependent on Chinese technological
infrastructure such as its 5G networks and fiber optics, accelerate access
to its homegrown commercial applications (e.g., Alibaba) in addition to
its smart cross-border logistics system. In shipping, Alibaba’s logistics
affiliate, Cainiao, uses AI and Geographical Information Systems (GIS)
to determine the fastest and most cost-effective shipping routes across a
variety of complex road networks, including rural and densely populated
urban areas, even to predict what size boxes should be used to efficiently
package orders of various sizes and weights.

5. Discussion

The comparison of China and the United States’ militaries show an
overall balance. However, from the response of the United States to the
Beidou Navigation Satellite and the Digital Belt and Road’s effects on
the United States’ position, it becomes clear from a power vantage that
the US is concerned about China’s increased surveillance capabilities
through Beidou and the effects on US dominance overall in the
international system. Claiming that its GPS services had been disrupted
by an anti-satellite missile attack from China, the United States took
steps to protect its GPS by establishing a Space Command to negate the Chinese threat and ensuring GPS security from interference. It also launched the Satelles’ Satellite Time and Location (STL) as an alternative and backup to its GPS (Satelles, 2019).

Despite the US response to the Beidou Navigation Satellite and its concerns about Chinese surveillance capabilities, countries neighboring China such as Pakistan, Thailand, Laos and Brunei have chosen to stick to their decision to adopt China’s satellite into their own military systems. In fact, Pakistan’s air forces’ JF-17 fighter jets are already supported by the Beidou navigation and positioning system. In their public pronouncements, the governments defended their adoption of the Beidou Navigation Satellite by attributing to China its prioritization of ‘equality’, ‘cooperation’ and the mutual benefits obtainable for all parties. The Beidou Navigation Satellite also presents the attractive option of ascribing to a system other than the US’ GPS, in addition to being a more affordable alternative due to the Beidou navigation chip. It is possible that in the future, other countries will start switching from GPS to Beidou for their military.

From a status quo perspective, the United States sees China’s chairmanship of the International Telecommunications Union (ITU) and China’s active participation in the UN organization as a threat to US interests. The US’s representative to the ITU, US Commissioner of the Federal Communications Commission, Michael O’Rielly, said his country rejects China Mobile’s offer to provide international telecommunications services in the US on the grounds that it threatened US national security (Bloomberg, 11th December 20202020). O’Rielly also said the US was worried about ITU being led by a Chinese national, expressing displeasure with what the US saw was the ITU’s undermining of US interests and provision to some ITU members the opportunity to make use of the UN organization for ‘selfish’ purposes.
O’Rielly cited the ITU chairman’s policies in support of Chinese projects, such as the Belt and Road Initiative (ibid.).

The US pressured allies such as Britain, Australia, New Zealand and Japan against buying Huawei products. Due to the pressure, Japan said it would stop buying Huawei and ZTE network equipment for its government offices and military forces. Likewise, Australia and New Zealand also prohibited Huawei’s participation in building the countries’ 5G networks. Yet, the British government – despite being an ally of the US, having the strongest surveillance regime in the world, and being one of the Five Eyes global spy alliance that includes the US, Canada, Australia and New Zealand – recently gave Huawei approval to install 5G infrastructure in Great Britain. A total of 45 countries have entrusted Huawei to install 5G networks in their countries; only 4 countries have banned the use of Huawei.

Applying the hierarchy principle, the United States in November 2019 threatened to revoke its special treatment of Hong Kong on the grounds that Hong Kong is not autonomous enough from China. While this was a clear attack on China, the fact remains that US revocation of the special status it accords to Hong Kong is easier said than done. Firstly, this is because Hong Kong has strong trade and financial ties with the United States: nearly 1,300 US-owned companies operate in Hong Kong, approximately 300 of them serving as the base for their Asian regional operations. Secondly, for all the US administration’s rhetoric about its ‘patriotism’ and anti-globalization, actually carrying out such policies risked alienating its allies and threatening their cooperation with the US. The US did, in fact, lose allies precisely because of its inward-looking patriotism and protectionism. Finally, many countries, especially developing countries that are heavily dependent on the United States, have begun to support China as the new dominant country in the hierarchy of the international system.
To reiterate, use of the *power* factor leads us to understand how China advanced its policy objectives through the Digital Belt and Road and succeeded in influencing countries to embrace its technological infrastructure despite pressures by the US to dissuade them and other counters from doing so (Lele and Roy, 2019). The *status quo* principle helps us to understand how, with the Digital Belt and Road initiative and through its participation in the ITU, China’s dissatisfaction with the US conduct in the international system and patterns of trade, leading it to work towards a set of new international standards involving the use of Artificial Intelligent and 5G networks. The US, invoking concerns about Chinese espionage, has tried to stem the spread of Chinese technology infrastructure such as Huawei, among its allies. But here as well, the US seems to have failed: only three countries agreed to do as the US requested. Even Britain, a US ally, allowed Huawei to operate within its country.

The *hierarchy* perspective allows us to see China’s *dissatisfaction* with US actions in territorial disputes, succeeded in peacefully resolving a territorial dispute through the Digital Belt and Road policy, as seen in the example of the Hong Kong-Shenzhen technology park. The US’s threat to revoke Hong Kong’s special rights failed to pull Hong Kong further out of its special autonomy and closer to its own sphere of influence. But this gambit failed due to the risks it posed to the presence and interests of its companies. China’s Digital Belt and Road and its embrace of globalization has only won support and worked to its advantage at a time when the US was losing allies with its stance of anti-globalization, ‘patriotism’, and protectionism.
6. Conclusion

Through the Digital Belt and Road, China has succeeded in advancing its policy objectives by changing the policies of other countries, while the United States has decreased its influence on other countries by seeking to advance its own narrow policy goals. China has been able to attain greater capacity to analyze the capacities and needs of other countries and create superior products that are more desirable to other countries than products offered by the US. Neither are they satisfied with the US in the dominant leadership position of the international system as status quo. Lastly, the Digital Belt and Road has served to promote China’s interests at the same time that it has promoted globalization through the technology infrastructure it develops – both (globalization and technology infrastructure) seen as key to better standards of living. China has also built good relations with small- and middle-powers and included them as participants in its large projects. Seeing this, many countries have begun to draw closer to China and pulled away from the US. The Digital Belt and Road program has, in other words, reduced the dominance of the United States in the international system and increased China's potential to become a new dominant power.

From the above, we can conclude that the Digital Belt and Road program has been quite successful in resolving some of the dissatisfaction that countries have with the international system led by the United States. Although it has not fully replaced the dominant position of the United States in the international system, that dominance has decreased with the Digital Belt and Road. A major factor is digital technology’s importance in world today. The US should correct those views and policies if it seeks to thwart China’s rise without causing a war over technology with China.

Among the constraints faced by the authors for this research, conducted in early 2020, was the worldwide Covid-19 virus pandemic.
In addition, data related to economic, military, and trade data have been in flux, if not difficult to obtain. The authors have not, therefore, discussed the prospects of One Belt One Road and Digital Belt and Road programs after the Covid-19 virus. It is likely that China’s condition will weaken, this will, of course, impact on the project.

This study would be of interest for those following the rise of China and its development of digital technology. It shows that China, a developing country, can become a world power and potentially even affect the US’s position of dominance in the international system. It offers the lesson that every country is capable of progressing if it is open to change and utilizing technology to impact the future.

Notes

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Pakistan-China Renewed Cooperation: 
Survival Strategy to Balance the 
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Abstract
The objective of this research paper is to observe US interests in Pakistan and the region of South Asia in the post 9/11 scenario with regard to Pakistan-US alliance using Regional Security Complex (RSC) as a framework. The Pakistan-US relationship is a litany of historically divergent perceptions and interests. Despite periods of close cooperation between both countries during the Cold War and post-Cold War, their interests have waxed and waned due to US global aims and Pakistan’s discernment on superpower’s assistance or infringement on its national interests. In the US-led global war on terrorism, South Asia proved to be a battlefield, and various major powers such as China, India, Russia, and the United States intervened in Afghanistan through the process of
penetration. This penetration process occurred when security alignments were made with states inside the regional security complex by major external powers to pursue their interests, as Pakistan allied with the United States. Therefore, to explain Pakistan’s behaviour and response towards US interests and threats within the South Asian security complex, Regional Security Complex theory has been used. In addition, this study discusses the survival strategies of Pakistan in response to the US interests and threats in terms of growing Indo-US nexus and China-US power politics in the region of South Asia. Lastly, this article suggests that Pakistan and the US need to identify their objectives more clearly while at the same time seeking a way to narrow the difference between their expectations and acts in the South Asian region for better relations in the future.

Keywords: alliance, terrorism, United States, Pakistan, China, India, regional security complexes

1. Introduction

The origin of the Pakistan-US relationship can be traced back to the treaties signed in 1954 and 1955, respectively, in the Southeast Asia Treaty Organization (SEATO) and the Central Treaty Organization (CENTO). Both treaties tied Pakistan and the US in a NATO-like defence pact. After Pakistan’s withdrawal from these agreements, there were no other formal treaty obligations on both sides. The under discussion contemporary Pakistan-US alliance has a similar stature, which began with the fight against the war on terror in the post 9/11 period. In 2004, President George W. Bush named Pakistan as a Major Non-NATO Ally (MNNM) as a way to define America’s leading strategic partner without formal treaty obligations set out in Congress in 1989 (Miller, 2012).
China and Pakistan relations can be viewed as a time-tested friendship that has lasted for seven decades. New opportunities for renewed friendship with China arose in light of recent events such as the Pakistan-US alliance on the war on terrorism that started with various convergent interests, increasing Indo-US strategic friendship as a counterweight to China, and the turbulent nature of Pakistan-US relations. This renewed relationship is not limited to Pakistan but also includes various neighbouring countries and international institutions for its “peaceful rise” to Great Power status (Liao, 2016). Therefore, Chinese growing economic activities and influence in the region of South Asia has attained the attention of the United States and the international community.

The geopolitics of South Asia has changed in the wake of the September 11 terrorist attacks on the United States and due to the rise of China, which have profound implications for the security situation of the region. Therefore, it has increased the geostrategic importance of Pakistan not only for the United States but also for the foreign policymakers of China. Following 9/11, China’s dependence on Pakistan had greatly increased due to some aspects of terrorism which were involved in supporting separatist elements in its Xinjiang province of Uyghur Muslims autonomous region (Jacob, 2010) and the prolonged American-led offensive presence in Afghanistan. Therefore, the presence of Islamic extremists and fundamentalist forces in the various parts of Afghanistan-Pakistan and their interaction with the Uyghur Muslims could be an emerging obstacle to Beijing’s power projection and influence in South Asia (Bhatt, 2019) that increases Pakistan’s importance for Chinese interests in the region.

Moreover, Chinese spheres of influence have been taking place in the world amid a combination of broader developments, including increasing major power rivalry, growing ideological tensions, and rising
focus on the digital realm, all of which have been of particular concern for the United States and its allies. Therefore, China’s Belt and Road Initiative (BRI) has provided itself as the strategic alternative for a more comprehensive regional environment for developing countries, mainly through economic development activities and capturing military hardware markets, including Pakistan’s China-Pakistan Economic Corridor (CPEC). China’s ever-increasing prominence and ability to link up with many developing countries have great significance not only for the regional states but internationally (Parameswaran, 2019).

The changing dynamics of South Asia have ramifications for the regional strategic environment and for the CPEC projects that have been facing enormous security challenges. The ongoing insurgency by the Baloch militants in Pakistan’s province Baluchistan which is the epicentre of CPEC projects and Gwadar port, is making the situation more complicated. Furthermore, India’s hostility towards Pakistan in general and CPEC, in particular, is another aspect of security concern for the CPEC projects. In this context, increasing instability in Baluchistan have been posing an existential threat to CPEC projects, attacks by the Baloch separatist group known as the Baluchistan Liberation Army (BLA) have been rising on the local security personals and Chinese workers (Syed, 2020; Khan, 2019). The Baloch separatists consider China and CPEC as an effort to extract and control the natural resources of their own province Baluchistan (Sial, 2014). Therefore, these increasing security threats to CPEC caused by Pakistan’s domestic militancy and regional events have direct implications for Pakistan-China relations which demand renewed strategic cooperation.

Despite rising militant attacks on CPEC projects and Chinese workers, another emerging issue in terms of CPEC projects is China’s debt policy that complicates Pakistan’s debt spike, which has also received cynicism from the United States. Although the CPEC projects
under the Belt and Road Initiative have increased the lifeline of Pakistan’s dying economy as it replaced the US financial assistance to Pakistan, it has also changed US perspective towards Pakistan-China strategic friendship that proved to be challenging for Pakistan in dealing with the two major powers. Instead of opposing CPEC at an earlier stage, former US President Barack Obama’s administration voiced a cautious welcome to China’s involvement in Pakistan to the extent that it could contribute to Pakistan’s economic stability and will enable it to deal more effectively with extremist groups as well as to make a more significant contribution toward American goals in the region. Initially, the projects under CPEC were intended to build physical infrastructures, like power plants and highways, and the United States was seeking ways to harmonise the initiative (Markey, 2020). However, the Trump administration was anxious about the Chinese investments and considered it part of China’s so-called string of pearls strategy.

Broadly speaking, after the broader evolution of BRI as China’s globe-spanning strategy, the CPEC also moved into a new phase, and President Trump’s administration has disclosed a more critical view of China’s infrastructure projects in Pakistan. In response, the US warned Pakistan about its prospective International Monetary Fund (IMF) bailout package that should not be used to pay off Chinese debt, whose ambitious Belt and Road Initiative is turning Pakistan into another Venezuela (Ren, 2018). Washington’s more robust posture reveals its concerns regarding the nature and implication of CPEC, lack of transparency in Chinese financial arrangements with Pakistan that might be involved in a debt trap. In this context, the US principal deputy assistant secretary of state for South and Central Asia, Alice Wells, criticised CPEC in her statement where “a number of firms blacklisted by the World Bank had received contracts in the China-Pakistan Economic Corridor (CPEC)” (Malik 2020).
These steps seemingly signify China’s regional standing and its objective to decrease the US security presence around its periphery. In contrast, India-US as security partners has the potential for a future worldwide order revealed by a rivalry between the US and China as ultimate components with future implications. With this regional puzzle, it is understandable to anticipate a motivated two-bloc coalition to come to fulfilment in South Asia, i.e., China and Pakistan, versus India and the US (Chandio, 2015).

Another important development for Pakistan-China alignment is the Kashmir issue which has been at the core of Pakistan’s foreign policy since its independence. It has been a point of leverage for Pakistan’s strategic partners and allies, while Islamabad values those countries who endorsed and stood behind its Kashmir narrative. In the past, China’s Kashmir policy was at times neutral and at times in favour of Pakistan in order to balance its relations with Pakistan and India during the period of Cold war and post-Cold war (Garver, 1996; Arif, 2013). However, there are three important factors that are driving the alignment of China-Pakistan to confront India on the Kashmir dispute. First, although the history of China-India standoffs is based on past historical events, since June 2017, ranging from Doklam to recent skirmishes of June 2020, there have been continuous Sino-Indian feuds that have great importance for Pakistan-China relations.

Second, following India’s decision to nullify the special status of Jammu and Kashmir under Article 370 of the Indian Constitution, Pakistan and China have reacted in anger to this move that gave both countries a strong reason to align on this particular issue for both diplomatic and domestic reasons (Joshi, 2020). Moreover, China considers both the abrogation of Kashmir’s special status and the formation of the new state under Union territory as a kind of
aggressiveness from India that has increased Chinese assertiveness and interests in this particular region. China rejected the Indian move and declared it as “unacceptable”. China claims the region of Ladakh in Kashmir as its territory given by Pakistan in the agreement in 1963 and resurrected this issue in the Security Council in August 2019 (Rajagopalan, 2020).

A third important factor for China-Pakistan alignment on the Kashmir dispute is China’s growing footprint and influence in the regions of Azad Kashmir and Gilgit-Baltistan through CPEC projects. The Karakorum Highway (KKH) passes through this region that is also the gateway to CPEC, which is a flagship of China’s BRI. CPEC has entered its second phase and reinvigorated by a series of new deals worth $3.9 billion for two hydro-power generation projects between Beijing and Islamabad. Both hydro-power projects (Azad Pattan Hydropower Project, $1.5 billion, Kohala Hydropower Project, $2.4 billion) are located in Azad Kashmir (Jaffery, 2020). To sum up, these are the major factors that constantly matched the interests of both countries and mutual dependence on the Kashmir question. At that same time, when both countries are looking at ways to subvert the Indian standpoint on the Kashmir issue, each country’s utter support is likely to help in ramping up their espousal to stand with each other on the Kashmir issue. China’s reaffirmation regarding its Kashmir policy provides a clue for its long-term interests across the Line of Control and in expanding imprint in Kashmir. This further solidifies ties between China and Pakistan.

The objective of this research paper is to observe US interests in Pakistan and the region of South Asia in the post 9/11 scenario. Specifically, it discusses the survival strategies of Pakistan in response to the compliance with the US interests and threats in the war on terror alliance. Thus, this article attempts to answer the following research
question, “what are the US interests in Pakistan and South Asia in the post 9/11 scenario?” The primary adhesive that bonded Pakistan-US relations into a new security relationship was the war on terror, but friction and mistrust have been developing in Pakistan-US relations due to the changing geostrategic environment in the region, which also includes the deepening of Pakistan-China strategic friendship and the strengthening of Indo-US ties.

This article has been divided into seven sections: The following section reviews the concept of alliances and where the Pakistan-US alliance fits within these concepts. Next, it discusses the background of the Pakistan-US alliance in chronicle order that aims to demonstrate the historically ingrained trends of cooperation and disengagements between both countries. The fourth section looks at the framework of regional security complexes that interprets the regional complexities and interdependence of not only Pakistan and US security interests but also China, India, and Afghanistan as factors. The fifth part is based on US interests in Pakistan and its importance; the sixth section discusses Pakistan’s threat perceptions and behaviours towards the United States concerning the war on terror using RSC as a framework. In particular, this section describes the United States’ tilt towards India and Pakistan’s search for alternative options. The seventh part concludes the whole discussion.

Methodological points should be noted that the research approach for this paper is qualitative and various methods used to collect and analyse relevant data. In the first phase, relevant literature was consulted to identify American interests that determined the Pakistan-US alliance in the post 9/11 period and explored Pakistan’s threat perceptions amid US-India growing nexuses and Pakistan’s survival strategies. In the second phase, primary data was collected from August 2019 to April 2020. A total of 32 online and face-to-face interviews were conducted.
with academicians, diplomats, military officers from Pakistan, the United States, and Asia-Pacific (academics from Malaysia and Singapore) to answer the above-mentioned research objective.

2. Concept of Alliance

This section covers the concept of an alliance in International Relations and includes a discussion on the Pakistan-US alliance in the post 9/11 period. In the international system, national security remained an old age problem of states, and states pose different behaviours to achieve their interests through friendly, non-threatening, hostile, and aggressive measures. However, to deal with that problem, many countries enter into alliances with other states to increase their national security and ensure no other state can dominate or outright use force against them (Jackson and Sørensen, 2013). Keeping this in view, alliances have a long history and an established central concern of international relations. An anarchic international system\(^1\) compels states to form partnerships as a key method of their foreign policies to produce and enhance their security (Kuo, 2011).

The traditional definitions and concepts of alliance tend to focus on the existence of a common adversary or threat that drives states to form alliances. Alliances are always designed to counter common threats and rival countries (Ghez, 2011). Therefore, in order to unpack the concept of the alliance, Thucydides was considered as being the first one who discussed the alliance regarding the Peloponnesian War (Salmon, 2006). However, Fedder (1968) explains that alliance is an ambiguous phrase due to extensively diverse definitions used by various social scientists of international relations. The scholars of world politics have emphasised that alliance is a process or technique of statecraft, while some writers view an alliance as a form of international organisations. In eighteenth-
century, alliance as a term combined with international affairs was most probably associated with mutual benefits and limited participation among states (Fedder, 1968).

In relation to explaining the concept of an alliance, Walt (1990), in his book, “The Origins of Alliances”, defines it as “a formal or informal relationship of security cooperation between two or more sovereign states”. This definition is best suited to explain the Pakistan-US alliance because, during the Cold War, Pakistan and the US had a formal alliance; however, after the 1970s, both countries only have security cooperation without formal or informal alliance partnership. Therefore, this definition not only highlights the character of the Pakistan-US alliance but also provides a better understanding of the partnerships between both states within the context of the alliance. In addition, it also includes and justifies both states’ responses to form alliances in a particular situation or to pursue their national interests that emerge spontaneously in an unpredictable manner from the international environment in which both countries have to deal with under an anarchic international system. To be more precise, it remained a goal-directed process from both sides that involved a rational way of thinking about strategies used by Pakistan-US to pursue their national interests throughout the periods of the Cold War and the Post-Cold War. After conceptualising alliances, this article will look into more detail at how this alliance has evolved and the behaviour of both states by describing the background of the Pakistan-US alliance.

3. Brief Historical Background of Pakistan-US Alliance

Before proceeding on the objective of this research paper, it is necessary to review the historical background of Pakistan-US relations in a chronicle order to situate the research question. Since its independence
in 1947, Pakistan has shifted from one crisis to another, and even after seventy-three years of existence, it is still facing multiple challenges and problems. The history of Pakistan-US relations is based on different periods of sanctions and disengagements, followed by various phases of severance. All the periods of Pakistan-US relations are not based on direct or derivative interests but more on Pakistan’s attributes that attracted the US in the past, and which could also similarly affect the future of this relationship. The most important attribute is Pakistan’s geostrategic location between South Asia, Southwest Asia, and Central Asia. Pakistan’s location remained very important for external powers to pursue their interests. As former Pakistani President General Pervaiz Musharraf reiterated the importance of Pakistan’s geographic proximity at the sixth summit meeting of the Shanghai Cooperation Organization (SCO), he said, “Pakistan provides the natural link between the SCO states to connect the Eurasian heartland (Central Asia) with the Arabian Sea and South Asia. We offer the critical overland routes and connectivity for mutually beneficial trade and energy transactions intra-regionally and inter-regionally” (Dawn, 16th June 2006). Therefore, from an international strategic perspective, Pakistan’s strategic location can be understood in the context of interlocking geopolitical relationships of major powers such as China, India, Russia, and the United States. In addition, Pakistan’s foreign policy choices primarily depend on a divisive discourse that upholds the unipolarity concept and adheres to the hegemonic discourse of US strategic interests in the regions of South Asia and Central Asia (Khan and Elahi, 2016).

Historically, the Pakistan-US relationship witnessed three major military engagements ranging from the Cold War era, the Soviet invasion of Afghanistan (the 1980s), and the engagement that started in the wake of the 11th September 2001 attacks.
The first engagement was at the initial stage of the Cold War when Pakistan just emerged on the world map, and the US was in desperate need of allies to combat communism in South Asia. At the same time, Pakistan was deeply conscious of its economic and military instabilities against India and survival challenges. Pakistan’s importance for the US in the period of the Cold War was due to its geostrategic location and such increased security threats from neighbouring countries that afterwards proved a value-added factor for Pakistan in terms of economic and military assistance from the United States.

Furthermore, the uprising of Afghanistan’s Mujahidin against the Soviet invasion in the 1980s was a second military engagement that provided another opportunity to put together Pakistan and the US to mitigate gaps on the pretext of combating communism. Throughout this time, which lasted until 1990, Pakistan served as a frontline state in support of US objectives in suppressing communism and was a beneficiary of $3.2 billion in economic and military assistance packages for its involvement in the Afghan Jihad (Rakisits, 2010). However, Pakistan had lost its importance as a frontline state for the US with the withdrawal of Soviet forces from Afghanistan.

After the dismemberment of the Soviet Union and the end of the Cold War, this era can be considered as a period of disengagement and sanctions in the history of the Pakistan-US relationship. Pakistan faced sanctions from the US under the Pressler Amendment due to its nuclear program in the 1990s. Therefore, these relations were at a low point due to various issues like the Kargil incident, sanctions against Pakistan due to the 1998 nuclear explosions, and military takeover by General Musharraf in 1999. Despite the above-discussed variations in relations, interestingly, the 9/11 attacks brought Pakistan once again into the fold of another military partnership with the US as a frontline state in the war on terror to counter Al-Qaeda and the Taliban threat. Therefore,
Pakistan’s cooperation with the United States was to provide baseline logistics facilities, exchanging military intelligence, catching and handing over suspects of Al-Qaeda, closing off the western frontier of Pakistan, airbases, and airspace accessible for US military action in Afghanistan. Thus, both countries got another opportunity to operate under strong military cooperation to fight against their common enemies.

4. Theoretical Perspective

This section discusses the concept of regional security complex theory for the theoretical framework. The term “Regional Security Complex” (RSC) was firstly coined by Barry Buzan in his book *People, states, and fear* in 1983 to discuss the security dynamics in the regions of South Asia, Southeast Asia, and the Middle East. Further, Buzan and Waever (2003) updated the application of their theory in their famous work *Regions and powers* in 2003. Hence, like most other theories on regional politics, security complexes also tackle the degree of interaction that is situated between states as individual units and the international system. According to this theory, at regional levels, sub-systems exist and provide an analytical structure to analyse security complexes as a subject (Buzan and Waever, 2003).

Unlike most other theoretical works in the field of international relations, RSC was primarily centred on the idea that “state is an entity and a key platform of security relations in terms of political and military relations in regional sub-systems”. This structure is rooted in the fact that relative autonomy of regional security relationships is entangled in an interdependent global security web and place them within the unit (state) and system-level context. But the basic logic of the theory shows that insecurity is often related to proximity, as most political and military threats pass more quickly over short distances than over long distances.
Many states fear neighbouring states rather than external powers, and the interdependence of security and defence over the international system is far from universal. In a geographically fragmented anarchic international system, one of the region-based clusters that mark regional security complexes (RSCs) is the standard pattern of security interdependence. It can be stated that the interdependence of security between states within these RSCs is considerably more important than the countries outside it. Moreover, RSCs deal with the relative strength of inter-state security relationships leading to distinctive regional trends formed by power distribution and historical connections of enmity and friendship. According to Buzan, the original definition of a security complex was “a set of states whose major security perceptions and concerns are so interlinked that their national security problems cannot reasonably be analysed or resolved apart from one another” (Buzan, 2003). Furthermore, this definition of RSCs was reformulated by Buzan and Waever to shed state-centric and military-political emphasis on the possibility of different actors and multiple security sectors in the following words, “a set of units whose major processes of securitisation, desecuritisation, or both are so interlinked that their security problems cannot reasonably be analysed or resolved apart from one another” (Buzan and Waever, 2003).

As the security agendas are dominant in Asia in terms of military and political sectors (Buzan and Waever, 2003), the theoretical framework under the regional security complexes theory can best explain Pakistan’s actions and survival strategies concerning the US interests and reactions towards Pakistan during the alliance on the war on terror. Although Pakistan’s threat perceptions were always linked to the India and Afghanistan factors, in the post 9/11 period, another factor added to this particular scenario was the United States. Thus, Pakistan’s behaviour towards the US remained according to the regional security
order. Therefore, security complexes provide a protection strategy that analyses the effects on system and states’ relations at both the macro and micro levels by the great powers. In addition, security complexes also emphasise on mutuality or consequences of external influences or interventions that continue to exacerbate and affect local issues. Thus, the concept of security complexes is clearly linked to the conventional notion of balance of power, as in a balance of power structure, it is not difficult to understand the relationship between states as the trend that describes security complexes in various regions of the world (Buzan, 2008).

In light of the above described particular scenario, the case of South Asia provides a simple example of security complexes that have systemic features of international anarchy. It functions as networks in the system not only to define extreme and relatively fragile local patterns but also to direct and shape the effect of greater external pressures on these local patterns. Local and regional trends continue to reinforce one another, and local patterns have a greater effect due to the difference in size and resources. In this context, arms supplies play a prominent role in hardening and intensifying regional conflicts, and the convergence of local and international aggression trends exacerbate instability. Buzan (2008) described that these effects were only partially countered by pressures for reconciliation or restraint exerted by the outside powers on the local complexes, as historically in the case of Soviet mediation after the 1965’s war of Pakistan and India, and by the general constraints created around the conflict of India-Pakistan in 1971.

Generally, Pakistan’s support for the American-led alliance on the war on terror was due to its security puzzle and systematic external pressures, as explained by the logic of the regional security complex. Regional security complexes provide a useful link between the relative systematic pressures for Pakistan to be an ally with the US and certainly
explains part of Pakistan’s security challenges in the context of the Indian factor within a sub-regional security complex because India-Pakistan’s security problems are interdependent in nature.

However, it ignores an important fact that Pakistan may indeed be subject to common systemic pressures and felt threatened in the context of the sub-regional system level that was the cause of Pakistan’s compliance with US interests in the region of South Asia. In the coming sections, it can be clearly seen that Islamabad’s threat perception of those systematic pressures may have well-constituted an incentive for Washington in the war on terror to pursue its interests. On the other hand, Pakistan’s specific national interests were translated into conflicting priorities that arranged its terms of cooperation with the United States under a regional security complex that affected the Pakistan-US alliance on the war on terror. In addition to that, Islamabad’s cooperation with Washington was developed in a way that underscored its core interests by reflecting its strengths and comparative advantages and minimising its weaknesses against India. Accordingly, Pakistan’s calculations of how best to handle its interests have both a global and a regional dimension (Simón, 2017).

5. The US Interests in Pakistan in the Post-9/11 Period and Their Importance

This section describes US interests in Pakistan in the post 9/11 scenario and their importance. In the previous section, the regional security complex theory (RSCT) has been described as a theoretical perspective that helps to explain the post-Cold War order and the relationship between globalising and regionalising trends. Furthermore, RSC describes how the region of South Asia is complex in security perspectives that have influenced the actions of Pakistan and the US
regarding alliance on the war on terror since 9/11. Therefore, RSC has been used as a tool to explain security interdependencies of both countries that have become increasingly regional, resulting in Pakistan as a local, regional state having more room to manoeuvre and the US as a major power, having less incentive and desire to intervene in security affairs outside its own region.

Pakistan-US relations have had an epic history of misunderstanding and are seen as disenchanted allies (Mistry, 2019; Kux, 2001; Haqqani, 2013). Historically the US has had interests in Pakistan to create stability and to contain the spread of communism during the Cold War period. Americans saw the relationship with Pakistan as useful to counter the USSR (Union of Soviet Socialist Republics). Pakistan has enjoyed a unique relationship with communist China, and strategically, the United States depended on Pakistan to establish a good relationship with China. Furthermore, Pakistan also assisted the US in its efforts to contain communism through alliances in the Middle East and Southeast Asia. It remained a frontline state against the Soviet Union's invasion of Afghanistan.

The US has vested interests in Pakistan, but on close examination, it can also be observed that Pakistan’s survival was also directly linked to assistance from the United States since its independence. Islamabad received billions of dollars of economic and military aid from Washington to host Afghan refugees and support Afghan mujahideen. However, in the 1990s, Pakistan-US relationships were at low points to the extent that economic and military assistance was terminated by the US due to Pakistan’s nuclear weapons program and Pakistan’s support for the Taliban regime in Afghanistan (Schaffer and Schaffer, 2011; Markey, 2013; Kugelman, 2018; Kronstadt, 2015; Hathaway, 2017). A former Pakistani diplomat endorsed the historical divergent perceptions and interests on both sides in the following words, “Pakistan had a
relationship of alliance with the US in the late 1950s and 1960s which had its problems. But since the 1970s, both countries do not have any relationship of an alliance even periods of convergence for cooperation were also marked by differences” (Khan, 2019). After the 9/11 incidents, the US and Pakistan attempted to revitalise their security partnership to deal with the situation in Afghanistan, and this relationship again turned into a period of close cooperation. However, their interests had been varied on the part of both sides throughout the alliance on the war on terror.

In the hierarchy of US objectives in Pakistan, first and foremost, “everything was conditioned by the 9/11 incidents, and America in principle wanted Pakistan’s support as a part of the bigger anti-terrorism framework and re-engaged itself in the region that led to a re-establishment of military and political relationship with Pakistan” (Weinbaum, 2019). This overriding importance for the US was to secure Pakistan’s cooperation in the war against the Taliban and Al-Qaeda. Therefore, it pursued its interests by deploying its military forces in Afghanistan and by seeking a partnership with Pakistan to get logistic support from Pakistani security forces against common enemies of both countries. Similarly, Christopher Preble noted that “Pakistan's assistance was required to fight against the Taliban and Al-Qaeda, especially in terms of logistics” (Preble, 2019).

The second important US interest in Pakistan is the check on nuclear proliferation regimes. It remained the US national security concern and a crucial policy challenge to shut down the illicit nuclear supplier networks. In this particular context, Abdul Qadir Khan’s network of international nuclear smuggling provides an important logic for the US interests in Pakistan. Abdul Qadeer Khan has been widely viewed as the father of Pakistan’s nuclear program. During the 1980s and 1990s, Khan managed to buy and sell leading nuclear weapons
technologies in four continents with the help of numerous partners and allegedly sold the equipment and expertise to Iran, Libya, and North Korea necessary to manufacture nuclear weapons. However, this network was exposed in October 2003, when a German-owned ship “BBC China” was dramatically seized in the US intelligence-based operation. This vessel was carrying components of fissile material-enrichment centrifuges for Libya’s nuclear weapons program (Albright and Hinderstein, 2005). Pakistan remained the apex of international jihadist terrorism during the war on terrorism and faced several attacks on its defence apparatus by Jihadists in the past decade. Therefore, the US does not want to see Pakistan as a destabilised nuclear power state where its nuclear weapons are being sold in the open market to overcome its economic difficulties. Therefore, the safety of Pakistan’s nuclear assets and inspection of the proliferation of nuclear weapons facilitated by Pakistani nuclear scientists remained important for the United States. Small (2015), in his writings, stated that “A. Q Khan (Abdul Qadeer Khan) and his associates were involved in the proliferation of nuclear technology, designs, materials in the black market”.

Third, a stable and democratic Pakistan with a better economic situation is also important for the US, where it has dedicated efforts to build a liberal and democratic society through trade and investments. The US objectives come from the need to have stability in the region to secure its own interests, as there are concerns that Pakistan can destabilise other parts of the region. This has always been one of the United States greatest concerns. As noted by Adil Najam, “There is nothing good that Pakistan can do for the United States, but there are bad things that can happen to the US because of Pakistan” (Najam, 2019). For instance, “Pakistan could be a constructive player in Afghanistan, or it could be a spoiler. It could help to prevent a deepening civil war in
Afghanistan, or it could fuel civil war by funding and funneling weapons, assistance to various proxy groups that are continuing a forty years civil war that killed millions of Afghans” (Preble, 2019). This argument helps to explain that Pakistan is a crucial actor for the US to fulfil its interests. As for Pakistan, “the stability of Afghanistan and the region has compelled it to pursue its core national interests through the US. In turn, Pakistan remained important for the US, particularly when it comes to the security of the Gulf region. This is because the instability of Pakistan will have a very negative impact on the stability of the Gulf region, which includes the safety of the oil lanes” (Khan, 2019).

Fourth, the main US interest is to reduce tension between India and Pakistan and prevent the breaking out of a nuclear war in the region. Deep tensions between India and Pakistan have the potential to cause turmoil in South Asia ranging from extremist violence, acute resource shortages, and threats of a nuclear war between both countries (Kugelman, 2019). Therefore, it can be perceived that Washington’s powerful penetration and pressure are the principal points of connectivity between Pakistan and India to decrease tensions between these two old rival countries, which is of vital interest. Finally, in the current scenario of the ongoing peace process of the Afghanistan war, the United States’ supreme interest in Pakistan is to have an agreement with the Taliban and drawdown of US troops from Afghanistan with the help of Pakistan. Thus, Washington requires Islamabad to convince the Taliban to negotiate with the Afghan government and initiate moderating discussions with the Taliban for US troops’ safe exit from Afghanistan and ensure that it would not become a safe heaven for international terrorism again.

The above-mentioned US interests help to explain Pakistan’s importance for the US in terms of regional security complexes. It is interesting to note that except for cooperation in the Afghanistan war,
the rest of the US interests are directly convergent to Pakistan’s own national interests. Therefore, the US used various diplomatic tools to pursue its interests; primarily, they have been military cooperation and alliance relationships with Pakistan, including mutual security agreements. More specifically, after 9/11, Pakistan received the status of a major non-NATO ally, and the US used its economic and military assistance as tools to attempt to shape Pakistan’s behaviour and make it conform to its interests. On the contrary, within the framework of regional security complexes, the way Pakistan responded is being discussed in the following section.

6. Pakistan’s Behaviours towards the United States Concerning the War on Terror using RSC as a Framework

America revisited its foreign policy objectives in the aftermath of the 9/11 attacks and declared a global war on terror (Boyle, 2008). This reassessment of the US foreign policy was conditioned with a sheer choice to the rest of the world given by President Bush that “every nation, in every region, now has a decision to make, either you are with us, or you are with the terrorists” (Bush, 20th September 2001). This stark warning from the US left Islamabad no room to manoeuvre or to negotiate diplomatically because, in case of non-cooperation, the Bush administration threatened to bomb Pakistan “back to the stone age” (The Guardian, 22nd September 2006). The events of 9/11 changed the posture of general Pervaiz Musharraf’s government in Pakistan. “He was given a clear choice between the devil and the deep sea by the United States” (Murphy and Malik, 2009).

Essentially, Pakistan was facing two options to comply: either to stay an ally and support the Taliban or join an alliance on the war on terrorism led by America. Pakistani government needed a realistic and
prudent decision in those difficult circumstances. However, there was no alternative strategic choice, and any delay could provoke the United States to react forcefully against Pakistan and could bring damage to its national security interests. Therefore, by calculating the risks of available choices, General Musharraf’s government decided to join the alliance in the war on terrorism and against the Taliban that was once Pakistan’s former ally. Islamabad’s decision to support Washington in the war on terror saved it from many other threats, including expected military attacks, sanctions, as well as Indian attempts to place Pakistan on the hit list as a source of international terrorism and the destruction of its nuclear assets. Thus, Pakistan came back into the fold of another alliance with the US and became a frontline state. Additionally, Pakistan avoided suffering incalculable loss and pursued its national security interests by joining the United States’ led alliance (Akhtar, 2008).

Hence, the above discussed US behaviour in the context of its penetration capabilities was predictable, and Pakistan’s vulnerabilities could not be understood without quoting the criteria of regional security complexes. It had a significant effect not only on Pakistan’s security and economic problems but also on the region’s instability because the preferences of superpowers have far-reaching consequences for smaller states. But the regional security environment has much to say about the survival behaviours of smaller countries, in particular specific security challenges. The US reactions against Pakistan’s refusal to support the war on terror were more predictable since former alliances have been axed, and self-preservation strategies have taken centre stage (Telhami, 2003). In other words, Pakistan’s response towards the United States’ threats was acceptable in terms of its domestic security interests, which involves the Indian and Afghanistan factors.
6.1. The United States’ Tilt towards India

The South Asian region has had a good amount of history in terms of alignments and political relevance with foreign powers that have shaped security dynamics in the international arena. The phenomena of alliance, alignments, and re-alignments unfolded the international dynamics of alliance patterns (Hussain and Javed, 2020). Since its independence, Pakistan has been profoundly conscious of the subcontinent’s power imbalance due to its rivalry with India and has been aggressively finding ways to address its security and economic issues. India and Pakistan are two major countries in South Asia. They have fought four wars on the Kashmir dispute, and the whole subcontinent has been under hostility due to the rivalry of these two nations for the last seven decades.

The essential rationale of RSC theory is rooted in the assumption that all the states in the international system are embedded in a global web of security interdependence, and insecurity is often associated with proximity due to military and political threats that have more implications over short distances rather than over long ones (Buzan, 2003).

Therefore, under the regional security complex, Pakistan’s foreign policy remained India centric, and Pakistani policymakers like to see the United States as Pakistan’s ally in the war on terror be less friendly to India. However, in the particular scenario of great power politics, regional priorities are being redefined, and the Indo-US partnership continues to be strengthened. Furthermore, the US’ de-hyphenation policy to separate the automatic link between its relations with India and Pakistan according to its interests is another factor that reduces Pakistan’s intrinsic value for the United States’ interests. This decoupling approach has often made Pakistan’s relation with the United States only transactional and need-based relations. While on the contrary, India is becoming a more important one for the US policy
deliberations (Pant and Joshi, 2017). This increasing inclination of the United States towards India is not only a symbolic snubbing of Pakistan but reflects a different stature of the US for Pakistan and India. The difference between Washington’s relationship with India was described by Hillary Clinton as “an affair of the heart”, and its relationship with Pakistan was best illustrated by the actual words used by Secretary of Defence Leon Panetta as “complicated, but necessary” (Qazi, 2012).

India-US bilateral ties have recently developed into a strategic partnership that is based on a convergence of interests in regional and world affairs because China’s role in South Asia is an irritant factor for the United States. It seems that strengthening the Indo-US relationship is a natural division between Pakistan and the US, which ultimately leads to the weakening of the Pakistan-US relationship. Eventually, it will be challenging to keep a good relationship between the US and Pakistan because their paths are divergent. This emerging cooperation and alignment reveal that India is more resistant to Chinese influence in South Asia. A former US diplomat emphasised that “The US interest in South Asia goes beyond Pakistan. The relationship between India and the United States changed dramatically after 2000. The 9/11 event is not the key moment when the US started down a rather long path towards creating a much more important economic and security relationship with India. That is one of the major interests of the United States in South Asia. But both countries, for that matter, are part of the picture when the United States looks at the region and its impact on the broader regional stability of the Indian Ocean, Bay of Bengal region, and ultimately, world peace” (Schaffer, 2019).

In the 9/11 scenario, the dynamics were different, and US interests, as well as assets, were put in place to curb terrorism in the region of South Asia. Afghanistan was the gravitational point of terrorism, and immediately in the post 9/11 era, the US needed to prove itself as a sole
superpower to counter those countries which harboured terrorist attacks on the United States. However, the emerging great power politics have changed the old dynamics of US interests pertaining to the war on terror. Therefore, geostrategic competition between China and the US has profound implications not only for Pakistan but also for its importance in the international arena. The US interests are changing where they are focused on not just containing China but also maintaining China. The reality is that the war on terror was a time where US interests had been contained in the larger history of the world where it would not be defined as one of the principal foreign policy doctrines of the United States. This was obvious in the case of Pakistan, where it served as a function of the war in Afghanistan. The extent of these interests will remain so long as the war on terror continues and as long as the US is directly or indirectly present in Afghanistan. Overall, “Terrorism and extremism have not been major driving forces for the US in terms of geopolitics” (Najam, 2019).

On the same token, gradually reducing the involvement of the US in Afghanistan and lessening the focus on counterterrorism has changed the dynamics dramatically, and the US is turning to China. In general, Washington’s interests in Pakistan in connection with the war on terror has been gradually shifting towards containing China’s rise. This was an important dimension of cooperation between the two countries. However, the emergence of confrontation between Beijing and Washington has subsequently changed United States’ strategic interests towards India. This scenario has serious implications for Pakistan’s security interests and cooperation with the United States.

The US relations with India is crucial in order to fairly assess the significance of Pakistan-US relations. During the Cold War, India was part of non-alignment and in a Soviet camp. The United States was inclined towards the Pakistan side, where this factor worked in
Pakistan’s favour during the Cold War due to its competition with India. However, this is no longer the case due to its experience during the Cold War; India is much more likely to be resistant to the Chinese influence. So, this is a critical factor in this new Pakistan-US relationship.

6.2. Pakistan Looks for Alternative Options

“Nations have no permanent friends or allies, only permanent interests” (Mingst et al., 2018). As the famous saying transcribes self-interest as a powerful incentive for states to take advantage of others, states make rational choices and desires to protect their own interests and preclude long-term cooperation among countries. Pakistan’s foreign policy mainly focuses on the above discussed strategic complexity in the context of the United States’ prevailing interests in Pakistan. Since the global war on terror, Washington is dealing with Islamabad through its traditional prudent foreign policy approach. At the same time, Pakistan manages this relationship based on survival tactics combined with Pakistan’s close strategic friendship with China regarding its core security interests. In actual fact, the United States needed Pakistan and put immense pressure on it in order to get what it wanted. As noted by Paul D. Miller, a former Director for Afghanistan and Pakistan on the National Security Council staff; White House under Presidents George Bush and Barack Obama, “Pakistan partially provided what the Americans needed and partially did not. Pakistan does not need the United States as much as it used to, and the United States also does not have as much leverage or influence over Pakistan as it used to” (Miller, 2019).

In this way, it can be easily understood that Pakistan’s survival tactics and one would have to conclude that the choice of available options could be predictable under regional security complex propositions of the international system. The answers must lie in the
domestic realm of Pakistan’s security interests in terms of Indian and Afghanistan factors as well as threat perceptions from America. The above-explained developments reflect asymmetric relations between Pakistan-US strategic alignment since 2001. After the rising of Chinese influence in Pakistan, the United States cannot afford to take things for granted, especially with regard to Pakistan. As argued by one scholar, “America is a superior partner to Pakistan, and Pakistan may just be forced for survival reasons, being a small state, and more importantly for economic reasons, than to face the giant of India to get closer to China. Pakistan is just responding naturally through survival instinct in light of US and Indian pressure. Therefore, it copes with the situation by engaging with China using hedging strategies and not bandwagoning. What Islamabad is doing is not something new, it is just something natural, and at the end of the day, the Americans are going to lose a very important partner just as they had lost Indonesia to China. The United States could potentially lose Pakistan to China. So, China is the future for Americans” (Singh, 2019).

In view of these foreign policy measures, Pakistan pursued its interests through a mixture of leverage and willingness to minimise divergence with the United States while maintaining an engagement to preserve common interests in convergent areas. Broadly speaking, Pakistan’s policy towards the United States was one of engagement because its cooperation with the United States in Afghanistan was due to fears of a backlash rather than willing cooperation (Jamal, 2020). In contrast, Pakistan-US relations had also seen a period of estrangement throughout the first decade of the war on terror due to various incidents like regular drone attacks on Pakistani tribal areas, attack on the Salalah check post by NATO forces, the Osama bin Laden raid, and Raymond Davis incident. These factors remained a serious cause of friction between both countries. Further, Islamabad’s caution drives its hedging
behaviour towards American interests and pressure tactics, as stated by a Pakistani scholar, “The nature of Pakistan-US relationship has been transactional, and in transactional relationships, there is not much loyalty and affection” (Jalal, 2019).

Likewise, despite its complicated rapprochement with the United States during the alliance on the war on terror, Pakistan’s relations with China have served as its primary hedge against US reactions towards Pakistan. China came to rescue Pakistan on several occasions, and this was most clearly illustrated by the Chinese Foreign Ministry after the US raid in May 2011 that killed Osama bin Laden: “China will continue staunchly supporting Pakistan developing and implementing its own anti-terror strategy based on its own national conditions” (Reuters, 3rd May 2011). Pakistan is moving closer to China, not only because it needs reliable strategic protection against India and economic interests, but also because there are some other bilateral logics involved, including estimates of India’s desire for a greater position in the US-led regional order in Afghanistan and South Asia. In contrast, at the same time, there are limits for Pakistan to hedge against US interests because Islamabad does not want to over-provoke Washington. On the other hand, it is wary of becoming a perceived pawn in the US strategy against China. About managing this relationship by Pakistan, an American Professor has stated that “It has become quite clear and apparent that Pakistan’s strategic partnership with the United States has historically been a kind of one-way street, where the United States interests are involved and supportive of Pakistani strategic interests, and when American strategic interests are served, the United States is quick to sort of pullback. Thus, in terms of what Pakistan thinks about the United States, it is less hedging but rather managing their relationship by recognising that Pakistan is not a country that the US can antagonise. This is a country that you can include depending on issues at hand and potentially exploit
the United States’ strategic interests in South Asia. For instance, Pakistan recognises that its involvement in Afghanistan makes it an important entity in South Asia from the US strategic perspective. So, decision-makers recognise that it is a position that can be exploited, which can be used strategically to pursue Pakistani interests. But for the most part, there is no hedging going on, at least not between the United States and Pakistan. However, in Pakistani perceptions, there is a strong feeling that Pakistan’s true strategic ally lies in China, but the United States is an actor that can be managed, that can be exploited, and that can be used towards certain strategic gains, but is not really a long-term partner” (M. Shankar, 2020, personal communication, 27th February). On the same account, Daniel Marky also described it as, “there are concerns in Pakistan that the United States has never been a true friend; the fact is that Pakistan also used America. Pakistani leaders dipped into America’s deep pockets to serve their purposes, sometimes parochial or corrupt, frequently driven by persistent geopolitical conflict with neighbouring India” (Markey, 2013).

Another supportive argument that helps to explain that why Pakistan is looking for alternative options lies in the views of Keohane (1990), who described that multilateralism tells us about intergovernmental arrangements involving states because transnational ties are critical, and transnational alliances are fascinating. He defined multilateralism as “the practice of coordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions” (Keohane, 1990). Therefore, multilateralism guides us that geographically states’ expanding relationships give a better option to attain interests; for instance, Islamabad’s developing ties with Moscow is not without its steps towards multilateralism.

Pakistan’s security relations with Russia have been enhanced over the past years. Pakistan has developed a relationship with Russia that
was in suspended animation since the Cold War era. In 2007, Russian Prime Minister Mikhail Fradkov officially visited Pakistan and said that Pakistan occupies an important place in Russian foreign policy. Both countries discussed vast opportunities that existed for cooperation in diverse sectors (Fatemi, 2007). This increasing proximity between Moscow and Islamabad reflects many important actions such as Russia’s support of Pakistan’s bid to join the Shanghai Cooperation Organization (SCO) in 2011, and Pakistan’s chief of army staff ever first visits to Moscow in 2012 depicts overcoming signs of reluctance to develop full-fledged relations on both sides (Kaura, 2018). Pakistan has been mostly receptive to Russian efforts to establish Afghanistan as a secure state in the Asian security landscape. Both countries are also increasing arms cooperation; there was an agreement in 2014 between two states to endorse arms control conducts, economic and counterterrorism efforts. Since 2016, every year, both countries are participating in joint military drills named “Druzhbha”, which means Friendship (Khan, 2019a).

Building more robust external alignments with countries that share similar concerns about the US is not just how Pakistan pursues its survival strategies. However, Islamabad is trying to keep the civil-military ties with the US within a suitable range. The current government headed by Imran Khan has not significantly deviated from the traditional proactive foreign policy behaviour of the United States towards Pakistan while depending on conditions, this is changing as stated by Imran Khan, “One main lesson we have learned in the last four decades is that we must not ally ourselves with any country where we have to fight someone else’s war” (Dawn, 10th January 2020). Therefore, the main departure from the earlier Musharraf government’s Washington strategy is arguably changing towards the United States. The former point speaks to Islamabad’s traditional posture towards US alignment politics and preferred credentials as Pakistan wants as an
independent state, not as a client state of the US in the region and international politics. Finally, it should be pointed out that the Pakistan-China relationship is about Islamabad’s desire to survive against US pressures and tactics as much as it is about the United States’ pressure tactics to pursue its interests on behalf of Pakistan. However, for a variety of reasons, Washington is also pursuing its interests through Pakistan, and, to that end, among other actions, it has actively sought to cultivate India as a regional counterweight to China and its partner country in Afghanistan’s reconstruction.

7. Conclusion
In this paper, an attempt has been made to explore the research objective, to observe US interests in Pakistan and the region of South Asia in the post 9/11 scenario. It has explained that the US major interests depended on Pakistan, which includes Pakistan support in the war on terror, to prevent nuclear proliferation, a stable and democratic Pakistan for regional security, to manage the India-Pakistan nuclear threshold and Pakistan’s support in Afghanistan peace process. However, Pakistan’s interests also depended on joining the US alliance on the war on terror in a politically complex regional setting and avoiding challenges that might lead it towards some level of distrust with the United States. Pakistan’s alliance with the US also provided some leverage and opportunities to meet its national interests under a security dilemma of India and Afghanistan factors. On the contrary, the US pursued its interests through Pakistan’s support to fight against Al-Qaeda and the Taliban in Afghanistan. This alliance remained strained and informal throughout the global war on terror because both countries had divergent interests. The US needed logistic and military support from Pakistan to fight against the Taliban and Al-Qaeda in Afghanistan,
while on the contrary, Pakistan’s interests were purely related to counter India under the regional security complex. The US was looking at this alliance only through the prism of the anti-terror campaign; however, Pakistan was playing within the context of regional security complex phenomenon. These factors led this alliance towards the point of trajectory and mistrust. Most importantly, the US tilt towards India is a severe concern for Pakistan which led it to look for alternative strategic options, which includes an existing alliance with China.

Lastly, this article suggests that the Pakistan-US relationship must find a way through its difficulties because Pakistan’s geographic proximity and capabilities cannot be dismissed by the US. Both countries will have to come to a better understanding based on mutual interests while recognising where those interests diverge. This could be a win-win situation for both countries and could lead to an enormous contribution towards improving the relationship. Pakistan and the US have a lot to do with the nature of the threats and the potential of cooperation in the region of Central Asia and South Asia. There is no reason why the US and Pakistan should not have a better economic and trusting security relationship. However, this will depend on the changing geostrategic environment of the region and around the world, where both countries will have to take their interests into account before they begin to start cooperating again.

Notes

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1. The concept of anarchy in an international system refers to a state of disorder or chaos due to the absence or non-recognition of a central authority in a world where all states are pursuing their national interests against each other (Sullivan, 2001).
2. The term ‘hedging’ is defined here as “a behaviour in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes” (Kuik, 2008).

3. The term ‘bandwagoning’ refers to state’s alignment with the source of danger. It is opposite to ‘balancing’ which is states’ alignment against a source of danger or security threat (Walt, 1990).

References


2. pp. 24-44.
The Competition and Cooperation between China and India in Energy Security Field in the First Decade of the 21st Century

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Abstract

As two neighboring countries, China and India not only have “emerging” economies, but also have a very important position and role in international political life. In addition to the trend of cooperation, China-India relations also take place in fierce competition in many fields, including energy security. From the early years of the twenty-first century, the need to exploit energy sources to serve the economic development of these two powers has become even more acute. This article focuses on some outstanding cooperation achievements as well as the fierce competition in the field of energy security between China and India in the first decade of the twenty-first century. At the same time, we also give some remarks on the relationship of China – India competition and cooperation on energy security in the aforementioned period.
Keywords: China, competition, cooperation, energy security, India

1. Introduction

As entering the early years of the twenty-first century, under the strong impact of the science-technology revolution and the trend of globalization and the requirements of economic growth, political stability, most countries in the world have increased cooperation and competition in the trend of integration and development. In the context of ongoing economic competition, the energy issue has attracted great attention and has become a global issue, in which China and India is a typical proof. As these two countries have large areas, larger populations with new emerging economies, energy needs become such an urgent. Therefore, the purpose of cooperation between China and India is to exploit energy sources, serving the economic development needs of the two countries.

Since the last decade of the twentieth century, recognizing the importance of protecting strategic energy supplies, China has improved relations with “oil lands” such as the Middle East, Central Asia and started investment activities. Entering the early years of the twenty-first century, after China joined the World Trade Organization (WTO) with its increasing dependence on energy imports, energy security became more and more strategic to ensure economic security. Therefore, energy security becomes the “key point” in foreign policy, making with the following highlights: optimization of energy structure, establishment of strategic oil and gas reserves, system establishment. Oil and gas reserves ensure oil and gas supply security and strengthen the state’s capacity to stabilize the market, diversify sources of oil and gas imports to minimize the risk of supply disruptions. For India, at the beginning of the twenty-first century, this country has become one of the largest economies with
high growth rates in the world, so the demand for energy sources also increases rapidly. Despite great efforts to develop domestic energy resources, so far India’s economic growth has still heavily depended on imported energy sources, especially oil. Consequently, India faces the challenge of energy security for development.

2. Energy Security Field in the Policy of China and India in the Early Twenty-first Century

As for India

In the early years of the twenty-first century, the energy source to maintain the “hot” growing economy and the national energy security issue was always the biggest concern of the Indian government. Many researchers have likened India to a big country “thirst for oil” due to the increasing demand. In 2006, India consumed about 53% coal, 31% oil, and 8% gas of the total national energy to meet its energy needs in economic development. According to the International Energy Agency (IEA), in the period 2005-2010, India imported 5-7 million barrels of oil/day. The IEA forecasts that by 2030, oil and gas imports will increase by 90% and 40% respectively to meet India’s energy demand (Müller-Kraenner, 2008: 5).

In the years 2007 - 2008, energy consumption in India was always higher than actual output and reserves (Table 1). India’s per capita gasoline consumption in 2008 was 0.79 barrels. India consumes about 5% oil, ranking sixth in the world. Despite a relatively rich source of coal, the main energy India uses was oil, with imports up to 70% (Pham, 2007: 40). India currently imports about 67% of its crude oil coming from the Middle East, 25% from Africa and 8% from other suppliers. Saudi Arabia is the largest supplier, accounting for 25% of India's crude oil imports (Hong, 2009: 7).
Table 1 India’s Crude Oil, Gas and Coal Output (Singh, 2010: 17)

<table>
<thead>
<tr>
<th>Energy sources</th>
<th>Actual reserves</th>
<th>Quantity</th>
<th>Consumption amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>5.5 billion barrels</td>
<td>37.3 million tons/day</td>
<td>12.5 million tons/day</td>
</tr>
<tr>
<td>Gas</td>
<td>1,060 billion m³</td>
<td>27.2 million tons oil (exchanged)</td>
<td>36.2 million tons oil (exchanged)</td>
</tr>
<tr>
<td>Coal</td>
<td>56.498 billion tons</td>
<td>181 million tons oil (exchanged)</td>
<td>208 million tons oil (exchanged)</td>
</tr>
</tbody>
</table>

Oil has become an important factor influencing India’s economic development. According to calculations by the Indian government, if the oil price increases by 5 USD, the economic growth rate of India will decrease by 0.5% and the inflation rate will increase by 1.4%. On the whole, India faces daunting challenges in meeting its energy needs to feed its fast growing economy and to meet sustainable development goals of its rising population. Highlighting its critical importance, Prime Minister Manmohan Singh mentioned that energy security was “second only in India’s scheme of things to food security” (Pardesi and Ivanov, 2006: 36). Therefore, energy security has become a national priority and the most important issue on the agenda of Indian foreign policy. India’s energy security strategy is formulated with three priority directions:

Firstly, increasing domestic supply with the fundamental change in management mechanism in the petroleum sector, India has attracted foreign companies to invest, including the establishment of oil joint ventures gas. With many open incentives, in recent years, many large oil corporations in the world such as Exxon Mobill, Tolta, BP ... have increased their investment in India, even considering this country as the biggest undiscovered global “promised land”.

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Secondly, actively seeking oil and gas resources abroad by diversifying supplies in addition to seeing Middle Eastern countries as traditional trading partners.

Thirdly, improving the efficiency of environmental protection and energy saving (Phi, 2006: 39).

In the early 1990s of the twentieth century, India adjusted foreign policy by implementing the “Look East” policy. This policy not only focuses on Southeast Asian countries but also emphasizes its giant neighbor China and East Asian countries. Therefore, India needs to look to China, towards an important partner, an indispensable cooperation to solve domestic energy security.

As for China

As a country with a large population and a rapidly growing economy, China is consuming a lot of energy. China is the world’s second largest energy consumer, after the US. Entering the twenty-first century, China’s energy consumption demand has grown even stronger (Table 2). In the mid-70s of the twentieth century, China was the oil export powerhouse of East Asia. But since 1993, China become a complete oil importer. China’s oil production in 1999 was 160.2 million tons; it was 160 million tons in 2000. In 2008, China produced 185 million tons of oil while its consumption was 365 million tons (Pham, 2009: 27). Currently, China imports oil from all over the world: from the Middle East (56%), from Africa (23%), from Asia-Pacific (14%), from Europe (7%) (Nguyen, 2006: 6).

Along with rapid economic development, population growth and many other social problems arise, the imbalance in energy supply-demand is increasing, the conflict between demand for consumption and the supply insufficient energy effects are increasingly severe. Within 10 years (1997-2007), oil demand of China and India both increased higher.
than production. Oil continues to play an important role in meeting both countries’s energy needs. Yet neither China nor India currently produces enough crude oil to meet its needs. China’s demand for oil doubled over the past decade, increasing from 196 million tons in 1997 to 368 million tons in 2007. On the other hand, its oil production increased slightly from 160 million tons to 187 million tons (Zhao, 2009: 6). China’s oil consumption in 1990 was 115 million tons, it increased to 239.3 million tons in 2002, an average annual increase of 6.7%. Meanwhile, the output of crude oil produced in 1990 was 138 million tons and it increased to only 167.5 million tons in 2002, the average annual growth rate was 1.62% (Nguyen, 2010: 45). Thus, the supply of oil in China was not commensurate with the demand level, while the oil price in the market is continuously increasing. Energy security issues were directly affecting China’s economy, forcing the government of this country to have appropriate energy policies to deal with the domestic energy crisis.

**Table 2 China Production of Crude Oil, Gas and Coal (Singh, 2010: 17)**

<table>
<thead>
<tr>
<th>Energy sources</th>
<th>Actual reserves</th>
<th>Quantity</th>
<th>Consumption amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>15.5 billion barrels</td>
<td>186.7 million tons/day</td>
<td>368 million tons/day</td>
</tr>
<tr>
<td>Gas</td>
<td>1,880 billion m³</td>
<td>62.4 million tons oil (exchanged)</td>
<td>60.6 million tons oil (exchanged)</td>
</tr>
<tr>
<td>Coal</td>
<td>114.5 billion tons</td>
<td>1,289.6 million tons oil (exchanged)</td>
<td>1,311.4 million tons oil (exchanged)</td>
</tr>
</tbody>
</table>

Basically, China’s energy security strategy in the early years of the twenty-first century includes the following basic contents: Firstly, adjust energy consumption and production structure, and reducing dependence...
on pine oil through coal gasification and development of nuclear energy; Secondly, establishing strategic oil and gas reserves in a number of regions of the country, enhancing domestic oil and gas exploitation and production; Thirdly, being active in forming regional communities and establishing regional energy security systems; Fourthly, establishing futures oil market; Fifthly, diversifying sources of oil and gas import and increase the proportion of oil and gas imports from Russia and Central Asia; Sixthly, promoting state oil and gas companies to invest in overseas; Seventhly, joining diversified trading channels to avoid risks when trading; Eighthly, increasing investment in oil and gas infrastructure, expanding import channels; Ninthly, increasing required reserves with major oil companies (Nguyen and Phi, 2017: 21).

Although there are many potential disagreements that existed in the past, but China sees India as the largest neighbor in the region, with increasing political potential and position on the international arena, sharing interests in economic cooperation, maintaining regional political peace and security. China attaches great importance to cooperation with India. Thus, with the prospect that oil reserves are running out and other energy sources are not enough to meet the world’s demand, energy becomes the top concern of all countries, including China and India. This is a vital issue and a strategic goal of the two countries. Therefore, these two powers have made efforts in cooperating to exploit new energy sources for economic development.


Entering the twenty-first century, with India’s “Look East” policy¹ and the “Neighboring Diplomacy” policy² of China, the relations between
two countries has made great changes. In that context, the governments of China and India started the dialogue and cooperation on the energy field. In June 2003, Indian Prime Minister Atal Bihari Vajpayee visited China to build trust and promote trade relations between the two countries. This event marked a new development step in China-India relations. After the visit of Indian Prime Minister A.B. Vajpayee, the two countries signed many documents on border, national defense, economy and trade. The investment fields that the two countries interested in were science, technology and oil. At the end of 2004, China and India both bid and won the bid to buy 37% of the Petro-Canada shares in the Syrian oil field for $ 573 million (Ngoc, 2006: 46). The Indian Natural Petroleum Company partnered with the China Petroleum and Chemical Company to exploit the Yadvaran oil field in Iran, of which China holds 51% of the shares and India’s 29%. In August 2006, China and India cooperated to buy a 50% stake in an oil field in Colombia (Table 3). According to the statistics of the Chinese government in 2005, India invested 101 projects with the actual capital of 79.1 million USD. Chinese companies also implemented projects in India with a capital of about 1 billion USD, including thermal power and transportation (Hoang, 2009: 7).

On February 22, 2005, the Indian Gas Company signed an agreement with China stating that India would invest $243 million in the Chinese Gas Company. This was the milestone marking the first cooperation between the companies of the two countries. In January 2006, Indian Oil and Gas Minister Mani Shankar Aiyar signed an agreement to cooperate with China in securing overseas crude sources. This agreement was to prevent the fierce competition from oil that raised the prices of crude oil resources among other countries.
Table 3 China-India Energy Cooperation in Iran, Colombia, Sudan, Syria and Peru (Singh, 2010: 18)

<table>
<thead>
<tr>
<th>Cooperation projects</th>
<th>Country</th>
<th>Shares of China (%)</th>
<th>Shares of India (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yadvaran oil field</td>
<td>Iran</td>
<td>Sinopec (51%)</td>
<td>Natural Gas and Oil Corporation (ONGC, 29%)</td>
</tr>
<tr>
<td>Ominex De Colombia Company Limited</td>
<td>Colombia</td>
<td>Sinopec (50%)</td>
<td>ONGC (50%)</td>
</tr>
<tr>
<td>The Greater Nile Oil Project</td>
<td>Sudan</td>
<td>China National Petroleum Corporation (CNPC, 40%)</td>
<td>ONGC (25%)</td>
</tr>
<tr>
<td>Purchase of a 37% stake in Petro-Canada in the Syrian oil field</td>
<td>Syria</td>
<td>ONGC and Sinopec together hold 37%</td>
<td></td>
</tr>
<tr>
<td>Peru’s right to explore gas block 155</td>
<td>Peru</td>
<td>The bidding cooperation part of CNPC with the Petroleum Exploration and Production Limited Company DMCC (India) and Pluspetrol Company (Argentina)</td>
<td></td>
</tr>
</tbody>
</table>

According to *Asia Times* on September 27, 2006, in March 2006, Hindustan Petroleum Corp Ltd of China and India Petroleum and Chemical Company (Sinopec) signed a preliminary agreement regarding projects in India, China and elsewhere. The two sides will cooperate in international trade, exploit, produce petrochemical products and provide consulting services (Ngoc, 2006: 46).

In July 2006, China and India inaugurated the re-establishment of cargo traffic through the Nathu La Pass in the Himalayas, on the border between Tibet and India’s local Sikkim. This area has in the ground more than 200 billion m³ of gas, 1.5 billion tons of crude oil and 900 million tons of coal. The topography is also favorable for the
construction of hydroelectric plants (Do, 2007). The decision to reopen the Nathu La border gate is not only to strengthen cooperation between the two countries but also to meet the energy needs of India and China.

A political event of special interest to the world public was the visit to China (January 2008) by Indian Prime Minister Mammonhan Singh. In the framework of this visit, the two sides signed a document on “China-India Common Prospects in the 21st century”, marking a new development step in the bilateral relationship. The document mentioned many fields, including energy.

Multilateral dialogues on energy become the foundation of cooperation between China and India. In November 2004, India invited China, Japan and South Korea to hold talks in New Delhi in the hope of negotiations with Middle Eastern oil suppliers to reduce oil insurance premiums. India also held a Conference of Ministers (2005) of Asian countries, with the participation of China to discuss oil and gas exploitation cooperation. At the conference, major oil consuming powers in Asia, including China, Japan, South Korea and India, agreed on oil security issues. On December 16, 2006, the energy ministers of the above countries met in Beijing to discuss energy security on measures to maintain international energy market stability and form a cooperative relationship which would replace competition (Ma, 2010).

*In addition to strengthening cooperation in energy security in recent years, China and India have increased fierce competition to compete for influence in resource-rich regions, especially in Central Asia, Africa, and China, Middle East...*

**Central Asia** is a place where there are lots of resources and energy. In the race with the major powers for energy supplies here, China and India both actively exert influence. Central Asian countries see China as a counterbalance force and they are always wary of China’s occupation of Tibet and Xinjiang. The above countries claim that India
is a less harmful partner and with its growing prestige also allows to balance the influence of both Russia and China. On the other hand, they share the geographical, linguistic, religious and cultural elements of the Uyghur and Kazakh Muslim communities in Xinjiang. The two sides compete strongly in this area. In June 2001, China established the Shanghai Cooperation Organization (SCO) including: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Russia. Knowing China’s intentions, in May 2005, India joined SCO as an observer. Immediately, China admitted Pakistan as an observer. China built a port at Gwadar in the Baluchistan region on the Arabian coast to help traffic transport for all the countries that have no access to the sea, including Afghanistan. India responded by building the Chahbahar port in Iran so that Afghanistan and Central Asian countries would have a maritime corridor to the Persian Gulf.

In addition to Central Asia, neighboring Myanmar is also the place where the competition between China and India takes place in energy, especially oil and gas energy. Myanmar is currently one of the rare remaining markets that remains largely untapped, with resources assessed as comparable to those of Asia’s resource-rich nations. In particular, this is a rich oil country which has the largest natural gas reserves in Southeast Asia. According to experts, with the largest 3 offshore oil and gas fields and 19 inland gas fields, Myanmar has proven gas reserves of 510 billion m³ in total offshore and gas reserves edge. According to estimates, Myanmar has oil reserves “about 600 million barrels and gas reserves totaling 88 trillion cubic feet” (Sinha, 2009: 2). Recently, Myanmar also found reserves in three areas in the Bay of Bengal - Mya, Shwe and Shwe Phyu (also known as the Shwe project) with an estimated 5.7-10 trillion cubic feet” (Sinha, 2009: 2). According to the United Nations, Myanmar ranks 10th in the world in oil and gas reserves with 3.2 billion barrels of oil and 2,460 billion cubic
meters of natural gas. In the early years of the twenty-first century, Myanmar’s gas export annually brought in more than 3 billion USD for this country (Tran, 2012: 132). Thanks to this great potential, Myanmar is attracting a large amount of foreign investment capital from 21 companies which belong to 13 different countries participating in exploration and exploitation. During 2005-2006, Myanmar’s total investment in oil and gas accounted for 34% of the total foreign investment in this Southeast Asian country ($14.4 billion) (Yhome, 2009: 8). In 2007, Myanmar took the leading position in the world trade market with 9.89 billion cubic meters of gas sold abroad (Panwar, 2009: 10).

With rich resources, Myanmar has become a “golden land” for major countries in the world to promote investment and exploitation of energy and neighboring countries China and India are one of the partners with many advantages. In recent years, Myanmar has become a competitive hub between China and India in exploiting and transporting gas from Myanmar’s offshore to these two countries. While India hopes to get gas from Myanmar’s Shwe gas field by pipeline through Bangladesh territory, China hopes to exploit the same source through a pipeline through the highlands on the Chinese border – Myanmar to Kunming, the capital of Yunnan (Kumar and Hussain, 2016: 304-305).

On the Chinese side, in 2001, the China National Petroleum Corporation (CNPC) started to boost investment in the oil production sector in Pyay (Myanmar). Since 2004, 16 Chinese state-owned companies have owned 21 major oil and gas exploitation projects in Myanmar and by 2006, the Chinese CNPC complex was authorized to build two gas and oil pipelines, a pipeline is worth $2.5 billion, from the Kyaukphyu port in the state of Arakan to Kunming. China and Myanmar also signed an oil and gas contract, under which China Petroleum Corporation obtained the right to explore and exploit oil in backpacks...
AD-1, AD-6, AD-8 located in the deep water region which is near coastal area of Myanmar with an area of 10,000 km² (2007). Myanmar has granted China the right to exploit offshore plots with estimated reserves of 6.5 trillion cubic meters of gas (2008) (Vietnam News Agency, 2008: 6). On the Indian side, since the beginning of the twenty-first century, many senior leaders of India have made many trips to Myanmar to establish cooperation in key and energy fields, especially in the field of oil and gas energy sector. In the years, 2005 and 2006, India invested 30.575 million USD in oil and gas sector of Myanmar. Essar Oil and Gas Liability Company (OEF) is the first private Indian company to sign two cooperation contracts with Myanmar to explore and exploit an offshore lot (A-2) and another on main land (L) (May 2005), and will also be drilling for natural gas exploration on the east coast of Myanmar’s Rakhine state (end of the year 2006) (Yhome, 2009: 8-9). As of 2007, India has been present in many oil and gas exploration areas in the territory of Myanmar Sea (including lots A-1, A-3, AD-2, AD-3, AD-9, ..), in which the investment of ONGC and GAIL of India accounted for 17% and 8.5% in the Shwe gas project located on the Bay of Bengal (Rach, 2013). In particular, the event “Saffron Revolution”4 in Myanmar in 2007 can be considered as one of the typical examples showing the Indo-China competition in energy exploitation in Myanmar.

After this incident, while India cautiously expressed its neutrality by simply declaring this as a “issue of democracy and human rights within Myanmar” (Zhao, 2008: 1), China did not condemn Myanmar or refuse to cooperate with the international community to impose a new embargo on this country (Nguyen and Hoang, 2020: 54). This led to Myanmar’s withdrawal of the legal status of Gas India Limited Liability Company (GAIL) from the “preferred customer” status in blocks A-1 and A-3 which belongs to a natural gas field in the Andaman Sea and sold to PetroChina Corporation (China). In addition, the decision for China
PetroChina Corporation to build an oil pipeline running through Myanmar’s territory reflects China’s preeminent position in this country. As researcher Lundholm has affirmed: “This relationship (China-Myanmar) will make it difficult for India to compete in the long term” (Vietnam News Agency, 2008: 8). It can be said that these two major countries share a border with a resource-rich country like Myanmar, make this country a strategic factor in the energy competition of the two powers mentioned above.

Africa is also a region of fierce competition between China and India. Africa – with abundant oil resources, has become the top concern of the two countries. The New York Times, published in James Traub, emphasized: “China’s Africa policy shows that globalization is increasingly divorced from Westernization. We have grown accustomed to the idea that Africa needs us; it’s time to recognize that we, like China, need Africa” (Traub, 2006). In the early years of the twenty-first century, both China and India were constantly increasing their influence in Africa to seek their own interests and assert their positions.

In recent years, the Oil and Gas Corporation of India (ONGC) has signed many contracts for oil field exploration and other energy projects in Nigeria and Sudan. The Indian Oil Corporation (IOC) and National Thermal Power Corporation (NTPC) also invest in oil exploration and refining projects in Nigeria, Sudan and the Ivory Coast. The Arcelor Mittal Company invests $900 million in a mine and iron ore management project in Liberia and $30 million in a smelting plant. April 2008, India held the First India-Africa Summit, with the participation of 14 countries’s leaders. This event opened the process of friendship and cooperation between India and Africa. India helps Africa strengthen capacity, create more job opportunities, providing effectively finance electronic systems projects in the basins of Africa, develop railroads, information technology, telecommunications and India’s first priority is
energy production. India invests more than 1.5 billion USD in
developing small and medium industries, providing satellite systems in
Africa, optical fiber systems, funding poverty reduction... These are the
meaningful steps in strengthening the bilateral relationship, which is a
bridge to implement the energy sector cooperation plan with Africa.

While India claims not to compete with any countries to become a
partner with Africa, China has made absolutely no secret of its intention
to have more abundant energy resources in this region, especially crude
oil and iron ore. China’s trade with many African countries is growing
significantly. In just over 10 years, the exchange of goods between
China and Africa has increased 17 times, from 3 billion USD in 1995 to
more than 50 billion USD, it was expected to reach 100 billion USD in
2006, in 2010, 70% of the total The amount of oil produced in Sudan is
for China, compared with about 10% in 1995 (Do, 2007). China is
currently Angola’s second export market, after the US. In November
2006, China organized the “Sino-African Cooperation Forum” with 48
out of 53 African countries participating. This shows that China’s
influence has increased significantly in this area. Chinese investment in
Africa increased rapidly, from 2000 to 2006 reached 6.6 billion USD,
while India invested more than 1.5 billion USD. In 2006, China’s
offshore oil and gas group defeated India’s oil and natural gas
corporation to buy a 45% stake in a Nigerian oil and gas field for $ 2.3
billion. In addition, China also signed with countries such as South
Africa, the richest country with many mineral resources, an agreement
on economic cooperation; Uganda a wide range of documents: mining,
oil and gas, auto assembly, textiles. Currently, about 30% of all Chinese
oil is imported from Africa, mainly from Sudan, Angola and Congo-
Brazaville. In 2005, China imported 2.6 million barrels of oil / day, of
which about 800,000 barrels was from the three countries mentioned
above (Tran, 2009: 13).
The Middle East and the Persian Gulf remain at the heart of the global oil supply system as it has the largest oil producers and exporters in the world. The Middle East (excluding North Africa) holds about 57% of the world’s oil and 41% of the proven natural gas reserves (Zhao, 2012: 76). Although China and India have diversified their energy sources, the Middle East has always been their main oil supplier. China and India are geographically much closer to the Middle East than other potential oil sources such as Africa and Latin America. From 2015 onwards, 70% of China’s oil imports come from the Middle East (Collins and Murray, 2012: 47). China has also been successful in many projects: the Sinopec Group won the right to exploit gas in the Saudi desert region. China has invited Saudi Arabia to cooperate and invest in oil projects in this country. The Saudi Arabian oil company, together with Sinopec and Exxon Mobil, jointly invested in the construction of a $3.5 billion refinery in Fujian (China) (Pham, 2009: 31). On the Indian side, nearly 70% of its oil imports come from the Middle East, mainly from Saudi Arabia, followed by Iran (Zhao, 2012: 78). The Indian government expects this geographic dependence to increase due to the limited domestic income outlook. In terms of gas, almost all of India’s gas imports come from the Middle East. India has been trying to diversify its gas import sources, looking to Bangladesh and Myanmar, but so far this has not been successful. It can be said that, besides cooperation China and India are competing fiercely in searching for energy sources to ensure the best interests of their country and will greatly affect the relationship not only the present but also the future.

4. Some Comments

Researching on China-India relations in the energy field, we can draw the following points:
Firstly, the cooperation in energy security between China and India in the early twenty-first century was influenced by many international and regional factors, especially the energy shortage problem.

Entering the twenty-first century, before the strong development of economies, energy sources in general and oil in particular have become urgent global issues. The world’s demand for energy is increasing rapidly. In 2003, the world oil demand was 78.1 million barrels/day, estimated at 3.9 billion tons/year. In 2004, that demand increased to 81 million barrels/day, or about 4.5 billion tons/year. In 2006, oil consumption increased to more than 86 million barrels a day. According to calculations by the American Energy Data Association, by 2025, the world’s oil demand will reach 121 million barrels/day, estimated at 6.05 billion tons/year (Nguyen, 2006: 3).

Thus, the world’s energy demand is constantly increasing, while the newly discovered reserves are very few, renewable energy sources do not meet the consumption level. Energy security forces countries in the world in general and especially India and China, two economies that “consume” huge amounts of oil, to implement energy policies, especially oil. Both countries recognize the importance of cooperation for long-term economic development strategies.

Secondly, the China-India relationship on energy security is a relationship with both cooperation and competition, affecting many other relationships on the world scale. The strong growth of the world economy in the first decade of the twenty-first century increased the demand for oil – the top concern of all nations. Besides the achievements brought about by cooperation, the competition in finding new sources has also become more fierce. And also due to energy that deepens inherent conflicts in relations between China and Japan (the Senkaku/Diaoyu Islands dispute) and some Southeast Asian countries (dispute in the East Sea). This is also the reason for increasing
competition between China and India in regions with large oil reserves such as Central Asia, the Middle East and Africa. In these regions, China and India are all striving to increase their influence, competing to find energy sources to solve urgent domestic consumption demand, for the purpose of economic development. China-India energy cooperation will also be affected by international relations, particularly Russia-China-India, US-India, US-China relations ...

_Thirdly, the relationship in the energy field between China and India has brought about many important achievements, solving the problem of energy shortages, promoting economic development of the two countries._

Although there are competition with each other to search for energy sources, but China and India have also achieved many achievements in cooperation to meet the energy needs and economic development of the two countries. If in 1989, the economies of China and India only accounted for 3.3% of the global GDP, by 2008, this number increased to 8.8%. China and India are all major countries in East Asia and South Asia. The building of energy cooperation between the two countries will strongly promote Asian economic development and cooperation. China-India cooperation also has a beneficial impact on the maintenance of peace and stability in the region and in the world. In November 2006, the Joint Statement between China and India stated: “As two major countries in the emerging multipolar world order, the simultaneous development of China and India has positive influence on the world system in the future”.

_Fourthly, the India-China relationship on energy security still faces many obstacles, challenges, and impacts on the energy policies of the two countries._

Despite many progress, India-China energy cooperation from 1991 to 2011 still faces many obstacles because the energy dispute is taking place fiercely. The strong growth of the world economy in the early
twenty-first century increased the demand for energy, especially oil. The competition for energy sources has intensified the competition between China and India in areas with large oil reserves such as Central Asia, the Middle East and Africa.

Both China and India are having difficulties due to the increasing oil search of other countries in the world. Oil can make Africa caught in a spiral of competition for energy by different countries, contributing to the national energy security. America is the world leader in oil consumption, while 80% of its oil reserves are concentrated in the Middle East, North Africa, Central Asia... Therefore, the US is also looking for ways to control this resource. Other countries such as Russia, Japan, the European Union, South Korea, India, China... have also increased their energy race. The energy crisis is becoming more and more intense. This is not only due to the shortage and scarcity of energy but also due to the geopolitical ambitions of the participating actors, especially large countries.

Facing the risk of energy shortages, most countries want to store oil, so the demand for oil is increasing, causing oil prices to be pushed up. Rising oil prices will slow down the economic growth of countries and regions. Therefore, ensuring energy security is of great interest to the international community. Currently, both China and India are faced with the fact that oil is increasingly expensive and rare. So oil can be one of the causes of this strategic resource supply and control uncertainty. In addition, the impact of the economic crisis and other thrills brought about by the international context and internal affairs of the two countries also creates many challenges for energy cooperation between India and China.
5. Conclusion

It can be said that the relationship of cooperation and competition between China and India is one of the issues attracting the attention of the whole world. Stemming from the prolonged geopolitical conflict between two countries, China-India relations took place in many main fields: politics – diplomacy, economics, military security, border... and energy security. The relationship between China and India in the early years of the twenty-first century is a testament to the development of a bilateral relationship that has attracted attention from the international community. As the economies of China and India continue to grow, the energy needs of these two countries also increase. In the trend of globalization of the first two decades of the twenty-first century, instead of competing fiercely to ensure energy security, China and India can work together to harness energy in an effective way, serving the development of each country. However, in the relationship between these two Asian powers, energy competition and cooperation have not yet reached equilibrium. In the current context, energy security is still a “hot” topic of China-India relations and the second decade of the twenty-first century continues to see fierce competition and cooperation between two “Asian giants” is not only about the energy sector but also many other key areas.

Notes

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1. The Look East Policy was officially launched in 1992 and was enforced by Prime Minister Narasimha Rao (1991-1996). This new foreign policy in India’s long-term strategic considerations aimed at building and expanding India’s influence in the Asia-Pacific region, simultaneously competing and curbing to China in this region and especially in the Indian Ocean - India’s traditional area of influence. Basically, the general objective of this policy is to move India into the military and economic power country not only in Asia but also across the world. Indian Prime Minister Manmohan Singh asserted: “This is a strategic shift in India’s vision for the world and New Delhi’s position in the global economy”. India deploys the Look East Policy to develop economy and trade relations with East Asian countries and maintain a high and stable growth of India’s economy. Besides, India makes tries toward economic integration with the Asia-Pacific region in which India aims at building the Asian Economic Community. Thus, the objective of India’s Look East Policy was shown rather clearly. India aimed at becoming a regional power to get its economic and strategic benefits, simultaneously curbing and competing with China – a neighbour
country. To reach this objective, the Look East Policy was seen as a new
direction for India’s foreign policy after the Cold War.

2. China’s Neighboring Diplomacy is intended to contribute to a smooth
opening and modernization of the country and to enhance understanding
and trust of neighboring countries in China. In order to contribute to the
maintenance and development of regional cooperation, China advocates
“friendly neighbors, make friends with neighbors” and mentions “harmony
neighbors, peaceful neighbors, rich neighbors”. China’s motto is “develop
together, prosper together” and “win cooperation together” in economic
relations. China also intensifies the settlement of disputes with neighboring
countries, including on borders and territories. In addition, China has also
expanded relations to other areas such as the military and security,
especially attaching importance to the use of “soft power”. China has
actively initiated initiatives and promoted cooperation frameworks with
ASEAN, especially “One Axis, Two Wings” initiatives. As a major
neighbor to China, India has increasingly played an important role in its
diplomatic strategy in the Indo-Pacific in the early twenty-first century.

3. tcf is a measure of gas, expressed in 1 million cubic feet.

4. On September 9, 2007, the Coalition of All Burmese Monks issued a
statement asking the government to lower the prices of goods and raw
materials, and release all political prisoners, including Aung San Suu Kyi
and dialogue with democratic forces aimed at national reconciliation. The
declaration also set a deadline until September 17 for the Myanmar
government to comply with the above requests if it did not want to face a
religious boycott. After this deadline, from September 18 to September 24,
2007, many protests broke out in Yangon with the participation of about
100,000 people under the lead of thousands of monks. The military
government of this country bloodyly suppressed the protests, arrested and
detained thousands of people, including many monks, causing a serious
political crisis in Myanmar.
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Commentary

Why Taiwan Should Develop Exclusive Refugee Laws for Hong Kong Political Asylum Seekers so as to Defy Beijing’s Interference

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Abstract

The author would first discuss how the absence of refugee laws put Hong Kong’s political asylum seekers in limbo. Second, the author would argue that the formation of such laws would be conducive to Taiwan’s growth in global diplomatic standing and economic competitiveness. Third, the author would analyze Taiwan’s primary concern about the development of inclusive refugee laws – potentially resulting in the influx of mainland Chinese political dissidents that may enrage Beijing and prompt the communist government to accelerate her political, legal and military interference in Taiwan’s affairs. To conclude, the author recommends Taipei to form exclusive refugee laws in order to standardize and transparently process the management of political asylum applications filed by Hong Kong citizens in a timely fashion. To avoid Taiwan from becoming “the second Hong Kong” in the foreseeable future, the acceptance of political asylum applications
from Hong Kong is a necessary instrument for Taiwan to declare her emphasis on democracy and autonomy, in order to defy any heightened process of mainlandization on the self-governing island.

**Keywords:** Taiwan, Beijing, Hong Kong, political asylum, political persecution, national security law

1. Introduction

Since the outbreak of the socio-political unrest in mid-2019 and the implementation of the National Security Law (NSL) in mid-2020, over 10,000 Hong Kong protestors and pro-democracy activists have been arrested and many have surrendered their travel documents (*Quartz*, 19th January 2021). On 6th January 2021, a total of 53 Hong Kong pro-democracy activists were arrested. Although they were released without charges, these activists were still ordered to surrender their passports (*ibid.*). Due to the political persecution and suppression from Beijing and increasing socio-political divide within Hong Kong, Hong Kong citizens and residents have been considering to flee to democratic countries or regions, including Taiwan. According to the Taiwan’s Immigration Agency, over 10,800 Hong Kong citizens obtained local resident permits in 2020, compared to only 5,858 in 2019 (*Republic World*, 4th February 2021). The enforcement of the NSL has prompted more Hong Kong citizens to relocate to Taiwan, especially when both Taiwan and Hong Kong share similar Chinese cultural values while the former, relative to the latter, experiences limited degree of political and cultural mainlandization. Democratic-minded Hong Kong citizens, who emphasized on their distinct political, civil and cultural values than those from the mainland throughout the entire socio-political unrest, have been appealed to relocate to Taiwan. However, Taiwan has an absence of
formal refugee laws, casting doubts on how she can host politically persecuted Hong Kong citizens for long-term settlement.

In this article, the author would first discuss how the absence of such laws put Hong Kong’s political asylum seekers in limbo. Second, the author would argue that the formation of such laws would be conducive to Taiwan’s growth in global diplomatic standing and economic competitiveness. Third, the author would analyze Taiwan’s primary concern about the development of refugee laws. To conclude, the author recommends Taipei to form exclusive refugee laws in order to standardize and transparently process the management of political asylum applications filed by Hong Kong citizens in a timely fashion.

2. Taiwan’s Existing Humanitarian Aids Given to Hong Kong Political Asylum Seekers Are More Rhetorical than Pragmatic

To date, Taiwan’s claims of the delivery of humanitarian aids to politically persecuted Hong Kong citizens are primarily rhetorical. Taiwanese President Tsai Ing-wen noted on 19th July 2019 that Taiwan would consider granting Hong Kong citizens asylum based on humanitarian concerns (Deutsche Welle, 19th July 2019). Under the existing regulations, Hong Kong citizens can apply for residency in the host region if they are studying in Taiwanese academic institutions, are having connections with Taiwanese residents or being employed by Taiwanese government, companies or academic institutions (UNPO, 21st August 2019). However, for arrested and politically persecuted Hong Kong citizens, their travel documents have been confiscated. They are therefore barred from legally applying for education or working visas in Taiwan. Also, as politically persecuted Hong Kong citizens urgently need to leave their home city, they are unable to undergo the prolonged visa application process. Any delay of leaving Hong Kong may increase
such cohorts’ possibility to be imprisoned in the semi-autonomous city under the violation of the NSL.

It is noteworthy that 12 Hong Kong pro-democracy activists fled for Taiwan by boat were intercepted by mainland Chinese authorities in 2020, where 10 of them were sentenced to spend up to three years in prison in Shenzhen (Quartz, 19th January 2021). Such an incident might discourage other political asylum seekers from leaving Hong Kong, whose travel documents have been confiscated, to flee for Taiwan through illegal means. With an absence of travel documents, illegal immigration by boat remains the most likely, if not the exclusively, available option for Hong Kong citizens to relocate to Taiwan. However, the illegal maritime immigration route between Hong Kong and Taiwan lies in the territorial waters of mainland China. So far as Hong Kong citizens attempt to illegally immigrate to Taiwan, very likely would they be arrested by mainland Chinese authorities. As mainland Chinese authorities are notoriously known for their practices of inhumanely torturing detainees, Hong Kong citizens should be more fearful of being arrested by mainland Chinese authorities because of illegal immigration than being detained by their Hong Kong counterparts due to the violation of the NSL. Here in mainland China, the government would muzzle political dissidents and critics by making them disappear, put their families under house arrest based on ungrounded charges, threaten to kill their families and forbid them to flee away from China (Ma, 2018). Hong Kong’s political dissidents would therefore be more likely to encounter inhumane treatments if they are detained by mainland Chinese authorities, especially when mainland China, compared to Hong Kong, practices a much higher degree of political exclusion.

Even if illegal immigrants from Hong Kong have not been arrested by mainland Chinese authorities, according to Article 74 of Taiwan’s Immigration Act, illegal immigrants are subject to detention, limited-
term imprisonment and fines (Sun, 2020). Taiwan has not waived such a penalization to any incomers, despite their declaration that humanitarian aids would be given to Hong Kong political asylum seekers. As a result, very likely would illegal immigrants from Hong Kong receive inhumane treatments by Taiwanese authorities to some extent. It is also unclear whether Taiwanese authorities would deport illegal immigrants or permit them to seek for asylum in a third country after detention. Usually, unsuccessful asylum seekers being subject to deportation would be sent to their places of origin. If that applies to Taiwanese immigration policies, deported Hong Kong asylum seekers would be politically arrested soon after they arrive in Hong Kong territories.

3. Taiwan Should Form Refugee Laws

Although Taiwan does not have formal refugee laws, it is necessary for Taiwanese authorities to develop relevant immigration policies on how persecuted illegal immigrants’ cases would be handled. This is because a growing number of Hong Kong protestors and pro-democracy activists have been charged with NSL violations, whose passports have been confiscated. Due to the absence of available travel documents, very likely would those Hong Kong citizens choose to immigrate illegally to Taiwan rather than western democratic countries due to the proximity, insofar as they decide to leave Hong Kong.

When formulating such policies, a minimization of illegal treatments against persecuted illegal immigrants, including deporting them to their places of origin and detaining indefinitely, should also be taken into account. Only by developing relevant policies can Taiwan present a rather transparent and standardized approach when responding to the entry of Hong Kong political asylum seekers, in which Hong Kong citizens intending to flee for Taiwan will be able to expect whether
they will be treated humanely and, thus, foresee if Taiwan is a reliable and safe destination to escape from persecution.

To date, asylum applications filed by Hong Kong political dissidents are considered on a case-by-case basis, due to the absence of refugee laws (Cody, 2020). The circumstance casts significant uncertainty on whether Taiwan is able to promptly deliver humanitarian aids to Hong Kong political asylum seekers. For example, so far those seeking asylum in Taiwan have to submit their applications as per Article 18 of the Act Governing Relations with Hong Kong and Macau, which stipulates that “necessary assistance shall be provided to Hong Kong or Macau residents whose safety and liberty are immediately threatened for political reasons (Breitbart News, 28th May 2020).” Yet, Hong Kong and Macau’s special administrative region (SAR) status may be revoked by Beijing. If revocation applies, citizens from Hong Kong and Macau will not be seen differently than their mainland Chinese counterparts and the current Article 18 will be voided. The absence of relevant refugee laws and its implications of the vague humanitarian services may, therefore, bar those of Hong Kong origin from applying for asylum in Taiwan. If the SAR status is revoked but Hong Kong political dissidents can still claim asylum in Taiwan, it is unclear whether mainland Chinese political dissidents can follow the same route to seek for long-term settlement in Taiwan. It is therefore necessary for Taiwan to develop and enforce their refugee laws, in order to standardize and transparently process the management of political asylum applications filed by eligible candidates in a timely fashion.

Article 18 has several loopholes. First, the legislation only states Taiwanese government would provide “necessary aids” to political asylum seekers from Hong Kong and Macau, lacking precise procedural
details on how the assistance would be executed (Sun, 2020). Second, the legislation indicates that Taiwan would exclusively offer humanitarian aids to asylum seekers who enter the island lawfully. As, again, travel documents of most politically persecuted Hong Kong dissidents are confiscated, it is hard for them to satisfy the requirement of “lawful entry”. The relevant legal framework is therefore vague and exclusive, barring many political persecuted individuals from receiving humanitarian support in Taiwan.

Zhang Wen is one of the mainland Chinese dissidents and pro-democracy activists. Being tortured by mainland Chinese authorities, the politically persecuted mainland Chinese fled for Taiwan in 2019 to seek for asylum. However, with an absence of refugee laws, Taiwan has failed to deliver humanitarian assistance, including the reluctance to provide shelter and subsistence subsidies, to Wen. Taiwan has also failed to help Wen seek for asylum in a third country (Jensen, 2020). Although helping Hong Kong rather than mainland Chinese political asylum is a better leverage to raise Taiwan’s global standing due to substantial international attentions on Hong Kong’s human rights issues and political affairs, Taiwan’s indifference to help Wen demonstrates that her so-called humanitarian services given to political persecuted populations may be more rhetorical than pragmatic. Developing formal refugee laws and the associated outcomes of having clear, standardized regulations on how political asylum applications will be handled, alongside declaring who are eligible to claim asylum on the island, shall assure Hong Kong political dissidents to seek for asylum in Taiwan in order to escape from Beijing’s persecution.
4. How Appropriately Welcoming Hong Kong Political Asylum Seekers Can Raise Taiwan’s Diplomatic Standing and Economic Competitiveness

A proper, transparent and humane management of the influx of Hong Kong political asylum seekers will be conducive to the rise of Taiwan’s global standing. In August 2020, the United States and Taiwan held their first highest-level diplomatic meeting since 1979, symbolizing the United States’ re-recognition of Taiwanese government in over 40 years (The Washington Post, 5th August 2020). Taiwan’s humane approaches towards Hong Kong political asylum seekers, while China is continuing to persecute Uighur Muslims in Xinjiang, shall prompt the reinforcement of positive diplomatic ties between Taiwan and western powers.

Moreover, aside from those seeking political asylum, Hong Kong professionals, especially those aged between 25 and 35, are increasingly inclined to emigrate to Taiwan or western democratic countries since both the outbreak of the socio-political unrest and the implementation of the NSL (U.S. News, 24th September 2019). When Hong Kong has been experiencing the problem of brain drain, Taiwan should seize such an opportunity to welcome more Hong Kong talents in part through earning Hong Kong citizens’ appreciation on how Taiwanese government is helping those facing political persecution in the semi-autonomous city seek asylum. The bigger the share of Hong Kong young professionals Taiwan can attract, the more the foreign capital from Hong Kong Taiwan can enjoy. It is noteworthy that Hong Kong is predicted to experience capital outflows of HK$ 280 billion (US$36 billion) due to the NSL-influenced problem of brain drain (Lau, 2021). Moreover, Taiwan’s further demonstration as being a humane and democratic sovereignty is beneficial to attracting more foreign investments. For example, Google decided to establish an Asia's data center in Taiwan,
in lieu of Hong Kong, on 3rd September 2020 (Taiwan News, 3rd September 2020). When mainland China continues to politically interfere Hong Kong affairs, more western leading technological and business companies, apart from Google, may consider Taiwan as an alternative to establish their Asia’s headquarters. A proper management of Hong Kong political asylum seekers can, therefore, in the long term, raise Taiwan’s global diplomatic standing and economic competitiveness.

5. Taiwan’s Major Concern about the Formation of Inclusive Refugee Laws

Hong Kong and Macau are former European colonies who were returned to China from the UK in 1997 and Portugal in 1999 respectively. These two SARs practice “one country, two systems” where they have their own sovereignties, despite being Chinese cities. Beijing has a higher degree of tolerance if Taiwan hosts political asylum seekers from these two SARs than from mainland China. If Taiwan forms inclusive refugee laws, Taipei is fearful of a potential influx of political dissidents from mainland China. So long as Taiwan hosts mainland Chinese political dissenting cohorts, Beijing is likely to be enraged and capitalizing on Taiwan’s political interference of mainland Chinese affairs to pressure the self-governing island. Here Beijing will be expected to pressure western democratic countries and global leading technological and corporate firms from building or consolidating ties with Taiwan. While Taipei has been endeavoring to provide political assistance to Hong Kong dissidents in order to signalize that Taiwan does not accept mainlandization, Taipei is also cautiously avoiding to enrage Beijing. Due to the citywide anti-China civil disobedience happened between 2019 and 2020, Beijing has nearly completely taken over Hong Kong by
enforcing the NSL from 1st July 2020. If Taipei hosts a raft of mainland Chinese political dissidents, very likely will Taiwan follow the path of Hong Kong and be significantly politically, legally and militarily interfered by Beijing. Taiwan is therefore reluctant to develop inclusive, non-discriminatory refugee laws but considering political asylum applications from Hong Kong (and Macau) exclusively on a case-by-case basis.

6. Conclusions

So far, western democratic powers are struggling to contain the coronavirus (COVID-19) outbreaks. Also, countries such as the United States and Spain have been experiencing a heightened level of socio-racial and socio-political rioting respectively. Western democratic powers’ formation or consolidation of diplomatic and economic ties with Taiwan as to defying Beijing’s expanding global influence would therefore be lessened. With a reduced level of western powers’ support, Taiwan shall be less willing to overly host anti-China political dissidents at the expense of compromising Sino-Taipei relations. While inclusive, non-discriminatory refugee laws are unlikely to be formed, at least Taipei can develop exclusive laws for Hong Kong political asylum seekers. Here Taiwan needs to specify and standardize the humanitarian assistance Hong Kong political asylum seekers can claim; accept illegal immigrants from Hong Kong whose travel documents are confiscated; and, if applicable, help persecuted Hong Kong citizens seek for settlement in any third country.

Beijing’s implementation of the NSL within, and significant interference of affairs of, Hong Kong demonstrate that Taiwan may become “the second Hong Kong” in foreseeable future. Accepting political asylum applications from Hong Kong is a necessary instrument
for Taiwan to declare her emphasis on democracy and autonomy, in order to defy any heightened process of mainlandization.

Note

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References


Geopolitics and Biopolitics
BRICS in the Arctic: The Member-States’ Interests and the Group’s Disregard

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Abstract
For the last several years Arctic region has been presenting a topical issue for scholars. Climate change and geopolitical shifts among global and regional powers allowed IR researchers to put forward different ideas about the development of the Arctic region. Being one of the forums that gather five emerging and global powers, BRICS has been “nominated” to enter the Arctic domain. In this article, the authors search for evidence of BRICS involvement in the High North issues. Although few facts support this idea, the authors state that cooperation among BRICS and Arctic states may be possible in scientific and investment areas.

Keywords: regionalization, economic cooperation, New Development Bank, polar, research
1. Introduction

The Arctic region undergoes significant and rapid changes both environmentally and economically. Over the last few years, climate change has had a considerable impact: temperatures in the area rise two to three times faster than the global average and cause critical changes to marine and terrestrial ecosystems and natural livelihoods. The process of snow and ice melting opens up new opportunities for economic development on a global scale, such as access to natural resources and new sea routes. Given these changes, the Arctic region has become a zone of interest both for Arctic and non-Arctic states.

The Arctic is an area of geopolitical struggle and disputes over the ownership of certain sections of the continental shelf, using transport routes in conditions of improving the ice situation. Non-regional states (including the largest countries in Western Europe, China, Japan, the Republic of Korea, and India) and a number of international organizations (e.g., NATO and the EU) are involved in the Arctic region. Against the background of deteriorating relations between Russia and the West due to the Ukrainian crisis, Russian-Chinese and Russian-Indian relations have acquired an additional incentive for development, which is also reflected in cooperation in the Arctic region. The prospect of Russian, Chinese, and Indian potential cooperation coincides with the priorities of the BRICS as well: energy, innovative cooperation aimed at reducing dependence on Western technologies, transport infrastructure, and the environment. Therefore, some argue that Arctic cooperation might become the basis for implementing joint multilateral investment projects that would raise economic and environmental cooperation within the framework of BRICS to a new level.

BRICS countries have different Arctic identities: among five countries, Russia is the only Arctic coastal nation and a member of the Arctic Council (AC), China and India received the status of AC
observers in 2013, have contiguous territory in the Northern hemisphere, while Brazil and South Africa are located on different continents in the Southern hemisphere. (Lagutina and Leksyutina, 2020) While there is a high probability of cooperation between the Arctic country Russia and Arctic Council observer countries China and India, it can expect that Brazil and South Africa, which do not have any borders or connections with the region, do not have enough ties to cooperate in the Arctic. For that reason, the degree of participation of BRICS members at different levels of Arctic cooperation. Their interests and goals within the BRICS should be determined, and also, there is a need to name several BRICS projects that correspond to the goals and objectives of Arctic cooperation to analyze the possible engagement of the BRICS into the Arctic region.

2. Comparison of BRICS Members’ Arctic Policies and Activities

Russia, which is home to more than half of the polar region’s native population, is a historical leader in discovering and developing Arctic territories and resources and has a unique experience of life and economic activities in extreme conditions. Russia attaches great importance to the Arctic region since the region has huge reserves of energy resources and the possibility of intensive use of the Northern sea route and economic potential. In October 2020, speaking at a BRICS meeting, former Russian Minister of Energy Alexander Novak noted that Russia’s Arctic zone has an enormous amount of hydrocarbon reserves, estimated at 7.33 bmt of oil and 50.45 tcm of natural gas, or 24.7 and 72.1 percent of Russia’s total reserves, respectively. He added that in 2019 Russia became the fifth-largest LNG producing country. (The Arctic, 15th October 2020) Russia has the longest coastline in the region. With an increase in the profitability of the NSR, which is the shortest sea route between Europe and Asia, it can realize tremendous opportunities
and profit. Russia can operate the NSR both for import-export operations in the Russian Arctic zone and international cargo transportations relying on the NSR infrastructure and its icebreaker fleet. Other activities related to the logistical prospects of the NSR include fishing, tourist cruises, scientific expeditions, and resource extraction. Among them, resource extraction is a sector that allows for the development of transport operations in the shortest possible time – in the form of transportation of resources from the Arctic region to the world markets. The idea to attract foreign cargo to the NSR became active after May 2018 decree by Russian President Vladimir Putin. According to the document, by 2024, the cargo turnover of the NSR should be increased to 80 million tons. For comparison, that year, the figure exceeded 20 million tons and amounted up to 31.5 mt in 2019. *(Virtual customs, 9th October 2020)*

On 5th March 2020, the Kremlin unveiled its latest development strategy of the Arctic “On the basics of the state policy of the Russian Federation in the Arctic for the period until 2035”, which was signed by President Vladimir Putin and outlined Russia’s plans for industrialization and development of energy resources, massively present in the region. According to the document, the Arctic is a zone of national interests of the country. Eight areas of implementation of the state policy of the Russian Federation in the Arctic are defined as following: a) social and economic development of the Russian Arctic; b) the development of its infrastructure; c) the advancement of science and technology for the development of the Arctic; d) environmental protection and environmental safety; e) development of international cooperation; f) ensuring the protection of the population and territories from natural and human-made emergencies; g) ensuring public security in the Russian Arctic; h) ensuring military security; protection and protection of the state border of the Russian Federation. This document
also highlights the importance of developing international cooperation, including increasing international economic, scientific, technological, cultural, and cross-border cooperation, as well as cooperation in the field of global climate change research, environmental protection, and effective development of natural resources in compliance with high environmental standards; active involvement of the Arctic and non-regional states in mutually beneficial economic cooperation in the Arctic zone of the Russian Federation. (President of Russia, 5th March 2020)

Russia–US confrontation resulting from the Ukrainian crisis and the alienation of Russia and the European Union (EU) countries has sharply narrowed opportunities for cooperation with Western companies in the Arctic development. This situation is likely to persist for a long time. Under these circumstances, Moscow has to look for other partners that can attract advanced technologies, and these partners are located mainly in Asia. In 2019, Japanese companies JOGMEC and Mitsui joined the Arctic LNG 2 project implemented by the private Russian company NOVATEK. In 2020, Russian Foreign Minister Sergey Lavrov said that India could become the first non-Arctic state to extract resources in the Arctic. In the meantime, China has become Russia’s leading economic and technological partner. After breaking up with the West, Moscow was forced to ease restrictions on attracting Chinese partners to Russian energy projects before 2014. By attracting Chinese companies backed by Beijing, Russia seeks to do so based on Russian interests.

China, a non-Arctic nation, recognizes itself as an “Arctic stakeholder” and has made significant progress in promoting its national interests in the Arctic, primarily through its participation in the Arctic Council. In 2013, China was granted permanent observer status in this important high-level institutional forum that effectively coordinates the governance of the Arctic region by core eight states. (Kienko, 2019) In its official Arctic strategy, published in January 2018, China presented
itself as a “near-Arctic state,” thus shaping its image as a full-fledged actor in the region. According to the official narrative, China is particularly concerned about the Arctic environmental conditions and the potential effect that simulates China’s climate system, environment, and related economic interests. China has recently taken an active role in economic investments with every Arctic nation in key strategic areas, such as oil and gas development, ports, railways, and infrastructure. The White paper on China’s Arctic policy highlights key components for achieving own goals such as deepening the exploration and understanding of the Arctic, protection of the Arctic environment and addressing climate change, utilizing Arctic Resources lawfully and rationally, including natural resources and tourism, participating actively in Arctic cooperation and governance, promoting peace and stability in the Arctic. (Bowman and Xu, 2020: 8)

China’s intentions in the Arctic encompass scientific research, protection of the environment and habitats of Indigenous Peoples, promotion of the region’s development, and participation in its management. China underlines its respect for the regional countries, readiness for cooperation, commitment to sustainable development, and mutual benefit. In the field of security, China intends to promote peace and stability, ensure the safety of maritime trade, and support all states’ rights to engage in activities in the Arctic region. In line with China’s primary position, the strategy offers an inclusive Arctic management system. Of course, in such a system, China, given its weight, will be able to claim one of the leading roles. This provision contains the main contradiction between the strategies of Russia and China. According to Pavel Gudev, the Chinese strategy is “an attempt to lead the process of strengthening the role of non-regional players in the Arctic, successfully disguised the desire to play a leading role among them in shaping the Arctic agenda.” (Gudev, 2019)
China’s interest in polar exploration began in the 1980s with the first Antarctic research expedition in 1984 and the establishment of the Institute of Polar Research of China in Shanghai in 1989. The main aims of the Institute of Polar Research of China are conducting the studies on the significant polar issues; formulating the laws, regulations, appropriate standards, and rules concerning polar expeditions; directing the Chinese polar expedition winter training base and the representative offices abroad; organizing and participating in international affairs; cooperating with the overseas national polar programs. In 1991, the Office of the National Antarctic Expedition Committee was renamed as the Chinese Arctic and Antarctic Administration (CAA). (Lassere and Alexeeva, 2012: 81) In 1994, the MV Xue Long icebreaker (Snow Dragon) was purchased from the Kherson Shipyards (Ukraine), which allowed its operator, the Institute of Polar Research of China, to conduct its independent polar research. Since then, the world’s largest non-nuclear icebreaker has delivered at least one research expedition to the Arctic and Antarctica every two years. During one of them, in 2010, Chinese polar researchers landed by helicopter at the North pole. In 2012, the icebreaker sailed along the NSR from Qingdao to Iceland, and in 2013 tried to help the Russian ship Akademik Shokalsky, which was blocked by ice in the Antarctic.

In September 2018, the construction of the MV Xue Long 2 icebreaker was completed. It was the first icebreaker built in China. In 2020, China began designing an even more powerful and potentially nuclear-powered polar icebreaker expected to have twice the icebreaking capability of its newest vessel. With three icebreakers China will have greater access than the United States currently has to the Arctic, its ports, and its resources. China views the Arctic as a component of its Belt and Road Initiative, recently dubbed the Polar Silk Road. (Congressional Research Service, 2021) China is actively developing cooperation with
research centers in Northern Europe and, in general, relies on these countries in this area. On 10 December 2013, the China-Nordic Research Centre (CNARC) was established in Shanghai. (CNARC, no date) The main objective of CNARC is to increase awareness, understanding, and knowledge about the Arctic and its global impact and provide a platform for academic cooperation that has a significant effect on the sustainable development of the Nordic Arctic and China’s development in a global context. (Nielsson, 2019)

In the economic sphere, the Arctic is of interest to China in two areas - transport and energy. Currently, China remains highly dependent on the export of its products to foreign markets and the import of hydrocarbons from other regions of the world. The revitalization of Chinese foreign policy in the Arctic aims to diversify the solutions to these two problems of the Chinese economy. In addition to the economic benefits, the Arctic routes are essential for two more reasons - there are no pirate threats along with them, and they are not controlled by US military vessels, unlike the traditional southern sea lines of communication between Europe and Asia through the Malacca Strait and Suez channel.

Beijing views Denmark, Iceland, and Finland as an essential strategic gateway to the Arctic region while seeking to occupy a niche in the Arctic as a bridge between the West and the East. The Nordic countries played a crucial role in supporting China’s bid for the permanent observer status to the Arctic Council in 2013. Iceland became the first Nordic country to sign a Framework Agreement with China on Arctic Cooperation in 2012 and the first European country to sign a Free Trade Agreement (FTA) with China in 2013. China is also diversifying its economic activity in Finland to be more strongly present in the Arctic agenda. (Lino, 2020) During the former Prime Minister of Greenland Kuupik Kleist (2009-2013), Greenland was close to falling under
substantial Chinese influence by early 2013. The island’s government maintained an intensive political dialogue with Beijing, including regular exchanges of high-level visits, and conducted negotiations with Chinese investors, often mediated by companies from the UK, its dominions, or Hong Kong. The following large-scale projects for the extraction of raw materials were (and still are) the readiest for implementation: Isua iron ore project; development of the Kvanefjeld rare earth deposit in Gardar; lead and zinc ore mine in Citronen Fjord. (Krivorotov, 2021) Moreover, China perceives the island as a potential regional logistics and transport hub and attempts to invest in Greenland’s airfields and seaports. There are still unresolved questions regarding cooperation around the Arctic and Greenland. Denmark ought to be very interested in promoting Chinese investments in Greenland; the Greenlandic authorities certainly are. However, the Danish government is held back by considerations of growing US feelings of insecurity. (Lino, 2020)

In 2016, Denmark, backed by the US, blocked China’s purchase of a former military base in Greenland. Washington also encouraged Denmark to reject Chinese offers to help build the aforementioned international airports in Greenland, promising that they would instead provide such investment in airports that could have dual-use purposes. Ultimately, Denmark undertook the construction of new airports. (ibid.) This infers that against the background of the competition with the US, it will become increasingly difficult for China to expand its political and economic influence on the island.

Most recently, in early April 2021, after the left-wing party won the election in Greenland, the future of the Kvanefjeld mining complex became a point of discussion. Left-wing Inuit Ataqatigiit party (IA) campaigned against the mine, primarily because of the uranium deposits. This campaign against a project to extract rare earth metals from one of
the world’s largest deposits does not mean that the party is entirely against mining. Although China, which owns a 9.4% stake in Greenland Minerals via Shenghe Resources, places great emphasis on this project, the election results do not seem to diminish China’s interest in the island.

Compared to the Nordic countries, Russia plays a more active role in the Chinese policy towards the Arctic region, specifically in the economic realm. The largest project in the Russian Arctic that uses the Chinese capital is Yamal LNG. This project is implemented in the South Tambey gas condensate field and consists of its development and construction of an LNG plant with a capacity of 18.4 mcm. The reserves of the area are estimated at 926 bcm of natural gas and 550 mb of condensate. The operator of the project is PAO NOVATEK with a 50.1 percent stake; French Total owns 20 percent; China National Oil Company (CNPC) owns 20 per cents and the Silk Road Fund – 9.9 percent. (Yamal LNG, no date) In February 2020, Yamal LNG announced that it has already shipped 13 mt of LNG since the commencement of the project. In Russia, the Yamal LNG project is recognized as a national-scale project. The participation of Chinese corporations can also be considered politically motivated, given the importance that the government attaches to diversifying energy supplies. In April 2014, Gennady Timchenko, the owner of 23 per cents of NOVATEK’s shares, was appointed the head of the Russian-Chinese business council and personally introduced to Xi Jinping by Vladimir Putin. The participation of the Silk Road Fund also points to the importance of the Arctic region for the development of the Chinese economy in the light of the Belt and Road Initiative. Chinese Wuchang Shipbuilding Industry Corporation also participated in this project by supplying 36 condensing modules for the LNG plant.
Arctic LNG 2 is another project of NOVATEK located on the Gydan peninsula in Russia. The participants of Arctic LNG 2 – NOVATEK (60 per cents), Total (10 per cents), CNPC (10 per cents), China National Offshore Oil Corporation (CNOOC) (10 per cents), and the Japan Arctic LNG (10 per cents) – approved the final investment decision (FID) for the project in September 2019. (NOVATEK, no date) Capital expenditures to launch the project at total capacity are estimated at $21.3 bn. Bilateral cooperation between China and Russia is also developing in the field of education. In September 2016, the Russian-Chinese center for Arctic studies was opened in Primorsky Krai with the participation of Far Eastern Federal University (FEFU, Russia) and Harbin Institute of Technology University (China).

India is a relative latecomer to the Arctic region. According to the Ministry of External Affairs of India, India’s presence in the area dates back to 1920 when the Svalbard Treaty was signed, although the Indian Arctic research station at Svalbard was established only in 2008. In 1981, the Ministry of Ocean Development organized the first expedition to the High North. From this moment up to 2013, India’s activity in the region focused predominantly on scientific interest. In 2013, India was accepted as an observer to the Arctic Council, and only in 2018, it renamed National Centre for Antarctic and Ocean Research to the National Centre for Polar and Oceanic Research. (Devikaa, 2019) In 2007 the Ministry of Earth Sciences (MoES) initiated the first scientific northern expedition. The primary purpose was to investigate bacterial life and climate changes in the High North. The second point appears to be highly significant for the Indian scientists within the hypothesized connection between climate change and the Indian monsoon.

The 2007 expedition and the subsequent establishment of research base “Himadri” were supported by the Norwegian Polar Research
Institute of Norway and a Norwegian State Company “Kings Bay.” It is worth remembering the late Mahendra Nath Bose, who set foot on the Arctic in 1962 to collect plant fossils in collaboration with Norwegian scientists. That was the beginning of India’s scientific engagement with the Arctic. Since 2007, India annually sends two expeditions for carrying out hydrochemistry, glaciology, atmospheric, and microbiology investigations. (Pronina et al., 2020) Many national laboratories and universities, viz. Earth System Science Organization, National Centre for Polar and Ocean Research, Geological Survey of India, Wadia Institute of Himalayan Geology, Centre for Cellular and Molecular Biology, Jawaharlal Nehru University, and others have been involved in the cryosphere research programs. (Nayak and Chandran, 2020)

Environmental protection is the most critical factor that determines India’s activity in the Arctic. The problem of climate change and global warming, and if the peak of warming occurs in the spring and early summer, then the increase in temperature in the North of India can have devastating consequences. The melting of Arctic ice also affects the state of ice on the Tibetan plateau, where the principal rivers of India originate. It is known that any changes in the form of ice on the tops of the Himalayan mountains can cause severe flooding and have disastrous consequences for the entire Indo-Gangetic valley. Since rising sea levels result from melting glaciers can lead to flooding of a large part of the territory of India with a population of more than 100 million people. Therefore, monitoring the state of ice is one of the priorities of Indian scientists working in the Arctic.

India mainly cooperates with Russia in the area of energy. Indian Prime Minister Narendra Modi’s visit to the Russian Far East in September 2019 focused on Arctic LNG 2, the Northern Sea Route, and the Arctic Council. Recently, Sergey Lavrov, Russian MFA, stated that India would become the first non-Arctic state to develop an oil field in
the region. India’s Oil and Natural Gas Corporation (ONGC) has entered into agreements with Rosneft, a Russian energy company, to develop Russian hydrocarbon deposits in the Arctic at the Vankor oil field. (The Barents Observer, 16th January 2020) The project also includes the construction of a 600 km pipeline to export the oil via the NSR. Other Russian companies interested in cooperation with Indian counterparts are Gazprom and Novatek. Indian companies H-Energy and Petronet LNG signed memorandums of understanding with Novatek. The partnership between the two countries also covers geological exploration, including on the Arctic shelf and Russian energy resource deliveries to India with the possible use of the Northern Sea Route. (Upadhyaya, 2020) Reports show that by 2050, open-water ships and polar class vessels will be able to navigate along the Northern Sea Route. It is expected that in the future Indian ships may carry cargo throughout the world, and hence the Northern Sea Route will be of interest to the country. There will be opportunities for Indian companies to sign contracts to carry out seabed surveys, especially for bathymetry and identifying shipping lanes. (Nayak and Chandran, 2020)

India attaches significant importance to the development of expertise in the Arctic region. Given that India strives to increase its relative global position, it is crucial for New Delhi to engage in regional affairs beyond its proximity. Thus, deepening the relations with the Arctic states and simultaneously raising its voice in the Arctic issues are considered by the Indian authorities as a meaningful purpose of their foreign policy. Maritime security and transportation are other significant issues for India. Being a naval power, India is interested in increasing its maritime capabilities and presence outside the Indian ocean. Engagement into the Arctic ocean presents India a say in the regional discussions not only within the frames of international bodies such as IMO (International Maritime Organization) but also within the frames of
the AC (Arctic Council) and in the bilateral relations with the Arctic states.

While Russia, China, and India are committed to pro-active engagement into the Arctic, another BRICS member state Brazil, has little shown interest in the region. The interest of Brazilians in the sustainable development of the Arctic and obtaining observer status in the AC is due to the partial opening of the Arctic ocean to commercial shipping, global warming, easier access to hydrocarbons and other mineral resources, fishing, and tourism. After nine years of the initial debate, the Brazilian MFA resumed discussion about the country’s acceding to the Svalbard treaty of 1925 and application for the AC observer status. According to S. Trindade, the government needs the latter because “Brazil is big.” (High North News, 22nd March 2019) Though this kind of reasoning is quite simple, it reveals the symbolic role of the Arctic in contemporary politics: every self-respecting state in the top-tier of the world economy needs to be present in the region.

Alessandro W. Candeas, Director of Defense and Security Issues at the Brazilian MFA, distinguishes four areas where the country may engage in the Arctic region – scientific collaboration, energy projects, world logistics, and technological development, mainly related to the subsea mineral activity. (ibid.) Brazil has been engaged in scientific research in Antarctica since the late nineteenth century. Using the experience of cooperation in Antarctica, Brazil can move to scientific cooperation with Arctic countries. Brazilian business entities are also interested in the opportunities and prospects for shipping along the Northern sea routes. Brazil ranks 9th in the world as the largest shipbuilding power and, in this regard, sees the opportunity to participate in the construction of the Arctic merchant fleet along with countries such as China, Japan, South Korea, and Singapore. Besides, the largest Brazilian mining company Vale S. A. is active on one of the Arctic
powers, Canada, where the company owns railway lines and several seaports. The activities of this largest Brazilian company can set an example for other companies in Brazil.

Due to its remoteness, South Africa has not shown any interest in the Arctic region so far. However, the county has developed substantial research potential in the Antarctic area that may be applied to the scientific activities in the Arctic. South African National Antarctic Programme derives from the 1959 South African National Antarctic Expedition (SANAE) that established the county’s presence in the region. To this day, South Africa has inaugurated three research stations in the Antarctic and Subantarctic regions and became a member of the Scientific Committee on Antarctic Research (SCAR). Thus, the South African researchers’ expertise may aid the international community in Arctic research. (https://www.sanap.ac.za/about)

When we look at the interests of the BRICS countries in the Arctic region, the most promising partner for the Arctic states is China. As for the other BRICS countries, India is also actively negotiating with the Arctic countries. On the other hand, Brazil could become a reliable and stable partner of the Arctic countries in shipbuilding and mining. However, compared to the other BRICS countries, South Africa has no policy or interest in this region.

3. Russia, China, and India in the BRICS: Interests and Objectives

BRICS is an international forum consisting of five countries – Brazil, Russia, India, China, and South Africa – that strive for either retaining or attaining the status of a global power via promoting the multipolar world order. In this part of the article, we will elucidate the main interests and objectives of Russia, China, and India within the BRICS.
BRICS was established in 2006 as BRIC at the first meeting of the foreign ministers of Brazil, Russia, India, and China in New York. (BRICS, no date) During the first years of the forum’s existence, the member states leaned towards discussing the economic issues. Later BRIC was transformed into more of a political club, and South Africa joined in 2011. Nowadays, BRICS represents regional powers of every continent but North America and functions as a forum for discussing global political and economic issues.

The formation of BRICS was driven by the long-term common economic interests of the participating countries, strengthening the principles and standards of international law and supporting complementarity in many sectors of their economies. (Protiva, 2014) BRICS is united by shared values on how to build a multipolar and just world system. In the political sphere, these values are embodied in the ideas of multipolarity, equality of sovereign states, non-interference in internal affairs, mutual respect and consideration of each other’s interests, and adherence to generally recognized norms of international law. In economic terms, states strive to reject methods of protectionism and unilateral sanctions and build international trade based on transparency, openness, and inclusiveness. (Ryabkov, 2020)

For Russia after 2014, cooperation with non-Western global and regional powers has become a matter of preserving its image as a world power. It was the various tracks of cooperation on the periphery of the Eurocentric foreign policy that Russia needed to develop to safeguard its national interests and objectives. This policy was called “Pivot to the East”. However, this policy was promoted before the Ukrainian crisis in the earlier stages. It was aimed at developing the eastern parts of Russia, which traditionally lagged in terms of economic growth. Since 2014 this policy acquired a new – political – dimension to develop closer ties with Asian states, first and foremost, China.
The strategic objectives of Russia’s participation in BRICS include reforming the international monetary and financial system and strengthening peace and security in international relations. Respecting countries’ sovereignty and territorial integrity and non-interference in their internal affairs are seen by Russia as critical conditions for attaining the BRICS’s goals. As for Russia’s strategic goals in BRICS, taking into account the state’s foreign policy planning, Russia strives to develop a multi-vector foreign policy, deepen relations with the member countries of the association and expand the mechanisms of the “soft power” of the Russian Federation in the international arena.

The political interest of Russia is to uphold the idea of the polycentric world order. This idea, formed in Moscow back in the 1990s, is one of the main directions of Russian foreign policy planning. In the context of increasing conflict potential in international relations, Russia needs to maintain a balance of potentials of individual countries and the distribution of centers of influence across different continents and between representatives of different civilizations.

As a logical consequence of the desire for a polycentric world, Russia is interested in the participation of the BRICS countries in other international platforms with unity. Russia is interested in coordinating and adjusting the member states’ foreign policies to create a common approach to global issues. This relates, first of all, to international strategic stability, international and regional security, non-proliferation of weapons of mass destruction, and regional conflicts.

Russia’s subsequent interest concerns the issue of countering terrorism threats. Clause 33 of the Foreign Policy Concept of Russia 2016 states: “Russia regards the fight against international terrorism as the most important state task and a key priority in the field of international security.” (The Ministry of Foreign Affairs of the Russian
Federation, 2016) The problem of terrorism is considered in Russia as a threat to state security. Simultaneously, the Foreign Policy Concept of Russia 2016 notes that terrorism as a phenomenon cannot be destroyed only by force - it is necessary to fight the sources of its financing and counteract the factors that contribute to its development. Nevertheless, the Russian government emphasizes that creating mechanisms for military cooperation within the BRICS is not envisaged.

Besides, Russia believes in the need for joint actions of the participating countries in the fight against international drug trafficking, threats in the information space, sea piracy, legalization of criminal proceeds, and illegal migration.

In the economic sphere, Russia needs to reform the international monetary and financial system to create a more representative, stable, and predictable method of global reserve currencies. In this case, an increase in the role of national currencies in mutual settlements and international trade plays a special role. Another goal of Russia is to reduce the risks of global destabilization and to strengthen national financial systems. Also, Russia is interested in enhancing economic ties between the participating countries by stimulating mutual trade in goods and services.

Russia focuses on the development of relationships in the field of innovation as well. The Concept of Russia’s participation in the BRICS specifies the spheres of industry. It seems necessary to develop high-tech industries such as energy, aviation, metallurgy, machine-tool building, electronics, and transport.

China, which has the world’s second-largest economy, is currently facing the most significant external pressure in 70 years. Relations between the PRC and the United States under President D. Trump have turned from cooperative to confrontational. The reason for such a US policy should be considered the excessive “penetration” of the PRC into
the world economy. For the United States, whose opposition has led to trade wars, China’s economic might is a peril.

The leading Chinese goal of participation in the BRICS is to reform the world monetary and financial system, founded by Western countries after World War II. The 2008 global financial crisis forced many countries to reconsider their approaches to economic development. Since then, China, which became the world’s second-largest economy in the second decade of the 21st century, has sought to shape a new international economic order and reform the quota system at the International Monetary Fund and the World Bank.

In addition to reforming international financial institutions, China under Xi Jinping began to pursue a more active foreign economic policy, exemplified by the Belt and Road Initiative. Despite the vague formulation of the initiative and the absence of precise plans, it can be considered as China’s foreign economic policy. One of the main mechanisms created under this initiative is the Asian Infrastructure Investment Bank (AIIB). As part of the diversification of international financial institutions in BRICS was to create a New Development Bank. Besides, China is also actively promoting the idea of creating the SCO Bank.

It appears that such a policy is aimed at developing foreign markets and international transport infrastructure necessary for the growth of China’s export-oriented economy. Moreover, it is necessary to develop relations with countries that possess rare earth and energy resources the Chinese industry and economic spheres related to Industry 4.0 depend upon. This is the basis of the technological and innovative development of the PRC as a global power.

According to A. Gabuev, the BRICS format allows China to neutralize its internal uncertainty about how the structure of the international financial system should look like in the future. (Gabuev
et al., 2015) In discussions with the member countries, the PRC is gradually formulating the system model that is suitable for its tactical and specific strategic goals. At the same time, speaking on behalf of the BRICS erodes China’s initiative in some issues on the international agenda, the reaction to which could be more serious if it came from one country.

From a political point of view, the strife for the possession of the status of a global power determines the foreign policy of the PRC. The coming to power of Xi Jinping marked a change in the country’s foreign policy. According to Deng Xiaoping, the period of development came to an end, and China strengthened its voice in the international arena, stepping up its foreign policy in all regions of the world and levels of political interaction. International institutions are the platforms where China promotes its vision of solutions to specific global or regional problems and develops its relations with other countries. An essential component of Chinese foreign policy is the development of South-South cooperation, which allows it to project its influence outside. Another goal of China is to develop cooperation with developing countries to remove them from the United States’ influence, which is its only global opponent. Moreover, China uses its joint membership with India in multilateral organizations such as BRICS and SCO to balance India-Japan relations because of the perceived threat they pose to China’s interests in the region.

India is a South Asian regional power competing with China at the Asian regional level. Given the combined economic, military, and demographic potential, India is striving to enter the category of global powers. This strife is based on India’s perception as a distinct civilization as well. India’s foreign policy can be characterized as pro-Western with certain balancing elements that allow the country to pursue a more independent foreign policy.
BRICS is one of the elements of balancing that allows India to advance its global agenda with minimal losses. While the BRICS is often seen as a challenge for the West, India sees it as a forum for reforming global governance and mediation between the West and developing countries. According to S. Jaishankar, while stepping up in the international order, India should be regarded as a southern and western country, simultaneously taking into account its democratic development and bonding to the developing world. *(The Economic Times*, 3rd October 2019) Given this, India seems to be mediating between the two identities through BRICS.

India also views BRICS as an additional platform for interaction with China to discuss specific issues and problems without being tied to bilateral relations. For example, the conflict in Ladakh did not lead to problems in interaction between the countries at the BRICS summit in November 2020.

While analyzing India’s policy towards BRICS, it can be noted that the country uses its membership to project its influence on the international financial system. Like Russia and China, India is unhappy with its global position in this area and is trying to reshape the global financial architecture. India was one of the initiators of establishing the New Development Bank, the idea of which was first voiced at the 2012 BRICS Summit.

Another significant issue important for India is the discussion of such issues as terrorism, climate change, and other global issues to which every country approaches differently. Discussions and negotiations over such topics aid India in formulating its international policy.

Another significant political issue is the reform of the UN Security Council. India has long been waiting for the reforms to acquire a permanent membership in the UNSC. According to the Indian political
establishment, India represents one-sixth of the world population. It is the third-largest economy that needs to be represented in the main body of world politics and make it more democratic.

4. Possible Tracks for Cooperation

Recently a few Russian academicians started to write about BRICS’s policy in the Arctic. (Lagutina and Leksyutina, 2017) Basically, they state that few, mainly scholarly, events held independently or on the sidelines of other official meetings show the importance of the Arctic region for the decision-makers within the BRICS. One of the starting points of pulling together the Arctic and BRICS is mentioning a conference “The approaches of the BRICS countries to governing common spaces: trends and potential cooperation.” Unfortunately, the authors of this article could not find any information on this event. Besides, the Arctic region and ocean cannot be considered as a “global commons” due to the international law norms that define this category. (Gudev, 2016)

This article has so far covered member-states’ interests and objectives in the organization and their motives of involvement in the Arctic region. In this part of the article, we are trying to find tracks of BRICS’s activity that may lead to the development of its pro-active policy relating to the Arctic region. There are several areas within the frames of which BRICS can enter the Arctic domain viz. New Development Bank (NDB) projects maritime, fisheries, science, and environmental matters.

Environmental issues lay at the heart of almost every discussion on polar issues, be it energy development, maritime policies, or governance issues. BRICS is no exception since climate change issues are of great importance for every member-state; however, their priority changes
from state to state. The environmentalist narrative is present in all summit statements. (BRICS Information Centre, no date) In general, climate change is mentioned concurrently with food security, development of renewable and nuclear energy, and promotion of natural gas as the eco-friendliest fossil fuel. Stress on nuclear energy coincides with the Russian rise of nuclear power plant construction in South Africa. At the 5th BRICS Ministers of Environment Meeting, held in August 2019 in Brazil, BRICS countries exchanged experiences in the field of environmental protection, search, share, and their implementation, the development of joint projects. (BRICS Brasil 2019, 15th August 2019)

At the level of multilateral cooperation, the BRICS countries actively participate in UNEP (UN Environment Programme) projects aimed at the transition to a green economy and renewable energy, as well as the promotion of green technologies.

Currently, in times of tense relations between Russia and the West, environmental policy acquires a new aspect. Russia considers this area as one of the dimensions where Russia strengthens its image as a trustworthy partner. Russia pursues environmental agenda in other international forums and organizations. (The Ministry of Foreign Affairs of the Russian Federation, 2016) Concurrently with the re-development of the Soviet military bases, Russian media draws attention to the Defence Ministry’s activity on removing the solid waste from the military bases on the Arctic islands left since the soviet era. (Lenta.ru, 13th January 2015)

The maritime security issue steps forth since BRICS brings together powers from different regions connected mainly via sea routes. This problem is not external but equally internal. Chinese activity in the South China Sea and the Indian Ocean evokes Indian officials and experts to raise concerns about Chinese infringer upon Indian national
interests. (Коростиков [Korostikov], 2016) India, Brazil, and South Africa (IBSA) are engaged in trilateral maritime cooperation. According to Vijay Sahuja, it is possible to extend such cooperation to all five BRICS members. (Sahuja, 2014) However, given the current cases of distrust between the states, this statement does not seem likely. As far as the Northern Sea Route is considered, although China respects national laws of the Arctic littoral states, there are doubts among some Russian experts whether Beijing will stick to its current policy when the passage becomes more lucrative due to the ice melting. Thus, to establish a comprehensive national regime of NSR, Russia has recently conducted several reforms, the aim of which is to define the state entities responsible for the development and operation of the NSR.

Maritime security is mentioned two times in BRICS summit declarations. For the first time, in the 2015 Ufa Declaration, the leaders of the member states articulated the problem of maritime piracy and called other states for operational decisions to fight this problem. In the 2018 Johannesburg summit declaration, the importance of Ocean Economy was stressed: “[W]e recognize the vast potential in cooperation and collaboration in advancing the Oceans Economy amongst BRICS countries, which encompasses multiple sectors, including the strategic areas of maritime transport, shipbuilding, offshore oil and exploration, aquaculture, port development, research and technology, conservation and sustainable use of marine resources, marine and coastal tourism, financial and insurance services, as well as coastal industrial zone development.” (BRICS Information Centre, 26th July 2018)

As for scientific research, the Arctic region is one of the most promising areas for all BRICS participants. One of such joint initiatives of scientists from Russia, Brazil, India, and China was the organization of a panel session on the topic “The BRIC(S) in the Arctic: emerging
opportunities for joint initiatives” at the annual Arctic Circle Assembly in Reykjavik (Iceland) on 07 October 2016. This initiative is one of the first attempts to coordinate the general directions of developing scientific research in the Arctic within the BRIC(S) format on a multilateral basis.

In 2015 respective ministers of the member-states signed the Memorandum of Understanding on Cooperation in Science, Technology, and Innovation. (BRICS Information Centre, 2015) Ocean and polar sciences were among the main areas of cooperation mentioned in the Memorandum. Working Group on Oceanic, Polar Science and Technology was established and after it convenes once in two years.

New Development Bank was established at the Fortaleza Summit in 2014 in order “[t]o mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging market economies and developing countries to complement the existing efforts of multilateral and regional financial institutions for global growth and development.” (BRICS Information Centre, 15th July 2014) So far, 53 projects equalling 15 bn US dollars were approved by the Board of Directors. The only project which can remotely be related to the Arctic region is 100 m US dollars loans approved for the Nord-Hydro project to increase energy supply in the Karelia region through renewable energy resource. (New Development Bank, 2016) Currently, NDB does not show any interest in the Arctic region. It is possible that in the future, the Bank will engage in the development of the NSR infrastructure and social projects; still, it is not a priority for the Board of Directors.

5. Conclusion

BRICS represents countries with different Arctic identities. While Russia is a littoral state and a member of the Arctic Council, China and
India became observers to the AC in 2013. Russian interests in the region cover several issues: traditional security, maritime, transport, energy, governance, and environment. China and India, basically, pursue scientific, energy, and transport interests. Brazil and South Africa are located in the Southern hemisphere; hence they lack any definite Arctic policy. Brazil has articulated its scientific interest in Arctic matters on a few occasions, but no official activity has taken place.

Recent discussions on BRICS involvement in the Arctic seem to exaggerate few facts. Although issues on the BRICS agenda may overlap with those in the Arctic Council and other regional forums, we cannot state that it creates enough evidence, which is more critical for political will to drive this process.

The notion of discussions within BRICS about the governance of “global commons” do not relate to the topic, since according to the international law, such as UNCLOS 1982, Convention on the Continental Shelf, and other documents, Arctic domain does not fall into “global common” category until all the disputes over the boundaries of the continental shelf are settled between the littoral states.

Environmental issues are of high priority both among BRICS states and in the Arctic matters. Still, we cannot state that the BRICS agenda deals with Arctic matters considering its peculiar conditions. The only area where BRICS countries are engaged in the region is scientific cooperation. This track started in 2015 by signing the Memorandum of Understanding on Cooperation in Science, Technology, and Innovation and establishing the Working Group on Oceanic and Polar Science and Technology. However, there are doubts that BRICS countries except for China have enough know-how about Arctic technologies that can stimulate the development of the Russian High North.

NDP is a unique entity that can help the development of the Arctic. So far, no project relating to the Arctic was approved. Still, there are
prospects of the Bank’s participation in developing the NSR infrastructure and improving the social conditions in High North.

**Abbreviations**

- btm - billion metric tons
- tcm – trillion cubic meters
- mcm – million cubic meters
- mb – million barrels
- mt – million tons

**Notes**

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India in a Balanced Position in spite of China’s CMEC in Myanmar

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Abstract

China under its flagship programme of Belt and Road Initiative (BRI) is increasing its presence and activities in India’s peripheries undermining India’s position. Programmes like China-Myanmar Economic Corridor (CMEC) and China-Pakistan Economic Corridor (CPEC) are developed neglecting India’s concern that arose from it. The development of CMEC, sideling the previous economic corridor (BCIMEC) in which India is also participating, creates more concern for India. India also has some internal issues in its eastern parts that are bordering Myanmar, while China’s newly released white paper talks about protecting its economic interest outside its territory, a notion that can be translated to “placing” of its military in India’s peripheries. This paper will try to provide reasons why India is still in a well-set position even with the recent development of CMEC between China and Myanmar.

Keywords: CMEC, BRI, geopolitics, China, India, Myanmar
1. Introduction

China launched its Belt and Road Initiative (BRI) in 2013 with 40 billion USD (United States Dollar) as a fund to finance this ambitious project of the so-called ‘new silk route’. This BRI project is considered by many as the largest infrastructure project and compared with the United States (United States of America) Marshall Plan of the early Cold War era (Shen and Chan, 2018). As part of it, China developed many economic corridors like the China-Pakistan Economic Corridor (CPEC), China-Myanmar Economic Corridor (CMEC), China-Nepal Economic Corridor (CNEC), China-Indochina Economic Corridor, China-Mongolia-Russia Economic Corridor, and Central Asia-West Asia Economic Corridor. China on its path with these Economic Corridors is trying to develop a new interconnected Global World Order with China itself as its center. China perhaps hopes the BRI will make China the ‘Middle Kingdom’ again. The United States on its part seems more concerned about its economy and enacts ‘protectionism’ for its international diplomacy with ‘America First’ policy and even asks for protection money from its allies. Three economic corridors of BRI created the most concern to India as all these are in India’s peripheries. The CPEC on West with Pakistan passing Kashmir (Pakistan Occupied Kashmir/POK), CMEC on East with Myanmar (discounting already negotiating economic corridor), and the CNEC on North of India. With these economic corridors, India is economically surrounded by China’s economic corridors which may or may not lead to other complications.

Bangladesh, China, India, and Myanmar meet in Kunming, China, in 1999 which later hail this event as the ‘Kunming Initiative’. A forum was developed after the talks and named as BCIM Forum with the initial of countries’ names in alphabetical order. This forum was negotiating for an economic corridor (BCIM Economic Corridor) for better economic cooperation among them. And this BCIM Economic Corridor remains a
non-starter for various reasons. China wishes the BCIM Economic Corridor to become part of the BRI. India was reluctant to participate in the China-led BRI project. In the later part of 2018, China and Myanmar formulated the China-Myanmar Economic Corridor (CMEC) sideling the BCIM’s BCIMEC (BCIM Economic Corridor) as part of BRI.

BCIM Economic Corridor (BCIMEC) is somehow a non-starter which may be due to CPEC (China-Pakistan Economic Corridor) as part of BRI. India feels that CPEC violates Indian sovereignty due to the fact that CPEC passes through Pakistan-Occupied Kashmir (POK) which India feels like an integral part of India. China and Pakistan had offered India to participate in the CPEC and they were ready to rename the corridor to reduce India’s concern. India declines the purpose and decides to stay out of BRI and develop its own with Japan and others. Then, China and Pakistan go ahead with CPEC giving less emphasis to India’s concern. China wishes BCIMEC as a part of its BRI; India does not wish to join BRI without a solution addressing the CPEC’s related issue (Kondapalli, 2017). China seems not eager to wait for India's participation in BRI or resolve India’s concern on CPEC. China and Myanmar established their economic corridor not giving even an iota to India and other’s concerns.

With the Marshall Plan, the United States was able to develop war-devastated Western Europe and at the same time able to carry out the American policy of Containment (O’Brien, 2014) in Europe. With the execution of the Marshall Plan, United States established itself as a world superpower; North Atlantic Treaty Organization (NATO) was formed to counter communist ideology with the “keep the Soviet Union out, the Americans in and the Germans down” slogan in Europe. The Soviet Union was not able to influence beyond the west of East Germany. The Marshall Plan in a way fanned the Cold War between the United States and the Soviet Union. Many in India consider China’s BRI
as a new form of Containment Policy towards India like the Marshall Plan of the United States. Indian foreign secretary Subrahmanyam Jaishankar expressed India’s concern about BRI on 2nd March 2016 that the “interactive dynamic between strategic interests and connectivity initiatives – a universal proposition – is on particular display in our continent… connectivity as an exercise in hard-wiring that influences choices…… Connectivity itself has emerged as a theatre of present-day geopolitics” (Jaishankar, 2016).

Many of China’s already investing infrastructure projects in Myanmar is not considered as part of CMEC. Yet, those will be still physically and technically interlinked with the new projects of CMEC. For example, the natural gas and oil pipelines from Kyaukphyu to Yunnan (China) are not considered as part of CMEC. The 1.3 billion USD Kyaukphyu Deep Sea Port and Kyaukphyu Special Economic Zone which China is developing in Myanmar are part of BRI, but not part of the CMEC. The Dams, mines, and energy fields previously agreed upon are not included in CMEC. CMEC is a whole new dimension of investment in Myanmar. China President Xi Jinping visited Myanmar in 2020 January and signed 33 agreements on China-Myanmar Economic Corridor (Bhatia, 2020).

2. China-Myanmar Economic Corridor

China-Myanmar Economic Corridor (CMEC) will ensure China-Myanmar collaboration in many sectors including agriculture, basic infrastructure and construction, finance, human resource development, telecommunication, transport, and research and technology (Peng, 2018). China-Myanmar Economic Corridor will attract more than 10 billion USD in Myanmar. China and Myanmar signed the Memorandum of Understanding on CMEC on 9th September 2018 (Hammond, 2018).
CMEC mainly consists of two broad plans: (1) a physical connection of Yunnan and Kyaukphyu through Yangon and Mandalay by roads and high-speed railway; (2) greater economic integration through industrial zones, trade quotas, tax breaks, and even disaster mitigation and public health. The road and high-speed railway will stretch from Kunming (China) to Kyaukphyu (Myanmar) passing through Mandalay and Yangon. These infrastructures will give China access to the Bay of Bengal from Myanmar in a short distance and a faster means of transports.

CMEC project is developing five megaprojects for investors: (1) New Yangon City, (2) Yangon-Ayeyarwaddy Development project (Nga Yoke Kaung) and Pathein Industrial City, (3) New Mandalay Resort City, (4) Mandalay’s Myotha Industrial Park, and (5) Muse Central Business District (Aung Naing Oo, 2018).

Some private players have also agreed to be a major part of CMEC: (1) 3 billion USD Yangon Sky Train by Myanmar conglomerate Jewellery Luck Group of Companies and China Road and Bridge Corporation; (2) 2.5 billion USD Yangon Central Railway Station led by Singapore’s Oxley Holdings with Myanmar’s Min Dhama and China’s Sino Great Wall; (3) 2.18 billion USD Yangon Outer Circular Expressway by Min Dharma; (4) 1.39 billion USD in two industrial zones by Min Dharma.

As part of CMEC, China is giving diplomatic support to the Myanmar government in its negotiating with its ethnic rebels in the north (Thiha, 2018).

This in a way shows ‘China’ as the benefactor, problem solver, and peace bringer of Myanmar between the government and ethnic rebels. These developments also indicate and uplift China to a higher position in the region. The role of negotiation facilitator will work as the ‘People Relation’ program of China with Myanmar’s people. All these simply
mean that China will be playing a more crucial role in Myanmar than before. The CMEC also talks about some form of tax integration, customs. These will have implications in various aspects of Myanmar affairs and also raise much concern from India. J. Mohan Malik of the Daniel K. Inouye Asia-Pacific Center for Security Studies feels the recent economic corridors of China in India’s surroundings as Beijing’s policy of *encirclement, envelopment, and entanglement* of India. He explains *Encirclement* as the Chinese strategic presence around India, keeping territorial dispute and the threat of two-front war active in ways that make India invest more of its scarce resources in military build-up, depriving developmental goals and resulting in hampering Indian economic growth. *Envelopment*, by developing economic and strategic relations with South Asian countries through China-Pakistan Economic Corridor, China-Myanmar Economic Corridor, China-Nepal Economic Corridor, and Belt and Road Initiative, will bestow China with greater presence and over-all leverage. By *Entanglement* he means exploitation of India’s domestic contradictions, political divisions, religious and regional fault lines to keep India engaged with hydra security concerns with the confinement of South Asia (Malik, 2019: 35-36).

3. India’s Concern due to CMEC

India and China are both hoping for a multi-polar world just a few years back. India sees itself as the power of the Indian Ocean and regional power in South Asia. China with systematic planning has outpaced India in every parameter of modern development – it may be economic growth in many forms of gross domestic product (GDP), education in all stages, expenditure in research and development (R&D), patent filings, industrial production, manufacture, Human Development Index as well as military growth. Many diplomats, think-tanks, policymakers, and
academics in many countries start to compare China with the United States (the sole superpower of the world after the disintegration of the Soviet Union). China on the other hand increasingly develops its “Two-Ocean” Strategy, a power in the Pacific Ocean and the Indian Ocean. China in recent times is showing a prominent presence in the Indian Ocean. Moreover, India and China had fought a war in 1962, in which China defeated India and unilaterally practiced a ceasefire in a humiliating manner to India. Still, India and China have unsettled boundary issues in many points and regions. There are also some reports of Chinese support towards the insurgents of Northeast and Maoist groups of India. And the recent development of CMEC as part of BRI, sideling the BCIM Economic Corridor, does raise concern on the Indian side. China is developing the other two more Economic Corridors, in a way encircling India through them (China-Pakistan Economic Corridor and China-Nepal Economic Corridor). India’s Act East Policies, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Mekong-Ganga Cooperation (MGC) are all very connected to the neutrality or pro-India orientation of Myanmar in any India-China diplomatic strategic moves and counter moves.

India maintains its wishes for the better economic development of both China and Myanmar and does not oppose initiatives for such development. But its eyes brow were raised when the already placed BCIMEC was discarded and a new one was developed without its being informed. Hu Weijia, a reporter of the Chinese state-owned newsgroup ‘Global Times’, indicated that China could strengthen its economic cooperation with Myanmar, Bangladesh and Nepal to put pressure on India regarding issues related to the disputed region (Global Times, 5th February 2018). Many considered this newsgroup as the mouthpiece of the hardliner faction of the top leadership of the Central Committee of
the Communist Party of China. So, naturally, the development of the China-Myanmar Economic Corridor always created concern. And India’s North Eastern Region (NER) which is bordering Myanmar is mired in conflict since the merger with India in the 1940s and 1950s (Sen, 2011). Therefore, India has its reasons to be concerned, wary, and suspicious about Chinese investment in its peripheries.

In history the United States with its Marshall Plan in Europe and other infrastructure development plans in Japan, South Korea, Thailand, etc. was able to efficiently enact the Policy of Containment against the Soviet Union. With such historic effective use of infrastructure development policies as foreign diplomatic tools to counter other rival powers, India needs to be wary and wary it is.

**The major concerns of India are:**

(a). **PLAN (People’s Liberation Army Navy) usages of ports and river navigation in Myanmar**: From the 16th to the 17th century the Kingdom of Kathe (present-day Manipur, an Indian state) had a history of attacking the Ava kingdom (Burmese) 11 times (Royal Historical Commission, 1832: 371). According to local oral history, the Meitei used the river-system of Chindwin and Ayeyarwady (Irrawaddy). The whole Kathe (Meitei) Army included horse cavalry with Arambai, Archers, foot-soldiers with ‘spear and sword’ and required ration raiding Myanmar riding rafts in the river system. Each cavalry took three horses with them – two horses are primarily used to ride alternately and one to carry rations and spoil-of-war. Japanese used the same river system to fly their aeroplane to avoid detection by Allied forces stationed in ‘Pallel Airfield’ in Kakching district when they bombed Imphal in the Second World War, as old local peoples narrate. After the Second World War, these river systems were not used for transportation between India and
Myanmar as their relations were not vibrant in the Cold War era. Then recently the Kaladan Multi-Modal Transit Transport Projects reopen the ideas of rivers system transport. India’s developed Kaladan Multi-Modal Transit Transport Projects can handle 300-ton barges and this Kaladan River is smaller than the Chindwin and Ayeyarwady (Irrawaddy) river. So, Chindwin and Ayeyarwady/Irrawaddy river system can handle a larger vessel or similar vessel with better efficiency.

In the past, China’s PLAN visited the seaports of Myanmar; with the Yangon-Ayeyarwaddy Development project (Nga Yoke Kaung) of the China-Myanmar Economic Corridor, China will gain access to the World Bankrevived Irrawaddy river transport system. Small mobile coast-guard ships, naval vessels, or spy vessels can come up very close to the Indian boundary through the river system. These vessels can be equipped with a portable radio system or warning system and can drop an ear on the Indian side of affairs. These may create some concern to the Indian security management who are already dealing with insurgents in that region, and affect the utility of India’s deterrent mechanism against any power attacking from the east. China’s PLAN has already some sort of an access agreement with Myanmar sea-port facilities as the Chinese are already upgrading Myanmar naval ports. Kyaukphyu deep seaport is also being developed by China as part of BRI.

(b). *Chinese intelligence activities in Myanmar*: China had installed many radios, radar stations in coastal areas of Myanmar which are presumed operated by the Chinese under shared intelligence between China and Myanmar (Asia Pacific Media Service, July 2000). Moreover, with CMEC, China earns the right to be a negotiator between the Myanmar government and ethnic rebels of Myanmar; many of these rebels operate near the Indian border. This means that Chinese intelligence can freely move to those areas very near to the Indian side.
by pretending to be facilitating negotiations. China had already established relations with those Myanmar’s rebels and these rebels have a report of good relations with Indian separatist insurgent groups (Lintner, 2015). China could use this position to gather information from these rebels and insurgents. China might also use its position to establish a small observation-cum-communication center in the region citing the need for a fast communication system between them and those Myanmar’s rebels and the Myanmar government. Many of the Indian strategic positions and secrets in Northeast India will be exposed in some way to China.

(c). Possible Chinese military based in Myanmar: China had invested a lot of resources in Myanmar infrastructure which are very crucial for the Chinese economy and stability. Myanmar is at present in relative peace, but the haze of its ethnic rebels is always there. In 2010, some of these rebels had attacked the Chinese-built infrastructures, hurting both China and Myanmar (Steinberg and Fan, 2012: 177). The pipelines (Kyaukphyu-Yunnan) start supporting around 10 percent of China’s energy needs. China is going to build roads and high-speed railways from Kunming to Kyaukphyu passing through Mandalay and Yangon as part of CMEC. The pipeline, roads, and high-speed railways will be very vital for the Chinese economy and stability. China will need some form of physical protection of this investment which they may attain by outsourcing this task to the ethnic rebels of Myanmar or the Myanmar government. Still, they would like to negotiate with the Myanmar government or ethnic rebels to place some of its men for assurance. If this happens, it will serve a dual purpose: (a) to safeguard its economic interest in Myanmar, and (b) to serve its geopolitical needs in the region. There are already allegations or rumors of the presence of Chinese military personnel in Pakistan on ‘China-Pakistan Economic Corridor’
sites (PTI, 2018). According to China’s *National defense in the new era* white paper (2019), China’s national defence includes the safeguard of China’s maritime rights and interests and its overseas interests (State Council Information Office, China, 2019). This means that these ports can be classified as ‘China’s maritime interest and overseas interests’ and placed under Chinese military protection.

Even if there are no Chinese military bases in Myanmar in the future, the newly developing infrastructures of six-lane highways, expressways, and high-speed railways will be very handy to transport the Chinese military to the east of Northeast India if needed. The German’s “Blitzkrieg” tactics deployed large-scale users of its highways and railways network of Belgium to transport the military adjacent to battlegrounds (Mierzejewski, 2003).

(d). Possible renewed Chinese support to Northeast insurgents: In 1967, China had given training to and armed the Naga National Council (NNC) in its quest for an independent Nagaland. In 1980, from Beijing, Thuingaleng Muivah with Isak Chishi Swu and S.S. Khaplang formed the National Socialist Council of Nagaland (NSCN) after the NNC signed agreement with the government of India. In 1966, the Mizo National Front (MNF) received wireless transmitters, medicines, and 400,000 Yuan from China. The Revolutionary Government of Manipur (RGM) was offered weapons by the Chinese but the RGM declined the offer and just took political and military training in 1976. Manipur’s PLA (People Liberation Army of Revolutionary People’s Front) and UNLF (United National Liberation Front) had bought weapons from Kachin Independent Army (KIA), a group that supports the Chinese (Lintner, 2015: 240). Now, with CMEC the Chinese can freely operate under the pretense of supporting talks between Myanmar and its ethnic insurgents. These could surely translate into more frequent interactions
with the Northeast separatists of India. The temptation of supporting such insurgents as a ploy to tackle India will always be there. China has good working relations with Myanmar. Still, it does not stop them from supporting Myanmar’s ethnic rebels. Recently NSCN-IM (Isak-Muivah) of India is found seeking aid from China to face India (The Week, 22nd November 2019). These rebels are fighting against the notion of India as a nation-state. They feel that they are not a part of India and wish to attain independence from India and stay like normal neighbours. In 2009 an influential Chinese think-tank online article written by Zhan Lue in Mandarin (Putonghua, China’s official language) put forward the option of disintegrating the Union of India into 20-30 independent states with help of friendly countries (Zee News, 11th August 2009).

(e). The possibility of Myanmar becoming a client state of China: In the 1990s, many scholars like Mya Maung, Donald Seekins, Mohan Malik, etc. had declared Myanmar as a client state of China or Chinese satellite or strategic pawn of China or Chinese puppet (Egretreau and Jagan, 2013). Later, together with Myanmar’s efforts other countries are willing to support Myanmar to help in removing those tags of China’s client state. Countries like India, Japan, Thailand, South Korea, etc. started aiding Myanmar's economy in the mid-90s. These aids give room to Myanmar to maneuver its foreign policy independently. However, again, after the May 2017 Rohingya crisis, China is able to project itself as Myanmar’s ally in a time of need (Yhome, 2019b).

Many sectors like agriculture, basic infrastructure and construction, finance, human resource development, telecommunication, transport, and research and technology are included as part of CMEC which is almost included in every aspect of day-to-day life. With such a kind of unbalanced, one-sided integration of two entities, it is natural to gravitate towards the more powerful side, leading to the fear of Myanmar.
becoming a satellite state of China in the future. As a satellite state Myanmar will be under pressure to do Chinese bidding in regional affairs (Atmakuri and Izzuddin, 2020). This might cause multiple harms to India’s interest with security implications. This will make it hard for India’s grand strategy of ‘Act East Policy’ which is working for better connectivity with ASEAN (Association of Southeast Asian Nations) countries. Myanmar practically is the physical bridge between India and ASEAN countries.

(f). *China's possible containment of India*: China does not officially state the containment of India in South Asia (the Indian subcontinent) or the string of pearls. However, some of the official policies of China like China-Pakistan Economic Corridor, China-Nepal Economic Corridor, China-Myanmar Economic Corridor, etc. do indicate a policy of containment toward India. Incorporating all the above-cited reasons China may practically create a containment policy toward India. China needs to give some room to India so that India does not feel cornered in its own country (Mukherjee, 2018). Otherwise, it will be very troublesome for India in exercising its policies and a hurdle to Indian economic growth and development as well as to India’s overall progress.

These concerns are not just for India’s larger strategic manoeuvre in the geopolitics of the world. Some of these concerns are very vital to the core concept of India as a nation-state.

4. Factors Working for India

It is a reality that China is investing a lot in Myanmar for its benefits as a part of its state capitalism. India for safeguarding its interest in the regions thus formulates many policies and programs. India’s Act East
Policy, Mekong Ganga Initiative, BIMSTEC, etc. are slowly and steadily progressing forward. India’s effort and other factors are working for India’s interests. These factors are as below:

(1). *India is also investing in Myanmar*: India on its part is investing heavily in Myanmar with policies like Act East Policy, BIMSTEC, Mekong Ganga Initiative, etc. And sometimes India invested in collaboration with a like-minded country like Thailand and is looking to work out with Japan in projects inside Myanmar (*Hindustan Times*, 18th September 2020; Jain and Maini, 2015). At present, India is engaging in constructing the Trilateral Highway (Asian Highway 1) from Moreh (India) to Mae Sot (Thailand) passing Myanmar horizontally, Kaladan Multi-Modal Transit Transport Project (including Sittwe Port), Sittwe Special Economic Zone, Sittwe-Gaya Gas pipeline, Aizawl–Seling–Champhai–Zokhawthar (Mizoram, India)–Rhi–Tiddim–Kalewa (Myanmar), Asian Railway (Delhi, India, to Hanoi, Vietnam, passing Myanmar). India is also developing Myanmar Post and Telecommunications ADSL (Asymmetric digital subscriber line), hydro-electric power projects, and railway transport system. Apart from the above, India is supporting capacity development projects like Industrial Training Centre, Language and Entrepreneurship Development Centre, Centre for Enhancement of IT Skills, erection of disaster-proof rice silos, upgrading Yangon Children’s Hospital and Sittwe General Hospital, etc (Lt Gen J R Mukherjee, 2018).

(2). *India has lots of good-will within Myanmar*: Many of the present electoral lawmakers of Myanmar were educated in India. Even Aung San Suu Kyi the present State Counsellor of Myanmar and leader of the ruling party (National League for Democracy) is one of them – she was educated in New Delhi till her graduation from the University of Delhi.
These notions will aid these policymakers of Myanmar in realising what they gain in partnering with India. And many in the present military hierarchy of Myanmar spent their initial lives fighting the Chinese-supported ethnic rebels. Analysing the Myanmar security complexity, India provides military training to the Myanmar Army in the form of joint military exercises like India-Myanmar Bilateral Military Exercise 2017 (IMBAX-2017) and IMBAX 2018-2019 to equip the Myanmar military, including with the skill to participate in United Nations Peacekeeping Operations under the United Nation Flag (The Times of India, 18th November 2017; Business Standard, 14th January 2019). Indian Navy and Myanmar Navy practice sea warfare in the form of Indian Navy-Myanmar Navy Bilateral Exercise (INMNBE) with Indian Navy ship Sahyadri, Indian Navy ship Kamorta, and Indian Navy submarine Sindhushastra along with Myanmar Navy ship King Sin Phyu Shin and Inlay (Indian Navy, 2019). India is also giving or ceding its sovereignty of territory to Myanmar now and then, from its annexed territory of Manipur (more details in ‘8’ below) in a salami-slicing manner.

(3). India’s cultural ties with Myanmar: Most of the Myanmar citizens are Buddhist. And India is considered as “Land of origin of Buddhism”. The ancient university of Nalanda, Bodh Gaya (where Buddha achieved enlightenment), Sarnath (the place where Buddha started teachings), and Kushinagar (where Buddha reached Nirvana) are holy and sacred places to the Myanmar citizens. Like any devoted religious people, Myanmar’s citizens also wish to conduct a pilgrimage to their holy places in India (MEA, 2018). According to Thant Myint-U in his book Where China meets India, he wrote that people spent considerable amounts of life savings, just to take on Buddha’s pilgrimage in India (Thant Myint-U, 2012). This makes a citizen of Myanmar somewhat emotionally
connected with India. In 2014, India under Prime Minister Narendra Modi was developing a Buddhist Circuit with a 450 lakh Indian Rupee. This Buddhist Circuit of India Government is to develop infrastructure and skills, increase market access and the involvement of communities, and enhance the visitors’ experience (Business Standard, 2014). India’s Buddhist diplomacy is to boost India’s diplomatic pool of goodwill and trust with Buddhist-majority countries such as Myanmar (Atmakuri and Izzuddin, 2020). Myanmar is on its path to democracy from a military junta with its troublesome internal issues of separatism, ethnic issues, and others. India is promoting itself as ‘Vishwaguru’, with ideas like unity in diversity, secularism, a balance of capitalism and socialism, vibrant democracy, etc. (Dhamija, 2017) The Burmese/Myanmar script was developed from Brahmi scripts of India. There are lots of ethnic communities living on both sides. Furthermore, there are also lots of Indian Diaspora living in Myanmar.

(4). China-Myanmar uneasy relations: Chinese empire used to attack Burma many times in history. In the Chinese Civil War, the People’s Liberation Army (PLA) established by the Communist Party of China crossed the international boundary with Myanmar to hunt down the Kuomintang (KMT) forces of the Republic of China (Yhome, 2019a). Even after the Cold War era, China had supported the communist rebels and later many ethnic rebel groups operating in Myanmar against the Myanmar government. The communist party fights for the change of government in Myanmar, while the ethnic rebel groups fight for independence from Myanmar (Yhome, 2019a). Military-aligned “Government of Myanmar” has many policymakers who rose fighting these Chinese-supported ethnic separatists or insurgents. On the other hand, the question of the debt trap is always ringing to the ears of Myanmar's ruling elite in both the military establishment and National
League for Democracy. Questions of ecological concerns, environmental issues, exploitation of Myanmar’s natural resources, human rights or more correctly indigenous people rights, loss of agricultural land, pop up from time to time. Due to the Chinese projects, armed skirmishes break out from time to time between the Myanmar military and the regional ethnic rebels fighting for independence from Myanmar. Like the Kachin Independence Army and Myanmar military fighting over the Myitsone Dam issue, the Myanmar military fights with Myanmar National Democratic Alliance Army over the Muse-Lashio-Mandalay railway project (Green, 2019). In a TV interview of Russia’s state-own channel Zvezda with Myanmar’s Senior General Min Aung Hlaing, he reveals that ‘strong forces’ are backing the insurgent groups in Myanmar, in a manner indicating China as that strong force, and seeks international aid and cooperation to solve the insurgent issues (The Federal, 2nd July 2020). Also, a Myanmar deputy government minister accuses China of interfering with Myanmar internal peace effort by controlling the rebel alliance, the Federal Political Negotiation and Consultative Committee (FPNCC) with the largest and strongest rebel groups of Myanmar as members, after the peace conference of 2020 not happening citing Covid-19 (Kyaw Ye Lynn, 2020). Even with all this economic cooperation with China, Myanmar still has some reservations towards China.

(5). Myanmar's policy of hedging: Myanmar policymakers know the importance of China and the Chinese role in its internal and external affairs. China has provided hardwares to fight off the revolutionaries and insurgent groups within the country. China helps Myanmar in international bodies avoiding sanctions and others. China has been helping Myanmar in its infrastructure developments. Still, Myanmar is an independent country that wishes to have its independent foreign
affairs, sovereignty, and others that an independent nation-state should have. It seems that Myanmar has been depending too much on China for many purposes which many in Myanmar feel as “Sinonisation” of Myanmar. Myanmar is a country where nationalism is always very high and this “Sinonisation” is unacceptable to the Myanmarese people (Min Zin, 2012). Myanmar looks for an alternative to China in India, Japan, South Korea, Thailand, and others. India seems to be the most suitable for the purpose as India shares borders with it, has good military might which can aid the Myanmar army, a large economy, and good diplomatic relations in international bodies.

(6). Indian military presence in Andaman and Nicobar Islands: It is a fact that whatever ship or any other vessel coming to the Myanmar port of Kyaukphyu must sail between the Indian mainland and the Andaman and Nicobar Islands in the West or Andaman and Nicobar Islands and Myanmar coastal strip in the East (strategically unreasonable for such venture). India has five naval bases and one air force base in the Andaman and Nicobar Islands. These islands will serve as an unsinkable aircraft carrier of India in any event. These Islands are under Indian sovereignty and India has its right to develop any strategical infrastructure on them to serve its interests.

(7). India’s military aid to Myanmar: According to the Stockholm International Peace Research Institute (SIPRI), India is one of the largest military weapon suppliers for Myanmar (Shakeeb Asrar, 2017). India classifies its defence cooperation with Myanmar as a medium for ‘better border management’ (maybe considering Indian Northeast rebels) and ‘capacity building’ exercise (maybe with China in mind) for the Myanmar military. In 2013, India provides offshore patrol vehicles, and trains pilots on Russian-built MI-35 helicopters. India also makes
available four marine patrol aircraft, naval gunboats, a few 105mm light artillery guns, mortars, rocket-propelled grenades (RPGs), rifles, etc. In 2017, India also supplied ‘Tal Shyena’ torpedoes for 37.9 million USD (Bibhu Prasad Routray, 2019). India also loaned INS Sindhuvir, a Kilo-class submarine, which Commodore Moe Aung, Chief of Staff (Myanmar Navy), was ready to receive (The Economic Times, 30th July 2019). India’s military aid and supply are becoming handy to the Myanmar Armed Forces in its works relating to Myanmar security. Thus, India is positioning itself as a vital component for Myanmar's overall security.

(8). India is ceding its sovereignty in Myanmar’s favour: The ceding of sovereignty by India to Myanmar was normally happening in the state of Manipur. Manipur used to be an independent kingdom before ‘Dominion of India’, later ‘Union of India’, annexed it in 1949. The Pt. Nehru, then Prime Minister of India, gave up the rights of the Manipur Kingdom over Kabo Valley to Myanmar in 1953. Kabo Valley measures about 7000 sq. miles of fertile land with rich natural resources (Manimohan, 2018). In 2018 again India ceded 3 sq. km to Myanmar in Kwatha Khuinou, Manipur (Firstpost, 21st August 2018). Repeatedly again, in September 2020, people found out that the government of India was trying to cede a village called Zingshophai Choro in Manipur state to Myanmar (The Sangai Express, 6th September 2020). India is giving up its sovereignty in its annexed territory of Manipur to Myanmar. So, may Myanmar support and remain to support India in its quest to counter China in western Southeast Asia?

These steps are completely opposite to the direction and step India has taken with its border with China. With the Chinese, India fights against every inch of presumed incursion with media headlines, parliament session, claims, western allied support, and deployment of
maximum forces. This indicates that the India-China border tussle is not about territory, as the data above show that India does not mind losing territory. If India is fighting to gain territory it will also fight with Myanmar which is a weaker country on all counts but here India is willingly ceding its territory in Myanmar’s favour and these territories that are ceded to Myanmar are economically more rewarding than the barren land of Ladakh or Arunachal Pradesh. Even Jawaharlal Nehru, the then Prime Minister of India, reported to the Indian parliament or Lok Sabha House of Common (Lower House) about Aksai Chin of Ladakh on August 28, 1959, that “where not a single blade of grass grows. There is a large area in eastern and north-eastern Ladakh which is practically uninhabited” (Sinha, 2019). Now India is claiming to be fighting for those barren lands in Ladakh, opposing BRI due to CPEC passing Gilgit-Baltistan in Pakistan-occupied Kashmir, while giving up its annexed territory in Manipur to Myanmar.

(9). India trying to work with allied countries in Myanmar and the Indian Ocean region: India is developing a mechanism to work together with Japan, South Korea, Vietnam, Thailand, and others in many projects inside Myanmar. Oinam Ghanashyam Khumancha, a security studies analyst, had written that “India has no official policy of ‘Necklace of Diamonds’. India’s Act East Policy, Bilateral relations with ‘Indonesia, Singapore, Philippines, Vietnam, Taiwan (ROC), Japan, South Korea, Mongolia, Russia, with Central Asian Countries, Oman, the United States and Seychelles’, Multi-lateral relations like Quad, Indian Ocean Naval Symposium (IONS), Indian Ocean Rim Association (IORA), Asia-Africa Growth Corridor, BIMSTEC, Project Sargarmala, etc. clearly an indication of holistic policy to give the impression of ‘Necklace of Diamond’ to counter China” (Khumancha, 2020).
(10). *India is willing to work with any form of government*: Tatmadaw (Myanmar military) overthrew the prominent civilian government in a coup d’état on 1st February 2021. With absence of any form of criticism against Tatmadaw, India shows its willingness to work with any form of government in Myanmar. Union Home Ministry also directs provincial governments to bar any Myanmar citizen entering India (ANI, 13th March 2021). India sends its military to parade on Armed Forces Day of Myanmar on 27th March (*India Today*, 30th March 2021). These actions are directly against India’s principle of a rules-based international system and democracy which India with its allies cited at the formation of Quad.

5. The Manifestation of These Factors

To verify that the ‘factors working for India’ are functioning, this paper investigates events that happened in the recent past in Myanmar in favour of India.

(i). *India able to get the Sittwe area to develop*: China initially wants its gas and oil pipeline in Myanmar to start from Sittwe to Kunming. Many scholars of Yunnan University purposed to the government the building of a gas and oil pipeline from Sittwe to Kunming in 2004 (Steinberg and Fan, 2012). Later, China built its pipelines from Kyaukphyu to Kunming, changing its original starting point. And Sittwe is very near to Bangladesh and India. At the same time, India is developing the Kaladan Multi-Model Transit Transport Project around the Sittwe area and finishing the building of Sittwe Port for Myanmar. India is also developing the Sittwe Special Economic Zone (Lt Gen J R Mukherjee, 2018). The prospect of developing Sittwe by India, when there is already a plan of China to develop, is a great diplomatic achievement for India.
This also shows that Myanmar is taking into consideration India’s concerns.

(ii). Recent Indian military surgical strikes against Indian insurgents in Myanmar: According to Indian government sources that come up in news, India had conducted a “surgical strike” inside Myanmar against the anti-India insurgent groups of NSCN-K (Khaplang) and Kanglei Yawol Kanna Lup (KYKL). The surgical strike in Myanmar took out forty to fifty insurgents using two Dhruv helicopters on June 5, 2015. Such action cannot be taken without prior information or understanding with the Myanmar government. The actualization of such actions only means that India and Myanmar have developed a good working relationship.

(iii). Recent Myanmar military actions against anti-India Insurgents: With the coming of 2019, the Myanmar Army stormed the NSCN (Khaplang) and the Arakan Army-occupied territory and hunted for anti-India insurgents in the area. In that process, the headquarter of the NSCN (Khaplang) was taken by the Myanmar Army. Even members of NSCN (Khaplang) were arrested with members of anti-India insurgents and with “arm and ammunition” on a charge of harboring anti-India insurgents (News18, 20th February 2019). Ten of the Arakan Army camps were also destroyed in the Myanmar Army operations against anti-India insurgents (The Economic Times, 15th March 2019). This operation was known as “Operation Sunrise”. These military actions of Myanmar against anti-India insurgents show the willingness of the Myanmar government to make good relations with India. The Arakan Army in the Rakhine State of Myanmar asked India to pay “taxes” to continue India’s flagship connectivity project (Kaladan Multi-Model Project), a crucial part of India’s Act East Policy, and recognise them as
the local government there. This Arakan Army also kidnapped five Indian nationals of which one died in captivity (The Wire, 11th December 2019). After these, the Myanmar Army is hunting down the Arakan Army in Rakhine State and the Indian Army is guarding the Indian side to block illegal crossing.

(iv). *Operation Sunrise Two*: The Indian Army, Armed Forces of India, and Myanmar Army jointly conducted a three-week-long military operation “Operation Sunrise Two” from 16th May 2019 on the Myanmar side of the Indo-Myanmar border destroying camps of the Kamtapur Liberation Organisation (KLO), NSCN (K), United Liberation Front of Assam (ULFA-I), and National Democratic Front of Bodoland (NDFB) (Times Now, 16th June 2020). Operation Sunrise Three is also in the plan which is expected to be conducted in the near future.

(v). *Cancellation of project and renegotiations of projects*: In 2011, Naypyidaw canceled the crown project of China, which is designated as Myitsone Dam, a hydroelectric dam of 3.6 billion USD under protest from various sections. This dam is supposed to be the largest dam in Myanmar and the fifteenth largest hydroelectric power station in the world. A joint venture between China Power Investment Corporation (CPIC), the Burmese government’s Ministry of Electric Power, and the Asia World Company was supposed to own this project. Later, WikiLeaks declassified that the United States Embassy in Yangon funded some of the activist groups against the projected Dam (The Guardian, 30th September 2011). When a China International Trust and Investment Corporation (CITIC)-led consortium won the tender to build the Kyaukpyu Deep Sea Port in December 2015, it was agreed that the CITIC-led group will own eighty-five percent stakes of the project and the rest will be shared between the Myanmar government and the other
forty-two domestic companies. The Kyaukphyu Deep Sea Port was originally a 7.2 billion USD project with a 10-berth port (CSIS). Now the Kyaukphyu Deep Sea Port project is reduced to an only 1.3 billion USD project with a huge increase in Myanmar government share, i.e. to 30 percent from just 15 percent, after the warning by Deputy Minister of Planning and Finance U Set Aung of Myanmar as a ‘debt trap’. China had purposed thirty-eight megaprojects under the CMEC, but the Myanmar government accepted only nine till now. Myanmar also declares that it will implement projects that are beneficial to Myanmar (*The Economic Times*, 22nd August 2020; Kyaw Ye Lynn, 2020).

Myanmar is also holding the Myitkyina Economic Development Zone (MEDZ) in Kachin state against the will and interest of the Chinese establishment. Myanmar also decided to invite other international groups in addition to Chinese groups in the Chinese-funded megaproject called Yangon City Project, a part of CMEC (*The Economic Times*, 5th August 2020; Kyaw Ye Lynn, 2020). China Communications Construction Co. Ltd. (CCCC) purposed the New Yangon City (Development) project to the Myanmar government as a part of the China-Myanmar Economic Corridor (CMEC) of the Belt and Road Initiative (BRI) in 2018. CCCC signed a deal with New Yangon Development Company (NYDC), a government enterprise, in the same year for US$1.5 billion for the first phase which was later reduced to US$800 million by Myanmar’s government. The project was placed on the “Swiss challenge” model and Myanmar’s government put a German consulting firm “Roland Berger” as overseer (*Belt & Road News*, 17th October 2020). Many local Yangon areas are protesting the New Yangon City citing the humongous size of the project and environmental concerns that arose due to it (*The Week*, 19th August 2020). Myanmar also hired a Swiss company to scrutinise the work of a Chinese company working in the Chinese-funded Muse-Mandalay Electric Railways (*ibid.*).
(vi). Ahlone International Port Terminal 2 (AIPT-2), no debt trap policy: On 26th April 2019, Adani Myanmar, a subsidiary company of India’s Adani Ports and Special Economic Zone Limited (APSEZ), got the right to build and operate AIPT-2. The Adani Myanmar will invest 290 million USD for the terminal, Adani Myanmar christened the terminal as Adani Yangon International Terminal (AYIT), Adani Myanmar got the right to build the terminal, also got the AYIT to operate it for fifty years and transfer it to the Myanmar military’s Myanmar Economic Corporation (The Loadstar, 6th June 2019; Port Technology, 9th May 2019). When China built and transferred, later acquired operation of Hambantota Port or Magampura Mahinda Rajapaksa Port in Sri Lanka for 99 years, the international community – Japan, United States as well India – decries it as a fault and criticises it as the ‘debt trap policy’ of China, which China is going to repeat and adopt across the globe with BRI partner countries. However, the international community does not take Indian actions as the ‘debt trap policy’ of India. While Myanmar is afraid of debt trap by China in the whole Kyaukphyu Deep Sea Port, Myanmar seems not to mind or count a similar policy of India as a debt trap.

(vii). Tatmadaw taking harsh action against rebels: Tatmadaw is using fighter jets and helicopters to attack Kachin Independent Army and Karen National Union (Malay Mail, 28th March 2021; AP News, 1st April 2021) as part of the actions to suppress the pro-democracy movement in Myanmar. These rebels have for a very long time been helping anti-India separatists with training and supplying arms. The current military government of Myanmar is in a way helping India to solve its problem.
6. Conclusion

China has already been investing a lot in Myanmar as a part of BRI and others. China is building special economic zones, highways, ports, pipelines, railways lines, hydro-power stations, mines, etc. even before CMEC. And the recent surprising addition of CMEC to the already over-investment in Myanmar by China, neglecting the multi-national BCIM Economic Corridor, is a concern to a country like India.

Any country will be concerned with the investment of 10 billion USD to its neighbouring countries by other countries with additional royalties. China’s new CMEC is no doubt a concern of India from many angles. CMEC ensures an additional investment of 10 billion USD to Myanmar and with royalties of the role of negotiator between rebels and the Myanmar government. It gives a lot of influence to China; the right to navigate in the river system of Myanmar is also a concern of India reading historical warfare. Integrating various components of economy and agriculture between China and Myanmar as a part of CMEC put India a few steps back.

The government of India with its machinery is working hard to address these concerns of India arising in Myanmar due to BRI and CMEC. Mandira Nayar of The Week wrote that Myanmar is the only country in the region that has resisted the magnetism of the Chinese money gambit. The author also talks about the need for India’s diplomatic offensive charm with its neighbours, especially with Myanmar to prevent Myanmar from becoming another Nepal (The Week, 19th August 2020). India does not have the veto power in the United Nations Security Council like China and does not boast the economic prowess of China. Still, factors are working for India in spite of the lack of veto power and economic super-power. These factors are manifest time upon time, working in favour of India like India being able to work in the Sittwe area for Sittwe port and Sittwe Special Economic Zone.
which was Chinese first choice, solo Indian military operations against Northeast insurgents in Myanmar, joint military operation with Myanmar Army against Northeast insurgents in Myanmar, cancellations of Chinese projects in Myanmar by the Myanmar government, Adani Yangon International Terminal of 260 million USD with the right to operate for 50 years being not counted as a debt trap and allowed, etc.

It is clearly shown that India is in a well-balanced position in Myanmar in spite of all the Chinese investment and influence. Even with evidence and facts in Myanmar of India’s favourable position, India still needs strategies to address unseen concerns that will arise due to BRI and mainly after this CMEC in long run. India opting to walk out of the Regional Comprehensive Economic Partnership (RCEP) is a huge blow to Myanmar as well as to other Indian-friendly countries in the ASEAN+ group.

The recent development of the military coup in Myanmar brings an interesting twist to the already complicated geopolitics of the region. Even though the leaders of the military coup have a bit more favourable opinion on India and the general public have a negative opinion on China, India somehow finds itself in a tough position as India is claiming itself as a leader of ‘democracy and rules-based system’ in the Indo-Pacific region together with its Quad partners. Many pro-democracy and human-rights groups have started asking questions as many Indian companies are working with the Myanmar military and India’s military is participating in Myanmar’s national military parade. China as a Communist Party-ruled country and having an official stand of non-interference in other countries’ domestic affairs is placing itself on safe moral ground. Till 31st March 2021, the Indian government is not expressing an opinion on the current chaos of Myanmar but orders the regional/provincial government of Northeast India not to take any refugees or help any Myanmar citizens who seek shelter in India.
Nevertheless, for a better understanding of the result of this military coup-led crisis, one has to wait for further development.

Note

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Crafting Taiwan-Southeast Asian Relations with Halal Tourism

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Abstract

This paper seeks to discuss halal tourism (Muslim-friendly tourism) as a strategic bridge to bring Taiwan into a closer and more constructive engagement with Southeast Asian nations. Halal tourism’s strategic element lies not only in material benefits but also in many politico-strategic and socio-cultural factors. Developing halal tourism means strengthening Taiwan’s economic performance and public diplomacy, as well as increasing its visibility among the people of Southeast Asia, which in turn stabilizes Taiwan’s global position in general. President Tsai Ing-wen has put Southeast Asia as Taiwan’s priority in the New Southbound Policy she adopted when she came to power in 2016, a policy which was further intensified in the second term of her administration. We argue that in the case of Taiwan, halal tourism is not
only attracting tourism but also operates as a soft power to increase further the visibility of Taiwan in Southeast Asia and the broader Muslim world. First, this is an essential way for Taiwan to face an increasingly influential China in Southeast Asia. Second, halal tourism is a powerful tool to increase Taiwan’s visibility and denote its identity to Southeast Asians. Third, the New Southbound Policy allows for halal tourism to become a well-developed market opportunity for Taiwan, in which China is still lagging. However, future attempts to realize halal tourism in Taiwan face some challenges.

**Keywords:** halal tourism, Taiwan, Southeast Asia, New Southbound Policy, soft power

**1. Introduction**

One of the main problems facing Taiwan in its foreign relations is its increasingly limited recognition because of the One China policy. Although the policy allows the Republic of China (hereafter Taiwan) to engage in relationships beyond political and military issues, in practice, the People’s Republic of China’s (hereafter China) growing strength and influence is gradually drowning out Taiwan’s existence in the world. Due to its unique political status, only 14 out of 193 UN member countries still recognize Taiwan’s sovereignty.

Taiwan has made various efforts to continue maintaining its survival and existence as a country. The guarantee of military power from the United States (U.S.) is undoubtedly important. However, the problem so far is that China has shown that it will not realize integration with Taiwan through military force. Rather, China uses its political, economic, and cultural influences to marginalize Taiwan’s existence, relations and influence indirectly. In other words, China uses soft power to put aside Taiwan in global politics. Based on this circumstance,
Taiwan has no choice but to strengthen its soft power to demonstrate its visibility, image, and presence in foreign relations.

For some time, especially during Ma Ying-jeou’s administration (2008-2016), Taiwan assumed that its soft power, such as the democracy and economic progress models, could appease China, and both countries could flourish within the same system. To a certain degree, as mentioned by Chu, Taiwan’s dynamic civil society and vibrant democracy have pushed China to learn to cooperate with its democratic system (Chu, 2011). Taiwan's social and democratic values can shape the future of China’s politics; however, the Chinese Communist Party’s increasingly firm grip on China’s politics complicates this. On the contrary, it is China, with its large population, which controls the direction of Taiwan’s social and economic change and dependency on the country in the long run.

Recognizing this situation, under current President Tsai Ing-wen, Taiwan moderates its dependence on China and reverts to the 2016 Go South Policy under a new name, the New Southbound Policy (NSP). This policy is closely related to Taiwan’s use of potential soft power in agricultural technology, health systems, industry innovation, education, and culture (Office of Trade Negotiations, Executive Yuan, Republic of China (Taiwan), 2017). These areas have operated for some time, especially in relation to some Southeast Asian countries, where Taiwan has maintained trade, cultural and educational links. For example, trade relations with Indonesia until the late 1990s surpassed the country’s trade volume with China (Ku, 2000: 33). Cultural approaches through contemporary art performance are also common. The most significant form of soft power is education. Taiwanese universities hold several Memorandums of Understanding with Southeast Asian universities, and the Taiwanese government also offers a substantial number of scholarships and training programs for Southeast Asian students.
Nevertheless, not all of these approaches work to the fullest. Taiwan is experiencing some obstacles because of the global community’s general view or image that does not distinguish between China and Taiwan as Chinese communities. The soft power approach has succeeded primarily in attracting Malaysian and Indonesian Chinese people to make Taiwan a learning and trading destination, including taking up residence there (Supamijoto and Herlijanto, 2016: 1181). The Taiwanese government has also managed to attract the attention of various groups, such as students, academics, tourists, and people in business, to come and interact with the people of Taiwan. However, the use of soft power has not reached a broader audience in the majority of Southeast Asian populations, primarily Muslim communities.

The New Southbound Policy underlies tourism as a prospective area for creating a new market in Taiwan (Office of Trade Negotiations, Executive Yuan, Republic of China (Taiwan), 2017). The policy highlights the attractiveness of halal tourism and emphasizes the importance of partnering with Southeast Asian countries to develop opportunities in the business sector. Halal refers to Islamic rules that deem what is permissible and what is not. The term halal traditionally refers to foods and beverages permitted by Islamic law, but now include also cosmetics, pharmaceutical products, as well as business practices. To convince consumers of a halal product, halal certification is required on products in accordance with the standards specified in the Qur’an. They need to be produced with practices that follow Islamic law and should be free of prohibited components. This term has just recently become associated with tourism. Halal requirement includes hotels serving halal-only food and no alcohol, private beaches and swimming pools for women, and room to perform their daily prayers. Meanwhile, halal tourism is a new concept in tourism. The term halal is defined as ‘permissible’ according to Islamic teaching (Sharia law). In terms of
products, food, and drinks, the concept of *halal* is now gaining popularity worldwide because halal is an assurance of hygiene and safety, which is acceptable both by Muslim and consumers from other religions.

Halal tourism’s popularity is now gaining worldwide, as can be seen from the readiness of many countries to promote it through policy. Battour and Ismail (2016: 2) define halal tourism as “any tourism object or action which is permissible according to Islamic teachings to be used or engaged by Muslims in the tourism industry”. The foundation for halal tourism is Islamic law (*sharia*), targeting mainly, but not limited to, Muslim customers, involving products such as such as halal hotels (*sharia*-compliant hotels), halal resorts, halal restaurants, and halal trips. Similarly, the location of halal tourism is not limited to the Muslim world; thus, it can be performed by anyone in any place, including Taiwan. The increasing number of Muslim travelers worldwide has given rise to halal tourism development with no exceptions for non-traditional destinations such as Taiwan.

In the above context, this paper proposes that Taiwan may gain increased attention, advantage, and visibility when it has more knowledge of Southeast Asian Muslim cultures. Developing halal industries and Muslim friendly facilities in Taiwan may support Taiwan’s New Southbound Policy. Despite being a lucrative business opportunity, halal tourism is a form of Taiwan’s soft power.

Recently, there are around 50,000-60,000 permanent Muslim residents around Taiwan (less than 0.3% of the total populations). According to Chinese Muslim Association (CMA), the first wave of Muslim migration was about 20,000 people, came from Yunnan, Sinkiang, Ninghsia and Kansu (in the western and northern regions of China). They distributed mainly in Yunlin, Changhua, Keelung, and Tainan. Unlike the post-first migrants, the first wave mostly descended
from Chinese Muslims in Mainland China. They are mostly Sunni Muslims and belong to the Hanafi school (Zafar, 2016). The third Muslim immigration in Taiwan migrated from Thailand and Myanmar. The majority of Taiwanese Muslims today are recent converts who have married mainlander Muslims. During the Revolution of 1911, Dr. Sun Yat-sen liberated the Muslims from Manchu oppression and went on to recognize them, along with the Han, Manchurians, Mongols and Tibetans. The Han ethnic groups have settled in Taiwan since the 17th century long before the arrival of the Kuomintang Army and its supporters in Taiwan in 1945. Indigenous people had been in Taiwan for 15,000 years before the Chinese such as Han people, came to the island (Gowing, 1970).

The Taiwan government welcomes Muslims and supports the development of Muslim community in Taiwan largely. It can be seen from a number of masjids (mosques) and Muslim associations around Taiwan. As of 2018 there are 9 masjids: Taipei Grand Mosque in Da’an, Taipei; Taipei Cultural Mosque in Zhongzheng, Taipei; Longgang Mosque in Zhongli, Taoyuan City; Taichung Mosque in Nantun, Taichung; Kaohsiung Mosque in Lingya, Kaohsiung; Tainan Mosque in East District, Tainan; At-Taqwa Mosque in Dayuan, Taoyuan City’; An-Nur Tongkang Mosque in Donggang, Pingtung County; Hualien Al-Falah Mosque in Hualien City, Hualien County (Aditya and Agmasari, 2020).

This research uses qualitative methods, and was conducted between 2018 and 2019. The authors employed surveys, observations, and interviews with relevant informants, including staff at the China Muslim Association (CMA), some Indonesian respondents at the Taipei Grand Mosques, Taiwanese and Indonesian scholars and students, and the staff of Halal International Taiwan (HIT).
2. Taiwan and Southeast Asia: Reshaping “profit-centered” business with Halal Industry

Taiwan-Southeast Asian history dates back to 3000 B.C. when the aboriginal people of Taiwan interacted with people throughout Southeast Asia. Shared linguistic, religious, and cultural practices in many parts of Southeast Asia are evidenced in migration patterns and familial linkages that occurred in the past and continue today. Common histories between Taiwan and Southeast Asia are rich, ranging from colonization to other economic, political, and socio-cultural factors, forming a solid foundation for establishing person-to-person relations today. Some historical narratives showcased that the relationship between the people of Taiwan and Southeast Asians was not new (Lipson et al., 2014: 2). Thus, initially, they were not strangers, yet their proximity was interrupted by political hurdles. Therefore, it is unsurprising that the New Southbound Policy, as Chong claims, “is a natural extension of these long-standing relationships” (Chong, 2018).

In the past few decades after the first republican government was established in Taipei, Taiwan, Southeast Asian relations were somewhat hampered by political factors. The anti-communist movement in Taiwan positioned the country as a strong ally to the U.S. By that time, the natural bond between Southeast Asia and Taiwan was neglected, making the relationship limited, formalized, and elitist despite the fact that many Southeast Asian countries were also anti-communist and therefore strongly backed by the U.S. However, the most influential factor that distanced the Taiwan-Southeast Asian relationship was the Southeast Asian governments’ acknowledgment of the One China Policy. For instance, Indonesia's relationship with Taiwan was “maintained with a low profile, mainly because of the sensitive ethnic Chinese issues in Indonesia.” However, Indonesia posed no problems in its relationship with Taiwan (Ku, 2002: 228). The relationship between Taiwan and
other Southeast Asian countries has encountered similar issues. Relations with Malaysia have also been problematic due to anti-communist and anti-Chinese sentiment (Ku, 2000) and the ethnic Chinese sentiment. Singapore and Taiwan are small anti-communist states on the world stage and now potential allies, even though Singapore-Taiwan links are a source of suspicion for the PRC government (Shih, 2016: 2).

Before the initiation of the New Southbound policy, the relationship between Southeast Asia and Taiwan was characterized by a state-centered approach. The previous regimes led by Presidents Chen Shui-bian and Ma Ying-jeou approached Southeast Asian countries with a different agenda, emphasizing formal relations, especially with ASEAN as a regional organization, which put little emphasis on people-to-people relations. Even though Taiwan established relationships with individual ASEAN member countries, these relationships were more institutionally based. As Buszynski puts it, the ASEAN countries have a special place in Taiwanese international relations due to Taiwan’s position vis a vis China, in which Taiwan tries to attract ASEAN within a campaign for greater international recognition (Buszynski, 2001). Buszynski further explain that the visit of Premier Lien Chan to Malaysia, Singapore, the Philippines, and Indonesia in the mid-1990s was in an effort to establish economic diplomacy among ASEAN member states. The visit also “intended to avoid excessive dependence upon China and to diversify economic and commercial ties” (Buszynski, 2001). In other words, Taiwan has used economic diplomacy with ASEAN as a politico-strategic measure against Chinese hegemony pressuring Taiwan to implement the One China policy.

The rediscovery of Taiwan-Southeast Asia relations gained momentum when ASEAN entered a new phase as a matured, integrated regional institution by establishing the ASEAN Community in 2015,
which centers on people-to-people connectivity and lessens the state-centered, top-down approach. ASEAN’s agenda is in line with Taiwan’s New Southbound Policy, which “places greater attention on the development needs of the people and civil society in Southeast Asia and represents Taiwan’s response to the core value of a people-centered ASEAN Community” (Hsiao and Yang, 2018). Compatible agendas between Taiwan and Southeast Asia could bring mutual benefit and lead the two parties to constructive relations and shift Taiwan from being “profit-centered” to becoming “people-oriented” by implementing the “4Rs:” relocation, reinvention, reinvigoration, and reform (Yang, 2017: 141). By pivoting Taiwan's foreign policy strategy, Taiwan and ASEAN are ready to move together into deeper and more meaningful cooperation.

To reach its full potential, the ASEAN community needs a partner in consolidating its three pillars (political security, economic community, and socio-cultural). In that sense, Taiwan’s New Southbound Policy is ready to “take mutual interests in politics and security, economics and investment, and social prosperity into consideration” (Yang, 2016). The ASEAN Community is in accordance with Taiwan’s New Southbound Policy, as both strategies prioritize people-to-people connectivity. Since ASEAN member countries do not have formal diplomatic relations with Taiwan, people-to-people contacts form the foundation of relations among them. Historical facts show that Taiwan-ASEAN relations are durable and capable of fostering future relations. In the absence of formal diplomatic relations, people-to-people connectivity is the backbone of the two parties’ relations. In other words, this relation can be situated in a more meaningful awareness and mutual understanding among everyday people in the form of public diplomacy.
As an integral part of the people-centered foreign policy prioritized by both the New Southbound Policy and ASEAN Community, wider public involvement is vital, especially in the absence of formal diplomatic recognition. After decades of being distanced due to political circumstances, Taiwan’s New Southbound Policy aims to reorient its relationship with Southeast Asia through different flagship programs. Tourism has been explicitly mentioned as “one of the best channels for bringing people closer together,” which will “give partner countries a better understanding of Taiwan’s history, natural environment, and hospitality” (Office of Trade Negotiations, Executive Yuan, Republic of China (Taiwan), 2017). Taiwan and Southeast Asia aim to bring their peoples closer than before, and halal tourism is one strategic means, considering Taiwan's intention to create a new tourism market and for the Southeast Asian public too.

The dynamics of the Muslim world are also changing. Globalization continues to shape the tastes, habits, and spending patterns of people around the world. The profile of Muslim travelers has often been oversimplified in the past, but their behavior has changed in the last two decades. The increasing numbers of Muslim travelers worldwide have given rise to halal tourism's development. Muslim travel was typically limited to holy sites in Mecca and Medina, as well as other traditional destinations in Muslim countries in the Middle East. In recent years, due to ease of travel expenses and more open borders, Muslim travelers have expanded their destinations. Consequently, halal tourism has become a promising business, offering many facilities that can be easily accessed by Muslim travelers.

Halal tourism requires, among other things, halal certificates. Halal certified products are guaranteed to comply with Islamic Law (‘Sharia’). The halal standard regulates all relevant aspects of the product, including
materials, feed and slaughter (if animal-based), manufacturing processes, hygiene and safety requirements, packaging, labeling, and transportation. Halal standards are in line with current consumer market trends, prioritizing healthy, hygienic, and safe products.

Corresponding with these trends, halal products have emerged as a promising new business opportunity. Fast-growing numbers of Muslim tourists, who spend money, are a positive indicator for the halal tourism sector. It was estimated that “spending by Muslim consumers worldwide would increase from $1.9 trillion in 2015 to $2.6 trillion by 2020” (Abdi, 2017). This number is obviously promising. Furthermore, Salaam Gateway (2019) estimates that Muslims spent around US$2.2 trillion in 2018 on sectors including food, pharmaceuticals, and lifestyle products due to Islamic faith-inspired ethical consumption needs (Salaam Gateway, 2019). In previous years, Thomson Reuters’ State of the Global Islamic Economy Report 2016/17 concluded that “sentiment on the Islamic Economy was overwhelmingly positive.” Thomson Reuters surveyed 172 industries, and the aggregate Islamic Economy was characterized by high growth. Moreover, the report estimated global Muslim spending across sectors at over $1.9 trillion in 2015. The largest spending sector for Muslims was food and beverages, followed by clothing and apparel, media and recreation, travel, and pharmaceuticals and cosmetics (Thomson Reuters, 2016).

Furthermore, the Thomson Reuters report also explains that there are four key factors of an Islamic-based market that support the majority of halal business: demographics (the fast-growing, young, and large Muslim population worldwide); economies (57 Muslim-majority Organization of Islamic Cooperation member-countries had a total GDP of $17 trillion in 2015, which represented 15 percent of the total global world); ethos/values (Islam as a ‘way of life’ for many Muslims continues to guide all aspects of their lives, including their consumption.
behavior); and halal markets (many Organization of Islamic Countries (OIC) governments have launched initiatives that expand into other halal market sectors). The global market also helps Islamic markets’ fast growth through the participation of multinational corporations, which seek market growth opportunities. Converging global business ethics such as sentiment around healthy/organic food, ethical finance, humane treatment of animals, fair trade, eco-tourism, and other socially-conscious businesses are compatible with the growing demand for halal industries.

The halal market is a new economic force that should not be ignored. The market’s potential is estimated to be worth trillions of U.S. dollars; therefore, companies with halal products and services must quickly reap potential profits. The demand for halal products around the globe is not limited to Muslims. Still, it comes from people of different races and ethnicities, thus giving a significant boost to the halal industry. According to the United Nations World Trade Organization (UNWTO, 2018), the year of 2009 to 2016 witnessed a sustained growth of global tourism despite the global financial and security crises. In 2020, the UNWTO projected international tourist arrivals worldwide to grow at a rate of 3-4 percent (UNWTO, 2020). The prospects of Muslim visitors look gloomy during 2020 in the wake of the COVID-19 pandemic, yet the number has not confirmed yet.

Based on the data provided by the MasterCard-Crescent Rating Global Muslim Travel Index (GMTI), the halal-friendly travel market is one of the fastest-growing segments in the global travel industry. For example, there were approximately 117 million Muslim international travelers in 2015, and their numbers were projected to increase to 168 million by 2020. Also before the outbreak of the Covid-19 pandemic, the travel expenditure of Muslim travelers was expected to exceed USD 200 billion (CrescentRating, 2015). The numbers are expected to increase to
more than 230 million by 2026, and worth USD 300 billion into the
global economy (CrescentRating, 2019). In 2030, the Muslim population
is expected to increase from 1.6 billion to 2.2 billion. This number is too
large to overlook and suggests that halal travel will outpace the growth
of any other tourism sector (The National, 13th August 2015).

Taiwan’s main halal tourism targets include Asia and the Middle
East, as well as the U.S., Europe, and the U.K., which have significant
market sizes. Positive trends are also valid for Taiwan to reap substantial
benefits from Southeast Asian tourists, even though they remain small
and need to develop further. Taiwan’s Deputy Director of Tourism
Wayne Liu said that Taiwan took ten years to increase the number of
visitors from Japan; therefore it is impossible to see the result of only
two years’ worth of investments towards attracting Muslim tourists who
have a very different culture from Taiwan (Taipei Times, 30th May
2016). The number of Muslim travelers to Taiwan is relatively small,
even though it has recently been named the seventh most popular
destination (ranked tenth in 2015) and the safest of the 130 non-OIC
destinations worldwide in the Global Master Index (ibid.). In 2019,
Taiwan ranked third among non-OIC destinations for Muslim tourism,
together with Japan and the United Kingdom (BusinessToday, 2019).

Following this record, the Taiwan halal industry is traveling in the
right direction. In 2019, the number of Muslims who came to Taiwan
was still small, at only about 200,000 of its 10.44 million population, but
Taiwan hopes to gain more Muslim visitors. The number of Muslim
travelers, the majority coming from neighboring countries like
Indonesia, Malaysia, Singapore, and the Philippines, was projected to
grow to 168 million in 2020. However, the Covid-19 pandemic put a
halt to the Taiwanese government’s effort to bring these international
tourists in (The Halal Times, 2020).
Table 1 Comparisons of 2018 and 2019 Top 10 Non-OIC Destinations on Taiwan Position

<table>
<thead>
<tr>
<th>Non-OIC Destinations Rank</th>
<th>GMTI 2019 Rank</th>
<th>Destination</th>
<th>Score</th>
<th>Non-OIC Destinations Rank</th>
<th>GMTI 2018 Rank</th>
<th>Destination</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>Singapore</td>
<td>65</td>
<td>6</td>
<td>18</td>
<td>Thailand</td>
<td>59.5</td>
</tr>
<tr>
<td>2</td>
<td>18</td>
<td>Thailand</td>
<td>57</td>
<td>2</td>
<td>19</td>
<td>Japan</td>
<td>56.1</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>United Kingdom</td>
<td>53</td>
<td>3</td>
<td>19</td>
<td>Japan</td>
<td>56.1</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>Japan</td>
<td>53</td>
<td>4</td>
<td>24</td>
<td>United Kingdom</td>
<td>53.8</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>Taiwan</td>
<td>53</td>
<td>5</td>
<td>27</td>
<td>Taiwan</td>
<td>51.4</td>
</tr>
<tr>
<td>6</td>
<td>29</td>
<td>South Africa</td>
<td>52</td>
<td>5</td>
<td>27</td>
<td>Hong Kong</td>
<td>49.6</td>
</tr>
<tr>
<td>7</td>
<td>31</td>
<td>Hong Kong</td>
<td>51</td>
<td>7</td>
<td>32</td>
<td>South Africa</td>
<td>47.7</td>
</tr>
<tr>
<td>8</td>
<td>34</td>
<td>South Korea</td>
<td>48</td>
<td>8</td>
<td>35</td>
<td>Germany</td>
<td>45.7</td>
</tr>
<tr>
<td>9</td>
<td>36</td>
<td>France</td>
<td>46</td>
<td>9</td>
<td>36</td>
<td>France</td>
<td>52.2</td>
</tr>
<tr>
<td>9</td>
<td>36</td>
<td>Spain</td>
<td>46</td>
<td>10</td>
<td>37</td>
<td>Australia</td>
<td>44.7</td>
</tr>
</tbody>
</table>

Source: Compiled by authors from Mastercard-CrescentRating Global Muslim Travel Index 2018 and Mastercard-CrescentRating Global Muslim Travel Index 2019.

The expansion of tourism from Southeast Asia has coincided with the decline in the number of Chinese tourists to Taiwan sparked by President Tsai Ing-wen’s refusal to reconcile with Mainland China as “One China”. Instead, President Tsai prefers a status quo. The first three months of 2017 showed that travelers from Southeast Asia exceeded 478,000, up 36 percent from the same period in 2016. By contrast, the number of Chinese visitors continued to fall by 42 percent. By learning from the experience of South Korea and Hong Kong, which are too dependent on the Chinese tourist market, Taiwan is seeking to diversify its relations by attracting more visitors from other Asian countries (The New York Times, 17th May 2017).

Tourism is an economic activity that can contribute significantly to the GDP of any country. The economic impact of this sector is well-known: generating foreign exchange, creating employment...
opportunities; stimulating income, trade, and entrepreneurship; and increasing regional development. In Taiwan, tourism has been dubbed “the best prospective industry sector” (*The Straits Times*, 25th July 2016). For this reason, unsurprisingly, the Taiwanese government, has developed a halal tourism platform to increase state revenue. Taiwan has a strong economic performance and is one of the “Asian Tigers”, yet Taiwan has remained low-ranked in terms of tourist destinations among non-OIC countries. Other countries have also developed halal tourism and use the platform for business purposes, including non-Muslim countries such as Singapore, South Korea, Australia, New Zealand, Japan, and Thailand.

Halal goods and service providers are prepared to equip a halal tourist industry. To cater to Muslim travelers’ needs, the Taiwanese government opened Taiwan’s Halal Center on April 21, 2017, in Taipei as part of government efforts to assist local businesses in optimizing potential Muslim markets. Taipei Mayor Ko Wen-jie promised to make Taipei a friendly city for Muslim travelers by increasing the number of halal restaurants from 30 to 70 by 2019 (*ibid.*). Taiwan has a great opportunity to expand trade and business relationships with Muslim countries through rapid economic development. More than half of the world’s 1.6 billion Muslims live in Asia, with Indonesia comprising the largest Muslim market in the world. To help local companies grow their presence within Muslim markets, Taiwan’s Halal Center is working on expanding the availability of halal-certified products domestically (*Zaini*, 2018). In short, the global market potential for halal tourism is very promising for Taiwan. The Taiwanese government is quite open to halal tourism, as shown by its steps to accommodate Muslim travelers.
3. Manifesting Taiwan’s Soft Power with Halal Hospitality

Soft power has increasingly become an important concept in the way one country influences another. This concept was born in the context of declining U.S. military power and the need to restore U.S. world supremacy. First popularized by Nye (Nye Jr, 2005), it has already been implemented in U.S. public diplomacy in the fields of education, culture, movies, food, and democratic and economic values. However, soft power was not yet articulated as a theoretical concept. Nye reformulated the idea and considered it to be an important part of American power in the world. For him, soft power is “the ability to affect others through the co-optive means of framing [an] agenda, persuading, and eliciting positive attraction to obtain preferred outcomes” (Nye Jr, 2011). Power often relates to the use of force, coercion, and payment. Through soft power, advantage or benefit is obtained because people of other countries are attracted to the capabilities or specialty of one country, which allows for better relationships and cooperation.

Taiwan has begun to develop halal tourism to meet the needs of a dynamic market. It enters the halal tourism market by ensuring that Muslim travelers are given maximum comfort during their travels and are able to fulfill their religious obligations while on vacation (Yonhap News Agency, 2016). There are many reasons why Taiwan needs to employ halal tourism to harness its soft power. First, Taipei seeks to maximize it to maintain its survival. As discussed in various theories of international relations, survival is one of the primary motivations of a sovereign state in conducting its foreign relations. Taiwan uses soft power to cope with its isolation in international society due to the strong One China policy campaigns. Since President Tsai assumed office in 2016, it is important to note that Taiwan has lost its diplomatic allies as they switched to preference for the mainland. With this unfavorable
development, Taiwan would utilize soft power to attract foreign tourists as ambassadors by employing its good position in halal tourism.

Taiwan’s future depends on the ability of the elite and the Taiwan community to get out of this international environmental trap. Launching the NSP is one government effort to reduce dependence by diversifying relationships. The NSP targets countries in South Asia and Southeast Asia, as well as Australia and New Zealand. Relations with these countries already existed, with the exception of several South Asian countries where Taiwan is just beginning to explore formal relations. Through the NSP, Taiwan seeks to maximize its soft power, which is relatively superior in some areas compared to many Southeast Asian countries. The NSP enhances the cooperation of existing programs and designs cooperation in areas with good prospects. Existing cooperation programs with NSP’s target countries include agricultural development, health, educational development, industrial innovation, and a regional dialogue forum known as the Yushan Forum. Areas with particularly good cooperation prospects include e-commerce, tourism, and infrastructure (Office of Trade Negotiations, Executive Yuan, Republic of China (Taiwan), 2017).

One of the interesting points mentioned in the NSP is halal tourism (ibid.). This falls into the wider religious tourism category aimed at Muslim families who adhere to Sharia rules. Halal tourism is a newly developed concept in the industry and has the potential to become one of the most resilient forms of tourism. However, it has not been explored by the discipline of International Relations as a means to harness soft power since tourism does not look attractive to many I.R. scholars. Despite this, (international) tourism is an effective means of practicing cultural diplomacy (Carbone, 2017: 61). Developing halal food is one goal of the agricultural development flagship program. The NSP likewise includes the goal of becoming a convenient tourist destination.
for Muslim populations. Indeed the increased number of foreign tourists, particularly Muslim travelers, is a vehicle to intensify Taipei’s soft power.

Second, Taiwan needs to increase its visibility and denote its identity to the wider Southeast Asian communities as a democratic, tolerant country with a high level of cultural openness. A closer relationship with Southeast Asian people is one of President Tsai Ing-Wen’s priorities. She suggests, “Taiwan must play an even more active and prominent role in order to participate in the future of the region,” [...] “Redefining Taiwan’s role in the region is one of my highest priorities as president” (Reuters, 13th October 2017). The NSP is a tool of President Tsai to promote soft power to the region. Although the economy remains significant in the DPP’s foreign policy agenda, President Tsai underscores the use of soft power to strengthen cultural and non-economic bonds with Southeast Asian countries (Thornton, 2017). DPP’s political stance against the PRC is a reflection of the generational change, where the Taiwanese treasure their heritage to be different from the Mainland (Lin, 2018). The significant change of ethnic Taiwanese identity appeared between 1994 and 2002, which brought fundamental impacts on Taipei’s future domestic and foreign policies (Chang and Wang, 2005: 30). Gradually, many people, especially younger generations, came to feel that they distinguished themselves as different from China, and they were struggling to show Taiwan’s uniqueness to the world. As a consequence of identity change, in the long run, Taiwan would become economically and culturally less dependent on China than before.

As a democratic country, Taiwan recognizes all religions, including Islam (known as hui jiao, which means the religion of Hui, a predominantly Muslim population in Taiwan). This is an important foundation for creating a separate identity from the Mainland and could
cultivate confidence for the country to engage with the rest of the world. Taiwan even ranks second in a Religious Diversity Index (RDI score 8.2), after Singapore (score 9), as the most diverse nation in terms of religious and public life. China’s score is 7.3, below Vietnam (7.7), Togo (7.5), and South Korea (7.4) (Pew Research Center, 2014). Even though this score does not necessarily reflect the relationship between state and religion, especially in the case of China, in general Taiwan is a tolerant country to any faith (Tacet, 2014). As Pelletier observes, the rise of Taiwanese nationalism and “Taiwanization” provides a more robust basis for the second and third generation of Taiwan to settle their own identity from the Mainland (Pelletier, 2014). For Taiwanese Muslims, a separate identity is firmer, as they come from the same ancestor before migrating to Taiwan.

Making Taiwan a Muslim-friendly tourist destination is in line with the development of a separate Taiwanese identity, characterized by the desire to build a multicultural country. Taiwan has become a modern state with a high level of tolerance and respect for others regardless of their origins, race, ethnicity, religion, and belief systems. As Wang claims, multiculturalism has emerged as a new value in Taiwan (Wang, 2004: 301). Taiwan now creates opportunities for every element of the society, from indigenous people, and the islanders to be able to express their own cultural identity. As Prowse suggests, Taiwan is slowly emerging as a multicultural society, but still faces the challenges of becoming a cosmopolitan society (Prowse, 2015). However, despite it now being a liberal and open country, Taiwan’s immigration policy is still based on a mono-cultural society of the past. Combined with its isolated political situation, this does not help Taiwan to develop beyond its prevalent mono-cultural nature. Moreover, Taiwanese themselves have little international travel experience outside East Asia, as they prefer to visit China (32 percent) and Japan (26 percent). If Taiwan
needs to enhance people-to-people contact, it is the time for it to engage closer to the larger international community. A more assertive role in shaping regional dynamism can help increase its visibility.

Visibility poses a significant challenge to successful halal tourism development. A quick survey about Taiwan’s halal services conducted by the authors among Indonesian citizens reveals that Indonesian Muslims are not aware of their availability. They generally believe that Taiwan’s population has dietary habits, which are different and not compatible to their own. They are worried about the Taiwanese government’s readiness to engage in halal business. They, therefore, do not believe that the government is able to provide facilities for Muslims, including necessary public spaces such as prayer rooms, toilets with washers, or other information about Muslim life in Taiwan. Consequently, many Indonesian and Malaysian Muslims are hesitant to visit Taiwan, despite its reputation as a safe tourist destination. Taiwan’s visibility as a Muslim-friendly nation is not as high as other non-OIC countries such as Singapore, Thailand, and Japan. Quite a few Indonesian people have visited those countries and are impressed by their service for Muslim travelers. Likewise, the authors have observed that the concept of “Halal Taiwan” is even less visible among Taiwanese citizens. When they are asked about the word “halal,” Taiwanese citizens showed confusion, as the word is not generally used in the majority population’s daily life. Islam is also a minority religion, with only 60,000 adherents comprising approximately 0.2% of the overall population (Bao, 2010). As a new concept, halal tourism is limited to certain people and is generally not yet fully understood by most Taiwanese. Lack of visibility may hamper government efforts to promote halal tourism in Taiwan globally.

Third, The NSP allows for halal tourism to become a well-developed business opportunity for Taiwan, which China is still lagging.
The majority of NSP target country populations identify as Muslim. Economically, they comprise a potential market. Traditionally, Taiwan is not yet the leading travel destination for inbound Southeast Asian tourists. Its tourism industry has not developed strong source markets and has yet to reach the non-traditional market of Southeast Asia, despite geographic proximity. Taiwan’s top ten sources of foreign tourists were including mainland China, Hong Kong Special Administrative Region (SAR), USA, Canada, Macao SAR, South Korea, Japan, Mexico, Singapore (Taiwan Tourism Bureau, 2021). Indeed, the majority of tourists come from neighboring countries with cultural proximity.

Given halal tourism’s growing popularity, Taiwan has taken the opportunity to become involved in this new market. Known as a country with a beautiful landscape, it is a dream of many to visit Taiwan, including Muslim travelers. Exploring Taiwan can be less comfortable for Muslims, not only because Taiwan is not a traditional destination for Muslims, but also because of a lack of information about Muslim-friendly tourist facilities and product availability. To prepare itself for the arrival of Muslim travelers, Taiwan would need to adjust to accommodate them.

For many people, Taiwan is lesser known as a tourist destination than China. People may think these two countries are indifferent. In the context of the hospitality industry, as Taiwan’s rank improves as a non-OIC destination for halal tourism, China just does not tap into this market. China has not yet devoted attention to halal tourism and does not seem interested in developing this type of tourism to attract Muslim travelers. Despite home to more than 20 million Muslims, the halal industry in China is still underdeveloped. Crescent Rating’s top 20 Muslim-friendly destinations do not recognize China as a halal tourism destination because the Chinese government does not invest in that industry (Joles, 2019).

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Many literatures suggest that historically, China has close relations with the Islamic world through trade and business deals (Li, 2018: 35; Selmier, 2018: 257), evidence that China has a potency to become a significant player in the halal business. Currently, China turns to look at the Islamic world as part of its ambitious Belt and Road Initiatives (through Silk Road trading routes). Yet, it is not interested in expanding its capacity to develop the potency. Beijing’s investment in this business is still in infancy. Beijing mainly a small player, its main export to this industry is dominated by food export, which contributed only 0.1 percent of the global halal market. As Latif suggests, China’s low participation is due to several factors, including fragmentation of its halal food industry, besides the lack of “household names” (Latif, 2016). Beijing needs to address many uneasy challenges, such as limited credibility in international markets due to lack of national-level halal certification, its involvement in halal food scandals, which risking itself to losing trust among OIC markets. Besides, China has long been isolated from the Islamic world due to ideological differences between them. This may hamper the opportunity for Beijing to grab the larger Muslim community. This is confirmed by Zhang Hongyi, the Jingyitai Halal Food Company’s general manager, who stated that China’s halal food market has its limitations. He further reiterated that “even though we have 23 million Muslims, they live all over the country. It is difficult to reach many consumers in any one region due to traditional distribution models, which means it is hard for us to expand” (Chen, 2014). More importantly, Beijing’s halal business opportunity underlines the contradictions between Beijing’s contradictory policies domestically and abroad, resulting in mixed impacts of its foreign policy. China has a poor human rights record due to its gross violation in Xinjiang. The government imposes restrictions on Xinjiang Muslims to travel overseas
as outbound tourists (Meesak, 2017); at the same time, Beijing opens the door to reconnect with the Islamic world (Erie, 2016).

However, China’s halal industry is not to underestimate. Even though the proposal to draft a nationwide halal food law was recently vetoed by Beijing, China is on its way to tap on this industry. China seeks to cultivate soft power to attract foreign tourists and utilizes inbound tourists to enhance its international image. Similarly, Beijing likes to be seen as a benign rising power by using an outbound tourism program, for example, to African countries (Chen and Duggan, 2016: 45). The difference between Taipei and Beijing to approach halal hospitality is that, while Taipei seeks to harness people-to-people relations, Beijing’s agenda is highly politicized.

4. Challenges

As Taiwan’s position in the global halal industry continues to improve, it is becoming an increasingly popular new destination for Muslim travelers. To cater to their needs, the availability of halal facilities in the country is still limited. There have been several halal or Muslim-friendly restaurants and hotels/accommodation developed. As Taiwan’s position in the global halal industry continues to improve, it is becoming a new and cost-effective destination for Muslim travelers. According to a Halal mobile application used by the authors to observe halal facilities in Taiwan, there are 89 and 90 available services, respectively, and 39 Muslim prayer rooms in public spaces (such as airports, train and bus stations), across the country. Other user-friendly applications are also available to get information about Muslim-friendly facilities in Taiwan, such as “Halal” Taiwan, an application created by the Chinese Muslim Association (CMA), and the International Muslim Student Association of National Taiwan University of Science and Technology (NTUST)
in Taipei. This software provides information on hotels, mosques, restaurants, and other facilities that can make a trip to Taiwan more convenient and enjoyable for Muslim visitors.

To ensure its seriousness in promoting halal tourism, the government established agencies, like the Taiwan Halal Integrity Development (THIDA) and the Taiwan Halal Centre as certification bodies that produce Halal certificates. The CMA also worked in cooperation with Majelis Ulama Indonesia (MUI or the Indonesian Ulema Council), Jabatan Kemajuan Islam Malaysia (JAKIM or the Department of Islamic Development Malaysia), and Majelis Ulama Singapura (MUIS or the Singapore Ulema Agency) for certification duties. These bodies have been reputable for many certifications in restaurants, hotels, and for food products (Fulco, 2018). Taiwan is moving in the right direction to embrace the halal industry; however, there are several challenges that must be overcome to make it a halal tourism hub.

As a country with troubled cross-strait relations, Taiwan must extend links to other states to gain more sympathy and promote itself to develop a good international citizenship status. Its relatively weak position in global politics does not hamper Taiwan in associating itself with other countries through people-to-people relations. In the National Day address on October 10, 2017, President Tsai reaffirmed that the Southbound Policy is ‘to hold a more advantageous position in international society.’ From the speech, it is clear that Taiwan wishes to diversify relations with neighboring Southeast Asia, South Asia, Australia, and New Zealand. A clear message from the President is that Taiwan needs to engage with those countries, to reduce overdependence on and marginalization by China. As China is now becoming more powerful than ever, Taiwan must be more tactical to deal with its
southern neighbors because China is tightening its grip on Southeast Asia. Building people-to-people contact through the tourism sector is a way for Taiwan to “find its place in the international order” (Office of the President, Republic of China (Taiwan), 10th October 2017).

Running halal tourism, especially in a Muslim-minority country, is not an easy task because the host needs to be culturally sensitive. As a new concept, halal tourism is limited to certain people but is generally not fully understood by most Taiwanese. For this reason, Halal International Taiwan (HIT), a platform for halal tourism in Taiwan is committed to assisting the government in better promoting it in various ways. The vision of Halal International Taiwan Co. Ltd is “…dedicated to promote Muslim Friendly Halal Excellence Platform in Taiwan and assist vendors providing better Halal goods. Its mission is to “Promote and implement international Halal projects, and act as a resource integration and coordination unit between multinational governments, domestic associations and companies” (halaltaiwan.com, n.d). Due to many factors between Taiwanese and Southeast Asian people, the halal concept is not gaining popularity among Taiwanese (interview with a HIT staff). Based on the authors’ observation, when told about halal and Islamic law (sharia), the Taiwanese generally get an impression that sharia is a legal system stressing harsh punishments such as cutting off hands and whipping for those committing unlawful acts. This law is only practiced by a small number of Islamic states such as Saudi Arabia. It is little known in Taiwan that, an element of sharia involves many positive-acts, including ethical lifestyles (such as humane treatment for the slaughtering of animals) and healthy lifestyles (such as cleanliness and avoiding alcoholism). The lack of people’s knowledge about Islam, in general, can also be seen from their innocence when talking about terrorism conducted by a very small minority with radical and extremist views (interview with an anonymous Chinese Muslim Association staff)
in 2018). The main problem lies in the lack of understanding among the Taiwan population about what halal means. Lack of visibility may hamper the government’s effort to promote Taiwan’s halal tourism product globally. The Taiwanese government is fine in its intention but has shortfalls in execution.

Furthermore, the informant adds, Taiwan has so far benefited from many Southeast Asian Muslims; thus, it is the time to assist its Muslim friends to have better facilities in the country. Taiwan must be friendlier to Muslims as it is now heading to become a champion in the halal industry by providing more Muslim-friendly facilities across the country. She advises both the government and the people of Taiwan need to thoroughly learn the concept of halal first, before further embarking on luring enough numbers of Muslim visitors into the country (interview with an anonymous CMA Staff). However, some Southeast Asian informants suggest that one of the biggest impediments hampering more Muslims from visiting Taiwan is a lack of halal food availability around tourist spots. In comparison with the success of other countries’ experience to develop its halal industry, Taiwan is facing a big challenge. However, with the increasing number of Muslims, including workers/expatriates, students, scholars, and tourists coming to Taiwan, learning about halal will improve understanding about Islam. In addition, knowing that Taiwan is a democratic country, open, vibrant, and toward a cosmopolitan society, a halal industry, including halal tourism, is expected to be a bridge for Taiwan and Southeast Asia.

The tourism sector has been badly hit by the coronavirus (Covid-19) pandemic and it has triggered an unprecedented crisis in the tourism industry. Due to close economic ties with China, Taiwan’s economy has suffered significantly. The impact of Covid-19 has reduced foreign tourist numbers to 60 percent compared to normal levels in 2020 and this
could possibly worsen to 80 percent if recovery is delayed until the end of 2020 (OECD, 2020). Among other tourist destinations, Asia is experiencing its worst since the pandemic, drop in travel and tourism revenues in 2020 (Maniga, 2020). During this crisis, with the absence of foreign tourists, the Taiwan tourism industry has redesigned itineraries, focusing on serving domestic tourists (Yu and Lee, 2020). Covid-19 is having a more profound impact on the tourism sector. The Taiwanese government has constantly promoted a Muslim-friendly environment to attract more Muslim travelers. However, the novel Covid-19 pandemic has disrupted government efforts. The uncertainty of when the pandemic ends makes it difficult to project when normalcy will return as travelers are very sensitive to safety and security aspects. Even though Covid-19 is expected to slow down by the end of this year, regaining people’s trust will take a longer time as nobody can predict when the pandemic will have totally come to an end.

5. Conclusion

Taiwan has been creatively successful in maintaining survival as a state amid an increasingly limited space due to the One China policy. One of the things that Taiwan does to achieve this is to use its soft power, such as democratic values, technology, education, economic development, and cultural exchanges. Cooperation with other countries undertaken in these areas not only strengthens the visibility of this country but also contributes to the advancement of economic development and democratic discourse in Asia. Efforts to strengthen the survival and visibility of this country in the world continue with the introduction of the New Southbound policy directed to South Asia, Southeast Asia, Australia, and New Zealand.
In this paper, we discussed one of Taiwan’s efforts to strengthen its visibility in the context of the NSP, specifically the development of halal tourism. Through this policy, Taiwan will serve as a center for Muslim-friendly tourism. This effort is new and has a good chance as it can make Taiwan become an attraction for the booming Muslim tourist and halal industry. Halal tourism can also highlight Taiwan’s compatibility with its robust multicultural identity, democracy, and tolerance. This, in turn, will confirm Taiwan’s presence distinguishing it from authoritative leaning mainland China. Nevertheless, there are some challenges for Taiwan in developing halal tourism. The people of Taiwan do not have enough knowledge and understanding of the Muslim population, especially in Asia. This is because, for a long time, Taiwan has mostly focused on China, Japan, and the U.S. Similarly, the interactions between Taiwan and the Muslim community have not been large enough to avoid potential cultural clashes. The Taiwan government needs to increase the visibility of the Taiwan Halal scheme to a broader segment of society, both domestically and globally.

The New Southbound Policy, which aims to bring the people of Taiwan and Southeast Asia closer, is in accordance with the ASEAN Community platform for people-to-people connectivity. Halal tourism is one measure to make the policies materialize. As Taiwan maintains its current status quo on the global political stage, halal tourism can be a strategic means to create public diplomacy for Taiwan to a broader Southeast Asian population. Halal tourism is a means of public diplomacy with a scope of international relations beyond traditional diplomacy. Southeast Asian tourists coming to Taiwan can be ambassadors showing the best side of Taiwan. Halal tourism can also be a part of Taiwan’s smart power, given the fact that Taiwan can offer a wide range of attractions to the populations of other countries. For this and other reasons, Taiwan needs to make a better effort to promote halal
tourism to stand out from rival destinations. Most of all, expanding tourism markets to Southeast Asia means Taiwan can reduce its overdependence on the PRC, giving it more choices in conducting its international relations.

Strong and lasting perceptions of destination countries, like Taiwan, are shaped by the travel experiences of Muslim travelers. By recognizing the role of Muslim tourists in shaping Taiwan’s public image, people-to-people connectivity can be achieved. However, more efforts are needed for the Government of Taiwan to increase the visibility of the Taiwan Halal scheme to a broader segment of society, both domestically and globally, so that halal tourism is contributing to a positive perception of Taiwan. By promoting halal tourism Taiwan is increasing its visibility to a broader Southeast Asian population that will help it become more knowledgeable in the region. The essence of the New Southbound Policy meets with the aims of the ASEAN Community when the people of Taiwan and Southeast Asia know and understand each other, and the opportunity to work together positively is there.

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Notes

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Chinese Economic Relations with Developing Countries: Comparative Analysis of Latin America and Africa

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Abstract

Comparing the strategies of Chinese economic expansion in Latin America and Africa makes it possible to find several common features: foreign trade is dominated by exports of raw materials from both Latin America and Africa and imports of finished products from China, which lead to significant trade deficits. FDI focuses on natural resource extraction or related infrastructure, while investment from both regions in China is virtually non-existent. At the same time, the strategies of China’s economic expansion into Africa and Latin America are also characterized by a number of differences related to the specifics of the economic environment of the countries of the regions. Thus, in particular, China’s economic expansion in Africa is faster and with minimal obstacles, often damaging the national economy of the recipient countries. China tends to import workers into Africa and support existing corruption schemes but sees the region as a potential production base. Cooperation with China has boosted economic growth for many African countries. In Latin America, expansion is growing at a much
slower pace, with some exceptions; the countries of the region are less attached to China, have a more diversified geographical structure of foreign economic relations, and better protect their economic interests. However, the region has suffered from deindustrialization due to recent high commodity prices, failing to use them to reform and increase the competitiveness of its economies, and negative migration and drug trafficking.

**Keywords:** strategies of economic expansion, FDI, foreign trade, China-Latin America economic relations, Chinese-African economic relations

1. Introduction

Chinese relations with developing countries cannot be studied only at the level of bilateral relations or taking into account one specific aspect: energy, human rights, strategic intentions, etc. The dynamics of Chinese economic development have a decisive influence on its economic expansion. Today, this dynamic depends more on new market forces than on the one-party state system on which most researchers are concentrated. Strategic initiatives influence the formation of China’s foreign economic policy, but its implementation has some limiting factors. Over time, Europe’s influence in Africa and the United States’ influence in Latin America diminished. However, the rapid transition of developing countries from their traditional ties to cooperation with China does not always serve the goals of the economic development of each country.

It is important to emphasize that when studying China’s relations with developing countries, it is desirable to avoid a simplified explanation of the nature of their cooperation. China’s presence in developing countries, although growing rapidly, is still short-lived and in
many cases small in absolute terms. Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of “adaptation”.

2. Analysis of Previous Researches

China has consistently emphasized its strategic relations with developing countries of Africa and Latin America. Studies of Chinese international economic relations with these countries have focused on the benefits that both parties derive from this cooperation (see, for example, Fernandez Jilberto and Hogenboom, 2010; Carmody, 2016). Foreign trade with China in the context of rising raw material prices contributed to economic growth in Africa and Latin America. Therefore, most researches (with a few exceptions, such as Gonzalez-Vicente, 2013, 2011) have highlighted the leading role of Chinese trade and investment as the engine of economic growth in developing countries.

Many developing countries of Africa and Latin America seek to learn from the experience of successful growth in China and use it to develop their economies, hoping that the cooperation with China will be more successful than cooperation with Europe or the US. However, the debate over China’s international role has repeatedly raised the question: whether China has become a global economic power whose economic interests are much closer to those of the developed world. Some researchers (e.g. Cardenal and Araújo, 2013; Fornes and Butt, 2012; Subramanian, 2011, Jacques, 2009) see this as a sign of the imminent threat of Chinese economic dominance and changes in the world economic order.

On the other hand, China’s growing dependence on foreign economic relations with Africa and Latin America should also be taken into account. The supply of resources from these countries is largely the
basis for supporting Chinese economic growth (Gallagher, 2016: 1). Realizing the importance of resource trade to ensure economic security, the Chinese Prime Minister stated: “When using foreign resources and markets, we must focus on the national economic strategy – if resources come mainly from one country or one region with frequent shocks, national economic security will suffer” (cited by Krauss and Bradsher, 2015).

Cooperation in the area of lending with Latin America and Africa is also beneficial not only to developing countries that receive soft loans from the Chinese government. These loans guarantee the market for Chinese goods and contribute to the expansion of the economic interests of Chinese producers (Davies, 2015). Also, the rapid growth of China’s involvement in infrastructure projects in African and Latin American developing countries is becoming an instrument of the fulfillment of the huge excess potential of Chinese industries such as heavy engineering and metallurgy (The Economist, 10th/12th September 2015). In recent years the Chinese labor-intensive industries – such as textiles, leather, and building materials – tend to move to countries with low-cost labor, particularly in Africa (Brautigam and Tang, 2011: 30-31, Brautigam, 2019).

In Latin America, Chinese expansion is more restrained than in Africa. Although the region is also the subject of Chinese diplomatic and military initiatives, Latin America is mainly affected by the growing number of Chinese companies operating in the region and the growth of trade with China, which is slowly leaving its mark on the economies of Latin America and the Caribbean. Still Chinese relations with developing countries cannot be analyzed only at the level of bilateral relations or taking into account only one specific economic aspect. Chinese activities in developing countries grow rapidly, but are still short-lived and, in many cases, insignificant in absolute terms.
Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of “adaptation”. However, we can highlight the specific characteristics of China’s economic expansion strategies in Africa and Latin America, taking into account the specifics and local characteristics of the countries of these regions.

3. Analysis of Chinese Economic Expansion Strategies in Africa and Latin America

Relations between China and countries of Africa and Latin America have evolved over decades from ideologically and politically determined to increasingly economically determined. A new thing in the relationships is a strong commercial impetus and economic considerations, supported by Chinese economic success and increased participation in the world economy. One of the main factors in Chinese interest in expanding into Africa and Latin America is access to natural resources. However, a number of researches (e.g. Alves, 2013, Ukraynets, 2013) proves that regardless of the resource allocation, the infrastructure, financial, and telecommunications sectors play an important role in cooperation with China, and not only state-owned companies seek access to these markets.

In the financial and investment sector there is clear specialization between Chinese state-owned banks: Chinese Eximbank plays a leading role in Africa, while Latin America is dominated by credit lines of China Development Bank (Alves, 2013: 101). This might be explained by the adaptation of financial strategies of Chinese economic expansion to the economic situation in Africa and Latin America. As the profitability of investing in developing countries may be questionable, the Chinese government is trying to diversify the mechanisms of economic
expansion in the field of FDI.

Latin America is one of the most important areas of Chinese economic expansion. The consequences of Chinese expansion are different for different countries of the region. On the one hand, Mexico, Central America, and the Caribbean have faced a strong influx of Chinese goods into the US market, which has destroyed all the benefits these countries had from the free trade agreements and special initiatives for Caribbean states. On the other hand, South America (especially Chile) has become a major beneficiary of the growing demand for raw materials. Latin America has become one of China's largest suppliers. In the 2000s, soybeans from Brazil and Argentina accounted for 60% of all Chinese imports of soybeans, Peru and Chile produced 80% of fishmeal imported by China, 60% of Chinese poultry imports came from Argentina and Brazil, and 45% of grapes came from Chile. However, it should be noted that exports from South America to China are very concentrated, for example, in the case of Chile, 76% of all exports to China are only one commodity – copper.

China’s economic interests in Africa were initially focused on resources. Huge “infrastructure in exchange for resources” contracts are very illustrative for Sino-African relations. Recently Chinese interest in other economic areas has been growing rapidly. In sub-Saharan Africa, there has been a steady increase in trade flows with China over the past 20 years, and investment has even grown twice as fast (Ministry of Commerce, PRC, 2019; Pigato and Tang, 2015).

The growth of trade, investment, and financial flows has certainly had a positive impact on Latin American economic growth over the past decades. But they have also made the region vulnerable to the inevitable slowdown and restructuring of the Chinese economy, which began in the last few years and has resulted in a change in China’s demand for imports and global commodity prices.
The economic crises in Latin America have primarily reflected the inability of governments to take advantage of high commodity prices over the past decade to implement domestic structural reforms and move to a more diversified, competitive, and productive economy. But a closer look at the trade and investment data between China and Latin America reveals many issues. Three-quarters of the region’s exports to China consist of four raw materials: oil, copper, iron ore, and soybeans. Meanwhile, given the relatively high-income levels in Latin America (at least compared to Africa) and Chinese low production costs, China exports a large share of low- and high-tech goods to Latin America. This process of exporting raw materials to China and buying final products with higher added value has led to a large and growing trade deficit over the past decade. The decline in commodity prices since 2015 has exacerbated this trend, leading to a fourfold increase in Latin America’s trade deficit with China. A similar pattern is observed for China’s role in investing and financing the region, which focuses exclusively on natural resource extraction to ensure uninterrupted supply, or on related infrastructure to facilitate the transportation of raw materials.

Latin America’s economic stagnation, which coincided with political changes in some large countries in the region, also raised the Chinese position on lending. In particular, the deep crisis in Venezuela – the result of years of incompetent governance amid falling oil prices – has raised questions about its ability to pay debts and Chinese generosity over the past five years. Over the past decade, the Chinese Development Bank and the Eximbank of China have lent Venezuela US$65 billion – and this is almost 15% of Venezuela’s GDP (even at the official inflated exchange rate) and more than half of all loans from China to Latin American countries during this period. Even in 2015 when the question of Venezuela’s default (which did occur in 2017) became acute, China
provided it with US$10 billion loans. Only in 2016 amid economic and political turmoil in Venezuela, lending from China was suspended. The impact of this situation on Chinese future lending policy in Latin America may be significant, including tighter lending conditions and a rethinking of additional conditions that have so far (at least publicly) been lacking.

Officials in China and Latin America are aware of the risks associated with the structure of foreign trade and investment between the two sides. During his visit to Latin America in 2015, Chinese Premier Li Keqiang noted that with a long-term perspective, Latin America should not only be a global supplier of raw materials, as China – the world factory “of cheap products”. Moreover, when China announced its plans to restructure its domestic economy, it presented its own vision of further economic expansion into Latin America. Latin America, unlike Africa, is not part of the One Belt, One Road initiative. But in recent years, China has presented a separate plan for the development of foreign economic relations with Latin America.

In 2014 the so-called “1 + 3 + 6 Plan” was presented, which includes one plan (China’s Cooperation Plan with Latin America) with three drivers (trade, investment, finance) and six priority areas of cooperation (energy and natural resources, infrastructure construction, agriculture, manufacturing, innovation, IT). A year later, another area of cooperation was proposed – Li Keqiang presented the so-called “3x3” Plan. It identifies three priorities for the development of integrated infrastructure in Latin America (IT, energy, and logistics) and identifies three key players – governments, society, and the private sector (see Figure 1).
If these plans envisaging a sharp increase in trade and investment alongside a change in the export structure of both sides are fully implemented, they could lead to the economic transformation of Latin America. Importantly, China emphasizes the key role of business, not the government. To date, the presence of private Chinese business in Latin America has been minor while the extractive sector has been dominated by large SOEs. At the same time investments from Latin America to China are almost non-existent. This does not only limit the possibility of technology transfer but also hinders the establishment of deep business ties and diversification of exports.

The diversification of Latin American exports will, in theory, also be stimulated by less interest in natural resources (although they will continue to dominate the export structure) as the driver of growth of the
Chinese domestic economy becomes not cheap production but services. In the areas covered by the Chinese Cooperation Plan with Latin America, the problems to be addressed by new investments from China are identified. In Latin America, only 2% of GDP is spent on infrastructure development, which is relatively small compared to the rest of the world and does not meet the needs of the region. It is estimated that to meet future demand and not to be an obstacle to long-term growth, more than 6% of GDP should go to infrastructure in the coming years. To cover insufficient funds in conditions of limited government spending, it is vital to attract foreign investment.

Latin America is also lagging behind in R&D and can benefit not only from Chinese investment in high-tech industries but also from the associated transfer of technology and expertise to increase innovation and education. Another priority sector of cooperation identified by the China Cooperation Plan with Latin America is bilateral trade and investment in the agro-industrial complex, given the growing consumer demand from China and the comparative advantages of Latin America in this industry. At present, although exports of agricultural products are growing sharply it remains focused on raw materials, especially soybeans. The opportunity for Latin America to produce and export processed goods with increased added value is obvious against the background of reducing the gap between unit labor costs between the two regions.

The successful implementation of the plan will largely depend on the restructuring of the Chinese domestic economy and its ability to meet its commitments. But apart from the question of Chinese commitment and ability to stick to its plan for cooperation with Latin America (which has sometimes been lacking in the past), the improvement will depend on the ability of Latin American politicians to increase the continent’s competitiveness through a comprehensive and
politically complex structural reform agenda. China has noted, for example, that it is ready to sign more free trade agreements (FTAs) with the region to deepen business ties. But in this case, the governments of the countries concerned are obliged to focus their efforts on improving the efficiency of services, reducing production costs, and creating favorable conditions for business. These are tasks that will require politically complex reforms of the tax and regulatory systems, as well as the labor market. It is also important to improve the regulatory framework for public-private partnerships, including the revision of weak incentive structures and uncertain return on investment, as well as the lifting of restrictions on private investment in some areas. In addition, improving education, where Latin America lags behind, will remain a key challenge for local politicians to increase per capita income.

Chinese presence in another region, Africa, has been felt for a long time, but cooperation with African countries is developing rapidly and creates new challenges and opportunities for leaders and entrepreneurs in the region, as well as for foreign companies interested in the continent. China is actively expanding into African countries to protect its economic interests, strengthening trade ties in many markets, investing in strategic supply bases, and offering new financial initiatives to promote trade and investment. China is constantly increasing its economic expansion into Africa, so it is reasonable to expect that the Chinese presence in the region will only grow, penetrating new areas and entering new phases of competition for African markets and raw materials.

Since the early 2000s, China has remained Africa’s largest trading partner, driven by China’s interest in the continent’s raw materials and energy resources, as well as its ability to supply a wide range of goods to African markets. But the expected slowdown in Chinese economic
growth over the next five years, along with attempts to rebalance its economic structure, is expected to somewhat reduce Chinese demand for commodities and limit its ability to invest and lend to some African countries. The more mature Chinese economy raises questions about the vulnerability of major African exporters of raw materials to China, their structural weakness and future financial stability, and potential creditworthiness in the medium term. But even such a reduction in demand for raw materials will not last forever. Chinese companies remain interested in African markets and intend to continue investing in the extractive sector to secure long-term strategic supply. As can be seen from the previous section, this is already happening in the countries of the Copper Belt – Congo, Zambia, and the Democratic Republic of the Congo.

Imports from China to African countries are more stable than exports although growth has slowed since 2015. But in Africa, China continues to use a successful strategy to link sales of equipment, supplies, materials to current and future large investments in natural resource extraction and infrastructure projects. Moreover, the ability of Chinese companies to sell a wide range of cheap goods (including clothing, footwear, furniture, cosmetics, electronics, auto parts, pharmaceuticals, etc.) remains crucial for African markets. Chinese firms have good financial and strategic connections and therefore benefit from growing demand from low-income African countries, as well as from growing demand from the middle-income urban consumer segment. Economic crises in many African countries may create additional demand for cheap goods that China is so adept at promoting, while the Chinese own economic slowdown is forcing entrepreneurs to seek overseas markets to sell products, especially given the Chinese government’s encouragement. Fierce competition from China in the segment of cheap goods, as well as the possible growth of shadow trade
flows and counterfeit products, creates very serious problems for local firms.

At the end of 2015, Chinese President Xi Jinping speaking at the Forum on China-Africa Cooperation (FOCAC) stressed the importance of Chinese investment at the time, noting that China intends to focus on encouraging industrialization, accelerating agricultural modernization, infrastructure development, and trade facilitation. This vision backs up many business strategies aimed at consolidating Chinese economic expansion in Africa, gaining and exploiting access to fast-growing consumer markets, establishing production bases closer to end consumers, and using free trade agreements with Africa (within regional integration agreements and with major international partners), as well as establishing production bases to support value chains and consumer markets in China itself.

The main characteristic of the Chinese economic expansion strategy to African countries, which pursues long-term goals, is the creation and development of special economic zones. In particular, China is actively sharing its experience in industrial development and intends to continue investing in local production and production infrastructure. It is extremely important to note that Chinese investments in export-oriented activities help to diversify the exports of African countries as the share of intermediate and finished products in total exports is growing. Chinese intention to establish production bases in Africa, while improving logistics links with China and within the continent, as well as the current restructuring of the Chinese economy, will intensify diversification trends and create new opportunities for companies located in Africa.

To support Chinese economic expansion into Africa, Xi Jinping announced that China intends to provide US$60 billion of financing (including interest-free loans, preferential loans, export credits, and
additional revolving funds for African development funds) although it is not yet known to what extent these plans will be implemented. However, one trade-promoting initiative is already being implemented, namely the internationalization of the Yuan (Renminbi). China is actively using its currency in trade with countries around the world, and some African countries intend to join this system. So in April 2018, Nigeria joined the list of African countries that use the Yuan in the banking system and keep it as part of the gold and foreign exchange reserves. The purpose of such actions is to alleviate the pressure on the limited financial resources of African countries, reduce transaction costs and losses on currency exchange, ensure some protection against trade risks and generally promote trade and investment between China and Africa. Countries such as South Africa, Nigeria, Angola, Ghana, Mauritius, and Zimbabwe are likely to introduce the Yuan into their financial systems over the next five years by concluding currency swap agreements and increasing the Yuan’s role on the African continent as a means of exchanging and financing projects.

China has long declared a non-interference approach to domestic and security policy in Africa, basing its economic expansion solely on commercial considerations rather than political motives. However, this position is changing. China seems to be interfering more in the internal affairs of African countries in the future. A key factor in changing China’s policy toward Africa is the desire to protect its business interests on the continent. China declares its intention to increase already significant investments, trade routes, business ties with Africa, and recognizes that all this would only benefit from increased security in the region and greater political influence on national governments.

China has suffered in countries such as Libya, Chad, the Central African Republic, Democratic Republic of the Congo, and Sierra Leone.
In the future, China intends to avoid financial losses and urgent evacuation of citizens. China is increasing the number of peacekeepers in Africa and is involved in peacekeeping operations in countries such as Sudan, South Sudan, Mali, the CAR, DR Congo, and Liberia. The Chinese navy operates alongside the Horn of Africa and its presence will grow in the future as part of the “high seas” policy. In a memorandum of understanding, China announced the establishment of the first naval base in Djibouti to protect existing and future trade routes, including the Maritime Silk Road initiative, which will connect Asia with the Middle East, Africa, and Europe. More bases will emerge in the future—potential candidates for their location are Mombasa, Dar es Salaam, Walvis Bay, Luanda, and Lagos.

As noted, the main directions of internationalization of Chinese economic activity were outlined in the Belt and Road initiative. This initiative is primarily aimed at restoring Chinese historic land and sea trade routes (The Economist, 10th/12th September 2015: 15). Africa and Latin America did not play a major role in Chinese trade in ancient times, but these regions have shown a growing desire to cooperate with Chinese enterprises, which has facilitated Chinese economic expansion into these diverse and fast-growing markets. Moreover, SOEs and public financial institutions in China have received direct instructions to increase their investment in areas such as construction and infrastructure (ibid.:15), to provide a permanent presence there. Chinese private companies are also stepping up their operations in Africa, but for other reasons. Some researchers (Mohan, Lampert, Tan-Mullins and Chang, 2014) noted that the reasons for entering the small business market in Ghana and Nigeria are the desire to get rid of the control mechanisms of the Chinese state bureaucracy, personal growth, and even the desire for adventure (ibid.: 59-73).
On the one hand, the results of Chinese investment in Africa are determined by “improvisation and negotiations in specific political and economic regions” (Lee, 2014: 64) and we should recognize the efforts of the ruling elites of countries like Angola and Cameroon to preserve stability in the midst partial civil war and economic stagnation (ibid.: 65). But on the other hand, if we consider Africa as an economic region, we have to admit that it consists of economies that often do not have stable institutional structures or regulatory capacity to effectively manage and protect national resources, such as oil, minerals, and fish from exploitation and damage to the environment. For example, the completion of the Chad-Cameroon oil pipeline project in 2005 symbolizes the weakness of African institutions. Although the Chadian government was to negotiate with the Cameroonian government to allow the pipeline to transport Chadian oil to the Gulf of Guinea across the entire territory of Cameroon diagonally, the remunerations received by the Cameroonian government are negligible compared to Exxon Mobil profits.

Compared to African countries, Latin American countries have the ability to regulate and generate revenue from large resource and infrastructure projects. In addition, thanks to the efforts and aspirations of the labor movement, the rural population, and ethnic minorities to defend private property, individual rights and the environment and security in the region, Latin American countries have developed an effective civil society that is not yet realized in Africa.

Some economic studies of the economic impact of the construction of Kribi port (Cameroon) carried out by China Harbour Engineering Company (CHEC), a major Chinese state-owned enterprise, is an example of China’s financing of African infrastructure projects in a completely different post-colonial political and economic landscape than Chinese infrastructure projects in Latin America (cited by Narins, 2016).
The differences between Chinese economic expansion in both regions are due to the unique nature of the economic conditions in Africa and Latin America.

Specific ways in which Chinese economic agents interact with African countries may differ. But the general mechanisms of Chinese economic expansion on the continent can be generalized in several main directions. One such direction is the ambiguous attitude towards the use of Chinese workers in Chinese FDI implementation or large-scale infrastructure projects in Africa. According to some researchers, it is difficult to understand the economic feasibility of using Chinese labor on a large scale on Chinese projects in countries where unemployment and underemployment are very high. In many countries, the quota of 60% of the local workforce by Chinese companies is rarely met (Cabestan, 2015: 19).

Another major trend may explain why Chinese economic expansion in Africa has been more steady and successful than in Latin America. This is the construction of infrastructure projects in which Chinese companies have been more successful and competitive in Africa (ibid.: 10). The reason is the specific authority (and sometimes corruption) environment of African countries when Chinese companies can focus on one person in the country – the president of an African country – to get approval for their project. Researches argue that corruption rates showed an unexpectedly significant positive impact on Chinese investment in Africa (Ukraynets, 2013). More proof might be obtained from the cases of individual African countries - as in Cameroon where President Paul Biya personally approves each loan (Cabestan, 2015: 14), from China (or any other potential foreign economic partner). This practice is much more common in Africa than in Latin America, with two notable exceptions: Venezuela and Nicaragua. Both President Maduro and President Ortega were seen as personally connected to the Chinese
government and private investors.

Another dimension in which Chinese economic expansion in Africa differs from its expansion in Latin America can be explained by the long legacy of “colonial-type” economic models that permeate many African countries. Chinese economic actors in Africa have to contend with the entrenched and inefficient style of French colonial heritage which relies more on cultural and linguistic features than on technology and efficiency. At the same time, the leadership of some African countries is trying to develop a so-called policy of “disconnection” to reduce the dominant influence of former metropolises on the domestic and foreign economies of African countries (Oyono, 1990: 32).

Another special aspect of Chinese economic expansion into sub-Saharan Africa is that China’s growing presence in the economy is displacing traditional economic partners. Following the Global Financial Crisis, the natural decline in economic transactions with European and American partners has created additional space for the economic expansion of Chinese enterprises (cited by Cabestan, 2015: 1). The legacy of European colonialism – that is, the almost complete domination of European companies in various sectors of the African economy – takes much more economic space in African countries than in Latin America. But today, although European and American investors and traders still account for most of the value of the total investment in most African countries, the powerful achievements of Chinese economic entities in various infrastructure projects, in particular, have become extremely common. The economic relations of most African countries with China are described by their governments as “strategic”. In some countries (such as Cameroon) more than 70% of all infrastructure projects are involving Chinese companies. 90 percent of road construction or reconstruction is also carried out by Chinese corporations (ibid.: 3-4).
In contrast, in Latin America, although small countries such as Ecuador (where more than half of all investment comes from China) or less politically stable countries such as Venezuela have recently received most of their FDI from China, most other Latin American countries have had a much wider network that actively involved multinational companies. One of the reasons for China’s large number of loans to African countries is that in many cases, China is moving where the West does not want to go, for financial or political reasons, or both (Krauss and Bradsher, 2015).

In this sense, Chinese investors and traders are extremely practical, and in the process of economic expansion outside China, they work with a focus on investment return, rather than on the image of the host countries. This policy of “non-interference” is one of the cornerstones of modern Chinese foreign economic policy, and from a purely economic point of view, it may be considered as a competitive advantage for Chinese companies seeking to find new markets for expansion. Although Western companies also do not always insist on human rights in the countries where they invest and operate, such issues are often on the agenda, and until recently the idea of corporate social responsibility (CSR) was much more prevalent in Western business culture than the Chinese one.

Although China is accelerating economic expansion with both Latin America and Africa, Latin America has a more developed institutional environment combined with resistance from environmentalists and growing concerns about China (The New York Times, 3rd October 2015). That led to the formation of a completely different expansion strategy for this region. In several Latin American countries, there is a complex process of environmental assessment of projects, during which many foreign investments (both Chinese and developed) are rejected. The bureaucratic system of most Latin American countries, by its very
nature, is a powerful deterrent to economic expansion. This is especially true of those Chinese projects that involve Chinese labor to build local infrastructure. According to researchers China’s economic expansion into Latin America is much slower and less effective, largely due to painful bureaucracy, laws banning China from hiring its staff, a network of audit courts, and the ability of dozens of different prosecutors to nullify any what economic megaprojects with their numerous lawsuits. Comparing Chinese economic expansion (mainly through FDI) in Latin America and Africa, the researchers note that Latin America has far more formalities that in one case is in favor of the country’s economy, in another, not (cited in The New York Times, 3rd October 2015). The competent and well-established bureaucracies can significantly slow down the pace of agreement and timing that China is accustomed to. The Chinese style of economic expansion generally involves a high level of negotiation, often between heads of state, verbal agreements, and mutual concessions. This type of foreign trade agreement is associated with their rapid implementation, especially when it comes to projects funded by the Chinese side. Latin America’s bureaucracy slows down agreements and projects, making Chinese economic expansion in the region more problematic than in Africa (CNN, 16th February 2016).

But in part, the bureaucratic system of Latin America might also benefit the development of economic ties with China, compared with African countries. In some Latin American countries, there are a lot of highly qualified employees who speak many languages and have diverse international experiences. Suffice it to say that some African countries send their diplomats to study at the Rio Branco Institute in Brazil (Rohter, 2010: 246).

In addition, the example of a recent investment agreement between a Chinese state-owned enterprise and the Chilean government emphasizes the ability of some Latin American governments to use legal
contracts to actively manage, regulate and influence Chinese economic expansion, especially when such agreements are perceived as economically unprofitable or environmentally harmful to the host country. The failure of the Chinese Minmetals Group in 2008 to buy a large stake in one of Chile’s state-owned copper mines (the so-called Gabi) after the Chilean government decided to ban the Chinese SOE from expanding its control over the mines illustrates the proactive stance of some Latin American governments in economic relations with China (Barretto Romero, Cerda Villalón and Hernández Navarro, 2010: 31).

Many Latin American countries legally guarantee favorable investment conditions for foreign investors, including Chinese ones. The official investment mechanism in most countries provides for the principles of non-discrimination, non-preferential treatment, economic freedom, and legal certainty and stability (Gajardo, 2011: 14). In most African countries such legal mechanisms do not exist or are imperfect and ineffective.

In general, in South America, several projects have been proposed since the 1970s for the construction of trans-Amazon highways, including a recent railway project that runs from the Brazilian port of Santos in the Atlantic to the port of Ilo, Peru in the Pacific. This project, if implemented by a Chinese company, will include 3,500 km across South America, and will be a significant demonstration of China’s experience in financing, infrastructure development, and technological maturity. But to date, this project has not become a reality due to protests from environmentalists and local communities, as well as due to the lack of the necessary tripartite agreement between Brazil, Peru, and China (Peters, 2015). Although the details of the ultimate failure of both Chinese resource and infrastructure projects remain unclear, it is apparent that the initiative to cut economic agreements with Chinese firms may sometimes come from the society or the government. For
example, in September 2015 in Peru, the national government was forced to impose a state of emergency in an attempt to end the damage caused by protests over a major Chinese copper mining project that led to four deaths (AFP, 2015).

However, in Latin America, it’s specific for the Chinese economic expansion that large-scale natural resource extraction agreements forced through by well-funded Chinese government representative organizations are concluded within a new economic model that is quite different from the neoliberal free-market model encouraged by governments of the United States and Europe. Except for international trade and investment, recent macroeconomic successes in economies such as Bolivia and Ecuador support the assertion that the Washington Consensus policy has not worked for developing countries (Chang, 2015).

And indeed, some researchers note (Financial Times, 2nd September 2015) that the Chinese return to dirigiste intervention became even more pronounced. In particular, several years ago the Chinese government has moved away from its previous statement that only the market will play a crucial role in the economy. Thus the continuation of foreign economic relations with oil states such as Venezuela not only makes financial sense (although it is somewhat risky) but also agrees with Beijing’s economic logic – to pursue economic expansion outside China in all countries with the potential for growth of economic activity. In addition, countries such as Chile and Uruguay, given their size and ability to pursue long-term economic policies consistently, have been able to attract Chinese economic agents who agree to abide by their trade and investment laws (Rathbone, 2015). Such cases are much less common in Africa.

A comparative analysis of Chinese economic expansion strategies for Africa and Latin America is summarized in Figure 2.
Figure 2 Comparative Analysis of Chinese Economic Expansion Strategies in Africa and Latin America

**Africa**

- Steady increase in expansion since the early 2000s
- Processes of economic expansion occur with minimal obstacles and in a short time
- Countries in the region often lack sustainable institutional structure or regulatory capacity to effectively manage and protect the national economy
- Agreements with China often harm the economic security of the region
- Expansion takes place in the conditions of established economic models of the "colonial type"
- Chinese expansion means displacing the region's traditional foreign economic partners
- The main cooperation is through Eximbank
- Adaptation of financial strategies to the specificities of the region
- Part of the B"/il"/and and Road initiative
- State-level relations play a key role
- High commodity prices have stimulated economic growth in many countries, and in some have been a major source of growth
- The decline in demand for raw materials has affected African countries less. In some, on the contrary, there is a growing interest of Chinese entrepreneurs
- China is the main source of available goods
- Agriculture
- Barrier for technology transfers on Chinese lack of own workers on projects and the formation of closed circles

**Latin America**

- Continuous increase in expansion given the strategic interests of the United States in the region
- The processes of economic expansion are slower due to greater resistance
- The institutional environment and civil society pressure is efficient and effective
- The countries of the region sign economic agreements with China on more favorable terms
- There is no colonial economy in the region
- Chinese expansion is a supplement and diversification of the geographical structure of foreign economic cooperation in the region
- The main cooperation through the China Development Bank
- Simpler conditions favor efficient lending to Venezuela
- Plan 1+3+6 for Latin America and 3+3 plan
- China is handing over the main initiative to private companies
- Trade
- Falling commodity prices have caused economic crisis in the region
- Liability of local governments to use high prices to implement domestic structural reforms and ensure a more competitive economy
- In the future there are perspectives for Chinese annexation
- Restructuring of Chinese economy to strengthen the service sector

**General characteristics of economic expansion**

- Credit granting
- Long-term initiatives
- Innovation and technology transfer
- Agriculture and manufacturing
Figure 2 (Continued)

Africa

- Linking sales of equipment, machinery, materials to current and future large investments in natural resource extraction and infrastructure.
- There is a significant underdeveloping of infrastructure in both regions.
- Africa is seen as a springboard for Chinese future production bases.
- There is a significant underdeveloping of infrastructure in both regions.
- The terms of investment contracts often depend on the specific case and (in)efficiency of negotiations.
- Use of Chinese labor on investment projects.
- High levels of unemployment and underemployment in host countries.
- Obtaining rapid approval of new investment projects through direct contacts with heads of state.
- Extensive use of aid programs to further build economic ties.
- A number of countries plan to introduce the yuan into their financial systems over the next five years to serve foreign trade transactions.
- China is moving away from a policy of complete non-interference in the domestic politics of the region.
- China has suffered political stakes in some African countries.
- Encouraging corruption schemes in the implementation of investment projects.

Latin America

- There is no link between infrastructure projects and trade.
- China is only one of many players in the field of infrastructure projects.
- Relatedly, higher wage levels limit Chinese use of the region to shift labor-intensive production.
- Chinese investors receive legally guaranteed favorable investment conditions on par with others.
- Use of local labor on investment projects.
- Better system of social protection, labor protection, and migration policy.
- Approval of investment projects involves a complex bureaucratic procedure; some important projects were rejected.
- Limited use of aid (selected countries); there is no link being aid to further investment and trade projects.
- The countries of the region use the yuan as one of the reserve currencies.
- China's commitment to sustainable development in the domestic politics of the region.
- China has for many years declared a policy of "non-interference.
- Incarceration of the criminal situation related to human or drug trafficking.

Similar features:

- Trade surplus of raw materials from the regions. Import of finished products into the region.
- The trade deficit.
- Investments focused on natural resource extraction, industry, and related infrastructure. Investments from both regions in China are virtually non-existent.
- R&D: Both regions can benefit not only from investment in research, but also from the associated transfer of technology and expertise.
- Long-term initiatives: China's ready to sign more bilateral FTAs. China's ready to work with any region.

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4. Conclusions

When studying Chinese relations with developing countries of Africa and Latin America, it is important to avoid a simplified explanation of the nature of their cooperation. According to Zhang Lifan, a Beijing researcher: “the problems of economic growth are related to the problems of political governance” (cited in Financial Times, 12th-13th September 2015)

First, the Chinese presence in developing countries, although growing rapidly, is still short-lived and in many cases small in absolute terms. Therefore, it cannot be assumed that the behavior of the partners is already defined – the policy on both sides is still at the stage of “adaptation”.

Second, it should be remembered that the Chinese strategy of entering foreign markets, as declared, is primarily dictated by domestic needs, rather than predatory plans to capture the world (Nolan, 2012). Therefore, strengthening Chinese cooperation with Africa and Latin America might bring indirect benefits to many developed countries (see, for example, Gross, 2012).

Third, in recent years, clear characteristics of the Chinese “African” or “Latin American” strategy for developing countries have been outlined. In particular, Beijing expressed some general views on relations with these countries. Although Chinese policy towards developing countries might not be called completely monolithic, as there are many public and private players in the market, the analysis identifies several important factors inherent in these two approaches of economic expansion strategy, including the experience of industrialization. income levels, the development of the economic structure, the diversification of foreign economic relations, the institutional environment, the economic link to the former metropolises, the effectiveness of the system of legislative regulation, the civil society. Most Latin American countries
are characterized by much better development of all these factors. Perhaps this is why promoting major infrastructure projects in Africa is much easier for the Chinese government.

Note

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Abstract
This article discusses China’s processes and efforts to restore the economy during the presidential term of Jiang Zemin (1989-2002) until the “Three Representatives” (Sange Daibiao – 三个代表) theory was formulated. After the 1989 Tiananmen Square protests, the continuation of China’s economic reform was threatened due to the heightened pressure from the conservative faction that opposed the Gaige Kaifang program. The situation caused China’s economic reforms to be stagnant, and the country’s economy sharply declined. The international embargoes and condemnation further worsened the economic condition of China. Jiang Zemin’s efforts to regain the trust of foreign investors by building the private sector and internationalizing China’s trade then succeeded in bringing a big leap in the economy of China. These efforts later inspired the formulation of the “Three Representatives” theory. This article applies historical methods to analyze and interpret Jiang Zemin’s efforts to improve China’s economy in the aftermath of the 1989 Tiananmen Square protests until the formulation of the “Three Representatives” theory in 2002.
**Keywords:** Jiang Zemin, China’s economic reform, internationalization of China’s trade, the Three Representatives theory

1. Introduction

Jiang Zemin is known as the 3rd generation paramount leader of the People’s Republic of China (PRC – Zhonghua Renmin Gongheguo – 中华人民共和国). Under his leadership (1989-2002), China experienced rapid economic growth. China also survived the Asian financial crisis, and its foreign relations continued to improve. During the era of his leadership, Hong Kong was returned by the British\(^1\), and Macau\(^2\) was returned by Portugal to the Chinese Government under a peaceful and good term (Loh, 2006: 295). Before being appointed as General Secretary of the Chinese Communist Party (CCP – Zhongguo Gongchandang – 中国共产党), Jiang Zemin had served as mayor and party secretary of Shanghai from 1985-1989. At the time, Jiang Zemin was known for his success in suppressing the student demonstrations in Shanghai that took place in 1986 by holding a dialogue instead of using military forces. In 1989, due to the massive demonstrations during the Tiananmen Square protests\(^3\), Zhao Ziyang who served as the CCP General Secretary at that time was removed from his post. Deng Xiaoping\(^4\), who was impressed by Jiang Zemin's performance in Shanghai, chose him to become the new General Secretary of CCP (Bachman, 1996: 375-378). Jiang Zemin was appointed as General Secretary of the Chinese Communist Party replacing Zhao Ziyang on June 24, 1989.

At the beginning of his leadership, Jiang Zemin faced the unstable domestic political conditions, as well as international embargoes in both the military and economic sectors which caused the economic downturn of China (Béja, 2011: 272). On the other hand, the 1989 Tiananmen
Square protests caused the factionation within Chinese politics to strengthen, especially among the conservative and moderate factions. Within the conservative faction, there were many influential figures, including Chen Yun and Yang Shangkun. Conservative faction considered that China’s economic reform or what was known as the “Reform and Openness” program (Gaige Kaifang – 改革开放) had been too open to foreign investment. If that continued, then the central government would lose control over the country’s economy, this was certainly very dangerous because it could cause disruption to the whole Chinese government system. Based on these arguments, the conservative faction demanded tighter control from the central government over the country's economic system and limited the openness to foreign investment within the Gaige Kaifang implementation (Lin, 1992: 197-200). Meanwhile, the moderate faction had opposite opinion, for they argued that it was necessary to implement a greater and more open Gaige Kaifang to produce high economic growth and performance. It aimed to improve the living standard of the people (Feng, 2008: 674-676). The outbreak of the 1989 Tiananmen Square protests seemed to justify the view of the conservative faction that the Gaige Kaifang implementation in China should be limited. The voice of the conservative faction became exceptionally strong during that period that it affected the Chinese economy, particularly in banking and trading as well as heavy industry. This posed a major threat to the sustainability of the Gaige Kaifang program (CIA, 2012: 3).

Apart from the domestic criticism from the conservatives, the Chinese government also received criticism from the United States. The President of the United States, George H.W. Bush expressed criticism to the Chinese Government for its decision to deploy the People’s Liberation Army (PLA – Renmin Jiefangjun – 人民解放军) to overcome the wave of demonstrators, which resulted in the loss of many...
lives in the 1989 Tiananmen Square protests. On that ground, George H.W. Bush asked international loan institutions to delay granting new loans to China. World economic bodies and investor countries responded to the United States, which led to Foreign Private Investment Companies suspended their financing for China, investment from the U.S. Trade and Development Agency (USTDA) was stopped, and technology exports to China were limited (Rennack, 2006: 2-3). In addition, the World Bank and the Government of Japan froze around USD 10 billion worth of aid projects (Katada, 2001: 5-6). The Asian Development Bank also delayed the provision of an estimated USD 1 billion loan that was supposed to be disbursed to China in 1989 (CIA, 1989: 5-7). Moreover, foreign joint venture companies in China reduced the number of imports of Chinese goods and delayed their new investment in China; some foreign investors had even reportedly shifted their investment from China to the Southeast Asian countries (Worthy, 2014). This condition caused a decline in the number of Chinese exports in 1989 and caused the country’s trade deficit to increase from 1.2 billion USD in 1988 to 5.7 billion USD in 1989 (Dittmer, 1990: 37-38).

Barry Naughton in an article entitled “China: Economic transformation before and after 1989”, describes the change in China’s economic behavior since 1989. He argues that: “The political crisis of June 1989 was the catalyst for a shift in the overall pattern of Chinese economic transition. In both political and economic terms, the crisis gave urgency and legitimacy among the ruling elite to a model of concentrated power wielded more effectively. As a result, the next stages of marketization were combined with a stronger role for the state, and a regime more capable of mobilizing resources for economic development and national security” (2009: 15).

Naughton’s opinion above shows that the 1989 Tiananmen Square protests were a trigger for changes in the overall pattern of China's
economy and politics. As stated by Wu (2015), this change was also caused by the pressure of the conservative faction, which threatened to end the *Gaige Kaifang* program. To deal with the situation, the government had to limit foreign investment and return the Chinese economy to a centralized system, which also caused *Gaige Kaifang* to stop, while weakening the legitimacy of government policies.

This was a formidable challenge that Jiang Zemin had to face at the beginning of his tenure. The subject of this article is the strategy of Jiang Zemin to overcome this problem. Some of the questions that will be discussed in this article are how China’s economic, social and political conditions after the 1989 Tiananmen Square protests were; what steps Jiang Zemin took to overcome the problem; and to what extent these steps later became the basis for the theory formulation of Three Representatives (*Sange Daibiao – 三个代表*). Through these three questions, it is hoped that this article can provide a comprehensive picture of the implementation of *Gaige Kaifang* in the era of Jiang Zemin's presidential term. The role of Zhu Rongji in accompanying Jiang in running the government and the influence of Jiang’s policies on subsequent governments are also part of the discussion of this article.

There have been several academic papers discussing the impact of the 1989 Tiananmen Square protests on the development of China's economic and political reforms. In an article published in 2009 entitled “Economic reform and openness in China: China’s development policies in the last 30 years”, by Clem Tisdell, it was explained that various political events that occurred in China had a major influence on the policies of *Gaige Kaifang* implementation. In 2013, Xin Li and Kjeld Erik Brødsgaard also published an article entitled “SOE reform in China: Past, present, and future” that outlined the impact of the Chinese government’s favoritism for SOEs on the economy and social problems. The article outlines the reforms of China’s SOEs prior to Hu Jintao’s
presidency and the direction for future reforms. The ineffectiveness of China’s SOE reforms that lasted until the mid-1990s until its success in late 2000 is also described in this article. The above works have inspired this article to specifically discuss Jiang Zemin’s steps in re-enacting the Gaige Kaifang program after the 1989 Tiananmen Square protests. The way these steps succeeded in maintaining unity within the CCP and realizing China’s economic improvement as well as formulating Sange Daibiao theory will also be discussed in this article.

This article applies a historical approach that includes the stages of heuristics, verification, interpretation, and historiography. The heuristic stage or looking for both primary and secondary sources is carried out by using scientific journal publication media such as JSTOR and the official website of the Chinese Government. The primary sources are Jiang Zemin’s speeches that had been published, as well as contemporary newspapers during the 1989-2002 period. Meanwhile, secondary sources in the form of e-books and scientific journals are used as supporting data in interpreting and analyzing. Furthermore, source criticism is carried out to select relevant data, followed by interpretation of the data for analysis. During the writing or historiography stage, the results of the analysis about this article are presented.

2. China’s Condition after the 1989 Tiananmen Square Protests

China’s economic reforms began with the Gaige Kaifang program initiated by Deng Xiaoping in 1978. Since then, China had opened to foreign investment and companies wishing to open branches in China. This was an important factor for national economic growth (Kobayashi et al., 1999: 45). Since 1981, economic policies and the speed in carrying out reforms had been a matter of sharp debate between conservative and moderate factions. On one hand, the conservative
faction, led by Chen Yun, wanted to return to the government’s centralized economic system. They argued that reforms that were too open led to increased corruption and inflation, which would lead to social inequalities that could turn into conflict (Woo, 1999: 13). On the other hand, the moderate faction argued that larger and more open reforms were needed to produce high performance and economic growth, thereby improving people’s lives (Feng, 2008: 674-676).

The 1989 Tiananmen Square protests were not the first demonstrations caused by the conflict that accompanied Gaige Kaifang implementation. On 23 December 1986, there had been a series of student demonstrations demanding the acceleration of economic reform and the implementation of democracy. This demand was triggered, among others, by a speech delivered by Fang Lizhi⁹, in which he argued that China at that time was far behind other countries and major reforms could bring China out of this underdevelopment (Sullivan, 1988: 206). At that moment, Hu Yaobang, as the CCP Secretary General, was considered to side the students so that he received strong criticism from the conservative faction. Hu Yaobang then resigned in 1987 but was recognized by students as a political figure siding with the people (Richelson and Evans (eds.), 1999). The 1989 Tiananmen Square protests were the culmination of a demonstration which then quickly spread to various cities in China and caused enormous social conflict (Woo, 1999: 11-41).

Conservative faction blamed the Gaige Kaifang program for the 1989 Tiananmen Square protests. They considered that the implementation of Gaige Kaifang, which was too open to foreign investment and prioritized the market economy, had provided opportunities for corruption and nepotism which also undermined the ideology of Chinese socialism. Chen Yun believed that a centralized economic system was the main economic system, whereas a market
economy was only a complementary system (Kuhn, 2010: 75). To return the control of China’s economy to the central government, conservative faction then conveyed their criticism at the CCP plenary session on November 16, 1989 (Shirk, 1993: 80-81). During 1990-1991, conservative faction launched a wave of criticism about market economic policies. They demanded the Chinese Government to be vigilant and stop the efforts of “peaceful evolution” from the United States. They said that carrying out the Gaige Kaifang and being influenced by “peaceful evolution” would lead China into a capitalist system. The success of conservative groups to put a brake on the pace of reform was seen at the CCP’s 13th Plenary Central Committee meeting in December 1990 which criticized the Gaige Kaifang program. The plenary also supported Chen Yun’s economic thinking regarding sustainable, stable, and coordinated economic development (Fewsmith, 2008: 48).

China’s economic decline began with inflation in 1988 which caused unemployment and poverty to rise. This then became one of the triggers for the 1989 Tiananmen Square protests (O’Mahoney and Wang, 2014). Conservative faction that constantly blamed the Gaige Kaifang program for the 1989 Tiananmen Square protests and brought the program to a halt had caused the country’s economy to deteriorate (Kuhn, 2010: 76-78). In 1989, China’s poverty rate was the highest throughout the 1980s causing unrest in society (Cook and Gordon, 1998: 9). The 1989 Tiananmen Square protests had caused public to doubt the reform, because they felt that reform had more negative impacts than positive impacts (Fewsmith, 2008: 21). Meanwhile, it created demotivation among Chinese leaders; the desire to stop the Gaige Kaifang process was getting stronger (Wibowo, 2004: 110). Apart from losing the people’s trust, the Chinese government had lost the trust of foreign investors because China was considered unable to solve the
political and economic problems in the country (Kelley and Shenkar (eds.), 1993: 162-163).

Furthermore, the reaction from the United States expressed by President George H.W. Bush, as described above, received responses from world economic bodies and Chinese investor countries. Among them are the World Bank and the Japanese Government which froze aid projects worth around 10 billion USD. Meanwhile, the Asian Development Bank had postponed the new loan proposed by China worth around 1 billion USD. This caused the amount of foreign loans received by China to decrease by almost 50% in 1989 (Harding, 1990). Foreign capital in China also declined 22% in 1990. Foreign joint venture companies in China reduced their production volume and delayed new investment into China. Even George H.W. Bush said that the economic sanctions for China would not be lifted until China could show improvements in terms of protecting human rights (Glass, 2011). Meanwhile, in Europe the European Economic Community\textsuperscript{11} canceled all cooperation contracts and high-level loans as well as imposed a military embargo on China (Brauner, 2013: 460-461). To sum up, the problems that Jiang Zemin faced at the beginning of his tenure were complex. He was faced with domestic and foreign conflicts, which caused China's economy to decline.

3. Efforts to Reduce Conflict and Draw Investors Back

As the new CCP leader after the 1989 Tiananmen Square protests, Jiang Zemin had to secure his leadership position. One of his efforts was maintaining a safe alliance, both with the conservative faction led by Chen Yun and the moderate faction led by Deng Xiaoping (Rolls, 2004: 2-4). China's economic decline after the 1989 Tiananmen Square protests led the opinion of conservative faction dominated most party
votes. At that time, Jiang Zemin’s position as party leader was not yet stable, so he tended to follow the dominant opinion and side the conservative faction more than trying to re-run the stalled *Gaige Kaifang* program (Rolls, 2004: 123).

In response to the economic downturn as well as the stagnation of the *Gaige Kaifang* implementation and the strengthening of the domination of the conservative faction, in 1992 Deng Xiaoping decided to travel to the southern region of China (*Nanxun – 南巡*)\(^1\). During the trip, Deng Xiaoping delivered important speeches in several cities he visited. Deng Xiaoping emphasized the call to conduct *Gaige Kaifang* in a more moderate and open manner and denied the conservative faction’s view that the *Gaige Kaifang* program was the cause of the 1989 Tiananmen Square protests. According to Deng Xiaoping, openness was needed in China as the ground to learn new technologies and skills needed for the development of the country (Brown, 2009). In his speech, Deng Xiaoping also attacked the conservative faction by saying that the danger facing China at that time was not the *Gaige Kaifang* program but rather the demands of the conservative faction to stop the program so that the country’s economy worsened. Deng Xiaoping emphasized that one of the CCP's main tasks was to produce high economic performance, and a greater implementation of the *Gaige Kaifang* was required to make this happen. Deng Xiaoping’s ideas conveyed during *Nanxun* were later published in local Shanghai and Shenzhen newspapers and received a lot of popular support (Wong and Zheng (eds.), 2002: 25). The contents of Deng Xiaoping’s speech include the following:

“不坚持社会主义，不改革开放，不发展经济，不改善人民生活，只能是死路一条。。。现在，有右的东西影响我们，也有“左”的东西影响我们，但根深蒂固的还是“左”的东西。。。 “左” 带有革命的色彩，好像越“左”越革命，

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“左”的东西在我们党的历史上可怕呀！一个好好的东西，一下子被他搞掉了。右可以葬送社会主义，“左”也可以葬送社会主义。中国要警惕右，但主要是防止“左”。。。低速度就等于停步，甚至等于后退。” (Deng, 1993: 375)

[“If we do not comply with socialism and implement policies of reform and open ourselves to the outside world and develop the economy and raise the standard of living, then we will be at a dead end ... Today, we are affected by ‘right’ and ‘left’ tendencies. But it is the ‘left’ tendency that is dominant... the 'left' has revolutionary connotations, giving the impression that the more ‘left’, the more revolutionary it is. In the history of our party, this trend has had dire consequences. Several achievements were destroyed overnight. ‘Right’ tendencies can destroy socialism, but so can ‘left’. China should guard against the ‘right’ but even more so against the ‘left’ ... Slow growth equals stagnation and even decline.”]

Deng Xiaoping’s criticism towards the party that stopped Gaige Kaifang and caused the country’s economy to deteriorate led Jiang Zemin as CCP Secretary General to rethink his indecisive stance against the actions of conservative faction (Liu, 2000: 73-84). He realized that Deng Xiaoping’s criticism also focused on his weak attitude towards reform and more fear of the party than China's economy in danger. This could put his ability as a party leader at stake (Scobell and Wortzel (eds.), 2004: 136). Jiang Zemin, who had a reformist side, finally decided to support Deng Xiaoping and continue the Gaige Kaifang program.

In a meeting with politburo members, Jiang Zemin ordered Deng Xiaoping’s reform ideas during Nanxun to be carefully studied and applied in the Gaige Kaifang implementation throughout China (Zhao,
1993: 751-752). Furthermore, Jiang Zemin read various books and research articles, looking for appropriate arguments to convince the conservative faction to agree to the continuation of the *Gaige Kaifang* program. From there, Jiang Zemin believed that one of the reasons for the collapse of the Soviet Union was due to the neglect of economic reforms. The conclusion then became the basis to continue the *Gaige Kaifang* program (Kuhn, 2010: 76). Learning from the experience of the Soviet Union, what China needed at that time was better economic management (Tabata (ed.), 2015: 47).

Jiang Zemin told the conservative faction that the government had to reduce the interference in the way the economy ran and let the private sectors develop their finance independently. That way the country’s economy would be more developed so that it could improve the people’s standard of living. By having a developed economy, the CCP could win the trust of the people and remain in power. At that time, the regional leaders strongly supported the re-operation of *Gaige Kaifang*. This weakened the domination of the conservative faction in the party. Jiang Zemin also supported Deng Xiaoping and continued the *Gaige Kaifang* program; together with Prime Minister Li Peng, he socialized the idea to the people and sped up the return of *Gaige Kaifang*. Furthermore, more than 20 articles and papers published by both the central and local governments supported Deng Xiaoping’s speech during *Nanxun*. The Politburo agreed to continue *Gaige Kaifang* (Scobell and Wortzel (eds.), 2004: 137). President Yang Shangkun later announced that the party’s main objective at that time was economic reform. Since then, the *Gaige Kaifang* program has been running again (Kuhn, 2010; 80).

Jiang Zemin then proclaimed a new vision of the party based on Deng Xiaoping’s reform ideas to accelerate the *Gaige Kaifang* implementation. During the mid-1992, Jiang Zemin took a firm stance by encouraging the politburo to be more vigorous in practicing Deng
Xiaoping’s reform ideas, and he would fire any member who refused to carry out these reforms. It also increased the autonomy of state-owned enterprises (Alexandra, 2016: 127-129). Since Nanxun, Jiang Zemin has started thinking about the best legitimacy to run Gaige Kaijiang. During the CCP’s 14th congress in October 1992, Jiang Zemin came up with the idea of a socialist market economy (shehui zhuyi shichang jingji – 社会主义市场经济) as the party’s official terminology and the new orientation of the Chinese economy at the time (Tisdell, 2009: 272-273). He argued, the term “socialist market economy” was considered plausible to describe this because it implied that the market economy remained consistently based on socialism (Cui, 2012: 666-672). Jiang Zemin also said that the key to forming a new system in the economy was to understand the international market. In addition, he emphasized that the aim of Gaige Kaifang was a socialist market economy. The socialist market economy had been introduced massively by Zhu Rongji who was the governor of the People’s Bank of China (Zhongguo Yinhang – 中国银行) since 1993 (Brødsgaard and Rutten, 2017: 100-102). Thus, Jiang Zemin determined that the party had to focus on improving the country’s economy and had to work hard to build socialism with Chinese characteristics (Zhongguo tese shehuizhuyi – 中国特色社会主义). With this system, the market would play a major role in the development of production forces.

Apart from the pressure from conservative faction, Jiang Zemin had to face the fact that there was a high inflation rate and a decline in FDI (foreign direct investment). To overcome this problem, the steps taken by Jiang Zemin were to limit domestic investment and open greater opportunities for foreign investment. In carrying out these steps, Jiang Zemin and Zhu Rongji reformed the banking and loan system by adopting a “soft landing” approach, in which the economic growth process was carried out slowly to suppress inflation (The New York
Times, 11th August 2006). Jiang Zemin carried out gradual outreach directly to local leaders by coming to their respective areas. With personal outreach, local leaders realized that reform was needed to fix the economic crisis facing China at that time (Kuhn, 2010: 89). The reforms carried out included generalizing the country’s taxation system, which was different in each province, into the same Value Added Tax (VAT) system which was applied throughout China\textsuperscript{13}. With the VAT system, the revenue of the central government and local governments obtained from taxes could be divided equally in each province; the central government got 75% and the local government got 25%. After successfully convincing domestic leaders to continue the Gaige Kaifang program, Jiang Zemin then visited countries in Europe, such as Britain and France, to promote how China’s “soft landing” strategy had succeeded in reducing inflation through loan restrictions and a new tax system (Brødsgaard and Rutten, 2017: 107).

Since late 1992, provinces all over China had undertaken the Gaige Kaifang at a rapid pace. The economic downturn that China had experienced since the 1989 Tiananmen Square protests begun to show good development, and since 1992 the Chinese economy began to experience significant progress. In 1992, China’s GDP rose from the original 383.4 billion USD in 1991, to 426.9 billion USD in 1992. Foreign direct investment (FDI) increased sharply from previously below 10 billion USD in 1990 to 42.6 billion in 1993. With the increase in FDI, the country’s foreign exchange reserves also increased sharply (Chadee \textit{et al.}, 2003). Apart from the sharp increase in foreign investment, China also succeeded in realizing fast economic growth. Consumer Price Index (CPI)\textsuperscript{14} decreased sharply from 17.1% to 2.8% during the period 1995-1997. Since then, China has been able to prove to the international community that it can maintain high economic growth and suppressing inflation (Kuhn, 2010: 90). The following are concrete
steps that Jiang Zemin took to restore China’s economy, namely through the Xiahai program and the internationalization of Chinese trade.

3.1. Xiahai as a Basis to Develop People’s Productivity

Literally Xiahai (下海) means “going down to the sea”, but as a policy it means an effort to encourage people to enter the business world. In the early stages of implementation, the increase in the number of the private sector was not significant; however, the state’s recognition of the private sector had great potential to boost the pace of the Chinese economy further (Wang, 1990/2007: 83). Business activities later became popular, even among CCP members. In the mid-1990s party cadres and government officials became the largest group that founded the private sector (Wong and Zheng (eds.), 2002: 102).

A new challenge for Gaige Kaifang towards the end of the 1990s was the need to overhaul the system of SOE shareholding rights, which in 1997 suffered losses (Li, 1998: 23). CCP issued a policy to allow some SOE shares to be owned by individuals. Thus, it was possible for the private sector or individuals to become part of the ownership of these SOEs. This policy attracted many CCP members to invest in SOE. Through ownership of these shares, party members could gain economic benefits and greater personal freedom (Holbig, 2002: 41-42).

The development of the phenomenon of “CCP members doing business” was against the Xiahai policies, which sparked controversy and sharp criticism from conservative faction to Jiang Zemin. They attacked Jiang Zemin by saying that he had tarnished the CCP’s ideology by allowing “capitalist” practices in the party (Fewsmith, 2003: 3). To defuse the controversy, Jiang Zemin reviewed the course of the Gaige Kaifang program from the beginning. Jiang Zemin held meetings with the intellectuals to hear their oral testimonies about Gaige Kaifang; he also read classics of Marxism and Leninism, newspapers, and
research articles, as well as summarized technical documents on the implementation of the *Gaige Kaifang* program since 1978 (Wong and Zheng (eds.), 2002: 101-105). Amid an ideological crisis and the state’s need to develop the economy, Jiang Zemin had to be able to develop and harmonize Marxism and Leninism with the needs of the state to strengthen the party. Jiang Zemin then explained logically to the conservative faction with the argument that, *Gaige Kaifang* should be done in stages. He used the works of Karl Marx, Vladimir Lenin, and Frederich Engels\(^{15}\) as the basis of the argument that a policy had to be formulated in accordance with the real situation, so the reality of state conditions determined a policy, not dogma (Kuhn, 2010: 97). Jiang Zemin’s argument could fend off the attacks of conservative faction on his policies of the *Gaige Kaifang* implementation. In this regards, Jiang Zemin could continue to improve the country’s economy while maintaining the unity of opinion within the party. Furthermore, Jiang Zemin developed a perspective on the teachings of Marxism and Leninism with a more modern understanding which he called a “socialist market economy with Chinese characteristics” (Killion, 2006: 11).

After Jiang Zemin resolved the ideological constraints associated with private sector ownership, in 1997 Jiang Zemin announced that the private sector was an important component of the country’s economic development that went hand in hand with state-owned enterprises (Kanamori and Zhao, 2004: 6). The state had to let the sectors such as retail and manufacturing to be managed by the private sector. Meanwhile, the main sectors such as natural resources and infrastructure were still controlled by the state. In September 1997, Jiang Zemin submitted a draft of China’s economic policy towards the 21st century, in which all policies issued by China had to be decided based on the criteria “whether the policy is beneficial for the growth of the people’s productivity power to improve people's living standards while still based
on socialism” (Kuhn, 2010: 97-99). All private sectors had to be useful to serve socialism, while the state had to use market forces to develop industrialization and the private sectors. Furthermore, in 1998, banks in China were formally recommended to give loan to the private sector, and the stock market included the private sector in China. This could be seen as the state’s recognition towards the large contribution of private entrepreneurs to China’s economic growth and reform. According to the International Finance Corporation, in 1998, income from the private sector was able to contribute 45% in increasing GDP in China. This number is the highest compared to the SOE sector which contributed 37% and the collective sector which contributed 12%. (Zhang, 2019: 1-5).

Jiang Zemin mobilized people from all levels to participate in Gaige Kaifang and Xiahai aiming to ease people to adapt to an economic system that was once centralized to a “socialist market economy” (Holbig, 2002: 42). To develop the national economy, the private sector could increase the overall social productivity. For example, companies engaged in technology and information could develop new and sophisticated technology that played an important role in China’s technological advancement. In addition, companies could also optimize domestic human resources, create jobs, and ultimately meet the social needs of the community.

The strategy used by Jiang Zemin to keep private entrepreneurs serving the party, while strengthening the legitimacy of the private sector in China, was to allow the private entrepreneurs to become members of the CCP (Guiheux, 2006: 222-227). Jiang Zemin had a reason namely the main criterion for becoming a CCP member was to contribute to the progress of the party and the country. Jiang Zemin then gave several requirements for businessmen to join the CCP. These requirements include being a patriotic and law-abiding citizen, never
having a record of tax evasion, reinvesting a large part of the company’s profits for state development, and returning the acquired wealth to society (Holbig, 2002, 43-44). At the same time, it assigned socio-economic responsibility to the business class. The entry of businessmen into the party also secured the position of these businessmen in China and made their voices more heard (Guiheux, 2006: 228-229).

The role of the private sector in the Gaige Kaifang policies increased state revenue from the private sector. According to the calculations of the People’s Bank of China, in 1998 the private sector contributed 43.4% to national income. In 1999, the sector and commercial taxes paid by the private sector to the state increased from 1% to 2.6% (Wall, 2001: 104). The contribution of the private sector had become increasingly important to state revenues, both at the provincial and central levels. Since 1996, the private sector has contributed about 10% of total tax revenue at the provincial level, 20% at the prefectural level, and 30% at the district level. Even in some large provinces, the private sector accounted for up to 60% of all state revenues (Kanamori and Zhao, 2004: 38). For example, the private sector in Zhejiang Province contributed 4.4 billion RMB of industrial and commercial taxes, which was equivalent to 13.4% of China's total industrial and commercial taxes at that time. (Zheng, 2004: 67-68).

3.2. Steps toward Internationalization

Having managed to control and even increase the pace of economic reform as announced in the Gaige Kaifang program, Jiang Zemin had to continue to take steps to restore the world’s trust in China. In the introduction, it has been explained that the 1989 Tiananmen Square protests, apart from causing the economic downturn of China, also dropped China’s image in the international sphere. In the problem of China’s international economic relations, one thing that had to be
restored is the world’s trust, especially with China’s trading partner countries. A few diplomatic efforts\textsuperscript{16} had been carried out by the Jiang Zemin government, and the following are the main steps taken by the Jiang Zemin government in the economic sector.

The Asian Economic Crisis that occurred in 1997\textsuperscript{17} led several major Asian countries such as Japan to devalue their currency. The challenge for China at that time was China had to devalue its currency if it wanted its products to remain competitive in the global market. This would be quite risky for the global market, because if China devalued its currency, other countries in Asia would also follow China’s steps. If this happened, it could damage the market price order and the world economy (Yu, 2000: 164). It was for this reason that Jiang Zemin decided not to devalue the currency (Liew, 1999: 98). As a result, the export growth of Chinese manufactured goods had decreased drastically or even minus (Yang, 1998: 3). To overcome this, China issued a proactive fiscal policy by investing on building domestic infrastructure. The infrastructure built includes airports, railroads, roads, and hydropower projects such as the Three Gorges Dam (Sanxia Daba – 三峡大坝) on the Yangtze River. The infrastructure development funds were drawn from national loans. These steps had proven to be able to save China from an economic crisis without having to reduce the value of its currency, as well as creating greater new capital for the country’s economic development in the 21st century (Kuhn, 2010: 91). In fact, China then provided funding of 4 billion USD for other Asian countries that were severely affected by the economic crisis, such as Indonesia and Thailand. China's decision not to devalue currency also contributed to the stabilization of global market prices. The international community also appreciated China for this contribution and was increasingly considering China’s performance in world markets (Ministry of Foreign Affairs of the People’s Republic of China, 1998).
Another major leap, as a part of the efforts to regain international trust, was China’s entry into the WTO in December 2001. China’s desire to join international trade organizations started since the early 1980s. At that time, Chinese diplomats had made various diplomatic efforts so that China could become a member of the GATT/WTO. In 1984, China became a member of the Textile Committee of GATT. In 1986, China then applied for membership to the GATT/WTO. Unfortunately, the 1989 Tiananmen Square protests and China’s refusal to revise certain international trade laws resulted in GATT/WTO rejecting applications for Chinese membership (Feinerman, 1996: 404). Negotiations were carried out by China in 1991. At that time, the GATT/WTO member countries demanded China to expand market access and reduce trade tariffs for GATT/WTO\textsuperscript{18} members as well as reduce the restrictions on access to transactions with foreign currencies. In pursuing GATT/WTO membership, China had to adapt its foreign trading system and economic policies to the international system (Hsiao, 1994: 434). Thus, China had to accelerate its steps in the Gaige Kaifang implementation. By having the country's rapid economic improvement since 1989 and China’s ability to survive the Asian economic crisis, China conducted serious negotiations with the WTO so that China could become a member. From the results of the negotiations, China agreed to several regulations requested by the WTO, including:

a. China will fairly treat the trading rights of all WTO member countries even though the country does not have investment in China.
b. China must set the same price for its commodity that will be traded both domestically and abroad.
c. China is not allowed to control prices aiming to only protect domestic industrial products and domestic services.
d. China must revise its international trade laws to comply with the regulations of other WTO member countries, to effectively implement the agreements that have been mutually agreed.

e. China is not allowed to export its agricultural products.

By complying with the above agreements, China would have exclusive trading rights for domestic food products, such as cereals, tobacco, fuels, and minerals (*WTO News: 2001 Press Releases*, 17th September 2001).

After China became a member of the WTO, the private sector grew rapidly. The WTO required the Chinese Government to grant equal rights to all companies, whether they were state-owned or private. With this regulation, the private sector was freer to conduct foreign trade (Wall, 2001: 98). The private sector alone held 80% of the total number of Chinese companies conducting foreign trade. In 2002, China’s foreign trade generated from the private sector increased 3-4 times from 2001. The abundant and low-cost human resources from China, accompanied by extensive market access, also provided many advantages for foreign investors. With China’s entry as a member of the WTO, foreign investors would be more confident in investing in China. This at the same time increased the number of exports of Chinese products which led to greater economic growth (Boden, 2012; 13). Access from WTO provided China with better market opportunities. In 2002, foreign investment entering China was recorded at USD 41.2 billion, an increase of 22.5% from the previous year. It was estimated that the total inflow of foreign investment into China exceeded USD 50 billion by the end of 2002. Thus, China became the largest foreign investment destination country in the world. Another factor that made foreign investment more incessant into China was the stable investment returns they got from the Chinese market. China's GDP also grew by 7.9% and exports increased by 19.4% in the first three quarters of 2002. The total nominal trade
during 2002 was 445.1 billion USD, that number increased 18.3% from 2001. Even the WTO in its report stated that China in 2002 had become the world’s 5th largest trading body along with the United States, Japan, ASEAN countries and the Asian Newly Industrialized Economies (NIEs) (CCTV, 11th November 2002; Garnaut and Song, 2003: 153-156).

At the 16th CCP congress held on November 8, 2002, Jiang Zemin reported the progress made in the Chinese economy, as quoted from Xinhua News Agency below:

“五年来，我们走过了很不平凡的历程，在改革发展稳定、内政外交国防、治党治国治军各方面都取得了巨大成就。。。民经济持续快速健康发展。实施扩大内需的方针，适时采取积极的财政政策和稳健的货币政策，克服亚洲金融危机和世界经济波动对我国的不利影响，保持了经济较快增长。经济结构战略性调整取得成效，农业的基础地位继续加强，传统产业得到提升，高新技术产业和现代服务业加速发展。建设了一大批水利、交通、通信、能源和环保等基础设施工程。西部大开发取得重要进展。经济效益进一步提高，财政收入不断增长。“九五”计划胜利完成，“十五”计划开局良好。。。改革开放取得丰硕成果。社会主义市场经济体制初步建立。公有制经济进一步壮大，国有企业改革稳步推进。个体、私营等非公有制经济较快发展。市场体系建设全面展开，宏观调控体系不断完善，政府职能转变步伐加快。财税、金融、流通、住房和政府机构等改革继续深化。开放型经济迅速发展，商品和服务贸易、资本流动规模显著扩大。国家外汇储备大幅度增加。我国加入世贸组织，对外开放进入新阶段。” (Jiang, 2006: 528-575)

[“…Over the past five years, we have pursued an extraordinary path and made extraordinary achievements in reform, development and
stability, domestic and foreign affairs and national defense in running
the party, state and army…. The national economy has succeeded in
maintaining a sustainable, fast and healthy economic development…,
we are overcoming the adverse effects of the Asian financial crisis
and world economic fluctuations on China and maintaining relatively
fast economic growth. The strategic adjustment of the economic
structure has been declared successful. The position of the agricultural
sector as the foundation of the economy has been strengthened.
Traditional industries have been upgraded. New and high-tech
industries and modern services have developed rapidly. Many
infrastructure projects in areas such as water conservation,
transportation, telecommunications, energy and environmental
protection have been completed. There have been significant advances
in large-scale development in western China. Economic benefits are
increasing. National income continues to grow. The Ninth Five-Year
Plan (1996-2000) was fulfilled and the Tenth Five-Year Plan had a
good start…. The public economic sector has developed and there has
been tremendous progress in reforming state-owned enterprises.
Entrepreneurship or the private sector and other non-public sectors of
the economy have grown rapidly. The task to build the market system
has gone well. Reforms in finance, taxation, banking, distribution,
housing, government institutions and other fields continue to be
deepened. Trade in commodities and services and capital flows
increased rapidly. China’s foreign exchange reserves have also
increased rapidly. With access to the World Trade Organization
(WTO), China has entered a new stage in its openness.”

From the excerpt of Jiang Zemin’s speech on the Chinese economy
above, at the end of his leadership, China succeeded in realizing
extraordinary growth in the economy. The extraordinary success in re-
running the *Gaige Kaifang* program which benefited China’s sustainable economic development is an achievement Jiang Zemin inherited during his tenure.

### 3.3. Zhu Rongji as Policy Executor

At the beginning of his leadership Jiang Zemin ran the government accompanied by Li Peng as prime minister (1989-1998). However, starting in 1998 Li Peng was replaced by Zhu Rongji who previously served as deputy prime minister. Zhu Rongji was known as a critical leader, in 1989 he became Shanghai’s party secretary, and in 1991 Deng appointed him deputy premier. Even though he only served as a deputy, it was Zhu who was the pilot behind the soft-landing program in 1995-96 (Zweig, 2001: 233).

During Zhu Rongji era as premier of the PRC (1998-2003), China’s economy transformed from a planned economy to a more market oriented as his policies continued to focus on economic development (Kobayashi *et al.*, 1999: 45). Zhu Rongji responded to the 1997 Asian financial crisis by dramatically reducing the size of government and state bureaucracy. He also reformed the heavily indebted banking system and state-owned enterprises as well as the housing and health care systems. He also established the stock exchanges to revitalizing agriculture sector through the introduction of a modern grain market. At the beginning of his term, he began a program of privatization during which China’s private sector experienced rapid growth. He continued to promote investment in China's industrial and agricultural sectors (So, 1999: 83-109).

By the end of Zhu’s term as premier, the Chinese economy was stable and growing confidently. While Foreign Direct Investment (FDI) worldwide decreases in 2000, the flow of capital into China increased by 10%, resulted to 22.6% FDI rose in 2002. While global trade stagnated,
growing by one percent in 2002, China’s trade soared by 18% in the first
nine months of 2002, with exports outstripping imports. Meanwhile, in
term of bureaucracy, at the end of his term in 2003, he was successfully
reducing the size of the official bureaucracy by 50% (Garnaut and Song,
2003: 153-156). However, Zhu Rongji ways in reducing the state
bureaucracy in local governments and implementing more centralized
leadership, resulted to lack of control in the regions. It led to the increase
in the corruption. Many believe that the entire Communist party system
was infected by this corruption problem (Quah, 2013: 33-41). Zhu
Rongji himself also pointed out that fighting corruption was still a
difficult task for the country. As quoted in the The Guardian, during his
annual report presentation, Mr. Zhu admitted to the national people’s
congress that: “fighting corruption is still a tough task”. “Some people
say that there is corruption because the emperor is far away in Beijing.
The truth is that every county or small-town head has become an
emperor too!” (The Guardian, 6th March 2000). To overcome this major
problem, Zhu Rongji implemented the anti-corruption campaign.
According to Benjamin van Rooij (2005: 301-310) Zhu Rongji also
emphasized that all corrupt officials, had to be investigated and severely
punished. He targeted the misuse of public funds by officials who
traveled, entertained, and dined in a luxurious style at public expense in
the name of all sorts of political activities.

4. The Three Representative Theory (Sange Daibiao – 三个代表）

The constitutional changes that took place in China during the 1990s
showed that the government was trying hard to adjust the Chinese
political system to have sustainable economic development (Wong and
Zheng (eds.), 2002: 116). After his success in organizing the country’s
economy, Jiang Zemin had the ambition to leave his leadership imprint
in Chinese history and in the party through his thoughts (Zeng, 2016: 17). Therefore, in 2000 Jiang Zemin started to come up with the concept of the *Sange Daibiao* theory. According to this concept, the party must be able to become the representatives of (1) the most advanced economic power, (2) the most advanced cultural elements and (3) the basic interests of all groups (Guiheux, 2006: 226). Jiang Zemin conveyed this in his speech on July 1, 2001, as follows:

“推进人的全面发展，同推进经济、文化的发展和改善人民物质文化生活，是互为前提和基础的。人民越全面发展，社会的物质文化财富就会创造得越多，人民的生活就越能得到改善，而物质文化条件越充分，又越能推进人的全面发展。社会生产力和经济文化的发展水平是逐步提高、永无止境的历史过程，人的全面发展程度也是逐步提高、永无止境的历史过程。这两个历史过程应相互结合、相互促进地向前发展。” (Jiang, 2006: 295)

[“...The progress of human development as a whole is a prerequisite and basis for enhancing the economic, cultural and material life of society, and vice versa. The more comprehensive human development is, the more material and cultural wealth they will generate for society so that their lives will improve. Likewise, the more sufficient material and cultural life is, the better a person will achieve his overall development. The development of the social, economic, and cultural productive forces is a historical process of gradual and endless progress. All human development, too, is a historical process of gradual and endless progress. The two processes must go hand in hand and help each other in perpetuity.”]

After Jiang Zemin presented ideas that were later formulated into the *Sange Daibiao* theory, some political critics outside of China argued
that the theory was a CCP “tool” to legitimize the emergence of the private sector as an important component of the country’s economy. *Sange Daibiao* theory is also seen as a symbol of the CCP’s transformation into a more democratic communist party (Zheng, 2002: 76).

The economic practices of a country cannot be separated from domestic politics, and it is necessary to have harmony between ideology and policy to carry out the development of a country effectively (Burns, 1989: 481). This is what Jiang Zemin did in building the Chinese economy, namely by maintaining unity and modernizing the party’s way of thinking. In his speech at the 16th CCP Congress on November 8, 2002, Jiang conveyed that:

“加强和改进党的建设，一定要高举邓小平理论伟大旗帜，全面贯彻“三个代表”重要思想，保证党的路线方针政策全面反映人民的根本利益和时代发展的要求。” (Jiang, 2006: 560)

[“To strengthen and enhance party building, we must raise the banner of Deng Xiaoping's Theory, apply all important thoughts of *Sange Daibiao* and ensure that party lines, principles and policies fully reflect the fundamental interests of the people and the provisions of the times.”]

Jiang Zemin came up with the *Sange Daibiao* theory as a guide to modernizing the party's perspective on Marxism-Leninism. Through this theory, Jiang Zemin reminded the party leaders to consciously open their thoughts from the shackles of Marxism-Leninism concepts, practices and systems that were no longer in line with the realities of the times so that the party could continue to innovate (Kuhn, 2010: 108-111). As explained in the previous discussion, the private sectors in China are proven to be able to give a huge contribution to national economic
development and create a new social class, namely the merchant class, which is then largely part of the Chinese middle class. Regarding the diversity of new social classes that form the backbone of the country's economic change, Jiang Zemin in his speech also expressed the following:

“贯彻“三个代表”重要思想，必须最广泛最充分地调动一切积极因素，不断为中华民族的伟大复兴增添新力量。…在社会变革中出现的民营科技企业的创业人员和技术人员、受聘于外资企业的管理技术人、个体户、私营企业主、中介组织的从业人员、自由职业人员等社会阶层，都是中国特色社会主义事业的建设者。” (Jiang, 2006: 539-540)

[“In order to apply Sange Daibiao’s important thinking, it is necessary to fully and thoroughly mobilize all positive factors and to constantly add new strength to the rejuvenation of the Chinese nation ... appearing in the process of social change, entrepreneurs and technical personnel working in the private scientific and technological sector, managerial and technical staff employed by foreign-funded companies, self-employed individuals, private entrepreneurs, full-time employees, freelancers and members of other social strata are all builders of ‘socialism with Chinese characteristics’.”]

With the implementation of the Gaige Kaifang program, a new social class emerged, such as the entrepreneur class, private workers, technicians, traders, and others. They are the people who directly contribute to building Chinese socialism. The private sector is also an important factor for advanced productive forces. It is also through the private sector that China has succeeded in becoming a member of the WTO. Its membership in the WTO opens China's view to apply a
broader economic strategy to world economic development. This is the first point of *Sange Daibiao* theory that was completed during Jiang Zemin's leadership. According to Jiang Zemin, by implementing points two and three from *Sange Daibiao* theory to the next government, China could become a versatile superpower (Fewsmith, 2003: 3).

5. The Sustainability of Jiang’s Economic Policy

As quoted by Fewsmith (2003: 3) above, Jiang Zemin’s statement shows that the implementation of *Sange Daibiao* had not been completed and had to be continued. The Jiang era was only working on the first point that the CCP had to always represent the demands of the development of the advanced production forces of Chinese society. The proof was that the Chinese economy had developed rapidly, so that its role in the world began to be considered by many countries. Although the other two points still must be worked out, the third point is a function inherent from the beginning in the CCP, namely representing the fundamental interests of most of the Chinese people. Thus, it is the second point that must become the focus of policy while maintaining or adjusting to the progress on the achievements of points one and three, as confirmed in the theory that “The Three Represents are mutually related, complement each other, and constitute a unified whole” (people.com.cn, 2010).

Hu Jintao in 2002 was elected general secretary of the Chinese Communist Party and in 2003 was elected President of PRC, replacing Jiang Zemin, who previously held both positions. According to Duchâtel and François (2009: 3), the first year of Hu’s leadership was still overshadowed by Jiang Zemin, this was evident, among other things, from the Chairman of the Central Military Committee by Jiang Zemin. In the economic field, Hu Jintao’s policies placed more emphasis on eradicating poverty and inequality. Therefore, it continued to do what
Jiang had done, including economic development aimed at developing China’s western region (Heisey, 2004). In the Hu Jintao era, the focus of China's development shifted from the massive economic improvements carried out in the Jiang Zemin era towards social balance and social harmony. Hu’s leadership image was pro-people so that his government was synonymous with the concept of “putting people first” in which the policies tended to side with the middle and lower-class society (Joseph, 2014). The efforts to develop Chinese culture in the Hu Jintao era can be noticeable from the slogans he carried. The rhetoric of these slogans strongly reflects Confucius teachings such as “rise peacefully”, “develop in peace” to efforts to create a “harmonious socialist society”. The ideas in the slogans in 2005 were officially outlined in a white paper on *China’s Peaceful Development Road* (Zhongguo heping fazhan daolu – 中国和平发展道路) which consists of five main points on the path of peaceful development/establishment of China (China.org.cn, 22nd December 2005).

Presenting this policy with a slogan referring to Confucianism shows that Hu relied on Chinese cultural values in his special programs and had made systematic efforts to actualize these cultural values (Mutia, 2015: 208). Hu’s policy of promoting Chinese culture was packaged as implementation of China’s soft power, as expressed by Arshad (2012) that: “In China, soft power is not only about nation branding, but nation building as well. Through using soft power narratives, China is encouraging a domestic cultural revitalization attempting to win the hearts and minds of Chinese diaspora communities and promote national cohesion between dominant and minority groups in the country.”

Among other things, Hu Jintao’s implementation was carried out by strengthening *Hanban* ( 汉办 ), a multi-departmental institution tasked with teaching Mandarin and Chinese culture throughout the world. In
2004 the “Confucius Institute” (Kongzi Xueyuan – 孔子学院) was formed as an extension of Hanban in spreading Chinese language and culture. Hu Jintao’s policy had proven to strengthen China’s international position, for instance, China successfully hosted the 2008 Beijing Olympics, 2010 World Expo, and 2010 Asian Games. This achievement also shows that Hu Jintao implemented the second point from Sange Daibiao point, namely that the CCP must be able to represent the advancement of Chinese culture.

Xi Jinping was elected to replace Hu Jintao as Secretary-General of the CCP in 2012 and as President of China in 2013. Xi inherited the PRC’s economic situation, which tended to be high in the investment sector but low in the consumption sector. This can be seen from the presence of excess production that the domestic market could not absorb, which in turn affected the emergence of accusations of dumping from outside parties against Chinese business actors (Brødgaard and Koen, 2017: 154). In addition, according to Gewirtz (2016: 103), in 2015, PRC experienced a slowdown in economic growth, decreased investor confidence, and increased debt. In the first three months of 2015, it grew only 7%, and this figure is the lowest rate of economic growth in China since the global financial crisis in 2009 (BBC News, 15th April 2015).

Facing difficult conditions at the beginning of his leadership, Xi echoed the slogan of Zhongguomeng（中国梦）or the “Chinese dream” as a special formulation of the combined dreams of Confucius, Sun Yat-sen, Mao Zedong, Deng Xiaoping, Jiang Zemin, and Hu Jintao to answer the challenges and problems faced by the CCP (Sirait and Mutia, 2015). Zhongguomeng contains the aspirations of the Chinese nation formulated in the target “liangge yibai – 两个一百 ” or two centenary goals namely the formation of the Xiaokang [economically sufficient] community in the 100th anniversary of the establishment of the CCP in 2021 and
Zhonghua Weida Fuxing (中华伟大复兴) or “the great rejuvenation of the Chinese nation” in the 100th year of the founding of China in 2049 (Xi, 2013). In the process of realizing that dream, in 2013 Xi came up with the idea of reviving the silk route which was packaged in the Belt and Road Initiative (yidai yilu zhangyi – 一带一路倡议 – BRI), and it became popularly known as One Belt One Road (OBOR).

In his speech at the Baoao Forum for Asia Annual Conference 2015, Xi Jinping projected OBOR as a “bridge” that allowed for connectivity and cooperation between nations and their civilizations, which would encourage human progress and maintain world peace (Xinhuanet, 29th March 2015). OBOR is a multi-faceted economic, diplomatic, geopolitical venture initiated by China. To fully fund the total BRI project volume of an estimated USD 4 to 8 trillion, there were diverse funding channels such as BRI bonds, private capital investment, public-private partnerships (PPP), and State-Owned Enterprise investment. This program would improve economic interconnectivity and facilitate development in Eurasia, East Africa, and more than 71 partner countries.

Xi Jinping’s OBOR initiative aimed to complete the mandate in the Sange Daibiao, whose goal is to revive China’s glory in 2049. At the 19th CCP Congress in 2017, Xi Jinping’s thought was formulated as “Socialism with the Chinese character for a new era” (xinshidai Zhongguo tese shehui zhuyi – 新时代中国特色社会主义) which was recorded in the CCP’s articles of association. Resolution of the 19th National Congress of the Communist Party of China on the Revised Constitution of the Communist Party of China confirms that Xi Jinping’s thought is a continuation and development of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the Theory of Three Represents, and the Scientific Outlook on Development. It is the latest achievement in adapting Marxism to the Chinese context (CGTN, 24th October 2017). This affirmation shows that what Xi Jinping did was
inseparable from the foundation made by the previous Chinese leaders, including Jiang Zemin. Without giving up the main target of Chinese reform, Xi formulated economic policies based on his challenges. According to Hofman (2018: 64), with “socialism with Chinese Characteristics for the new era”, China seemed to have found its unique economic system, with markets and state ownership existing side by side and industrial policy guiding the market.

The anti-corruption campaigns were still running until Xi Jinping era which also suggests that structural reforms are crucial. Under Xi Jinping there were early structural reform, particularly in the judicial system through promoting markets, competition, and governance, but the reform could hardly be noticed, and the outcome was uncertain. Xi Jinping admitted that corruption remained the biggest threat to Communist Party. He had reiterated the need to fight corruption if the country was to achieve its economic and political goals. During his leadership, Xi Jinping experienced a high initiative from Chinese politics officials in term of economy development, which resulted to a solid economic strategy and overwhelming public support. However, public support depended on delivering economic reforms and limiting the economic downturn. To do this, Xi had to resolve the corruption problem in the country. In other words, He had to do a structural reform. This problem reminds challenging until now (Garrick and Bennett, 2018: 99-105).

6. Conclusion

The main challenge that Jiang Zemin had to face as the new CCP Secretary General was China’s economy, which was slumped by the 1989 Tiananmen Square protests. The sharpening of the faction between conservative and moderate factions brought the Gaige Kaifang program
to a halt. China also received a lot of criticism and embargoes from various countries in the world, such as the United States and European Union countries. The faction and embargoes caused China’s economy to slump at the lowest level and its international position to plummet due to the loss of trust of foreign investors. To improve the country’s economic conditions, in 1992 Jiang Zemin decided to restart the Gaige Kaifang program. In addition, Jiang Zemin mobilized people from various circles to participate in the Gaige Kaifang implementation by conducting Xiahai. With the participation of all groups, the Xiahai program was more easily accepted by the people and resulted in a new middle class. He also announced that the private sector was classified as an important component of China’s economy that ran alongside the state-owned sector. By allowing private entrepreneurs to become members of the CCP, Jiang Zemin managed to keep private entrepreneurs doing business in line with party principles. This also strengthens the legitimacy of the private sector’s existence in China.

The success of Jiang Zemin to save China’s economy from the 1997 Asian Economic Crisis was not by devaluing its currency, but he issued proactive fiscal policies and built domestic infrastructure. This contributed greatly to maintaining the price stability in the global market. Another important achievement of Jiang Zemin was the approval for China to become a member of the WTO in December 2001. By acquiring this membership, China’s progress in the world of international trade is considered; even making China the largest foreign investment destination in the world. For his successful innovation in building China’s economy, Jiang Zemin came up with a new concept, namely the Sange Daibiao theory. The theory was created as a guideline for the next government to lead China to become a versatile country.

Jiang Zemin is a leader who upholds the principles of socialism. However, he is open-minded so that his attitude tends to be democratic.
and adaptable which leads him to be good at diplomacy. Jiang Zemin is a person who can adapt to political situations at home and abroad (Tien and Chu (eds.), 2000: 47). A leader who has such character is in line with China’s need to build the economy and improve its international relations after the 1989 Tiananmen Square protests (Rosenthal, 2002). The character possessed by Jiang Zemin turned out to be one of the factors of his success in implementing Gaige Kaifang and making China a developed socialist country recognized by the world. From the policies carried out by Jiang Zemin to restore China's economy after the 1989 Tiananmen Square protests, it provides lessons on how important it is to align China’s domestic needs with developments in the world. Jiang Zemin’s open attitude and ability to align domestic needs with world economic conditions is shown by Jiang Zemin’s willingness to accept the WTO requirements. Thus, the efforts to internationalize Chinese trade succeeded, and China regained international trust. Jiang Zemin’s character, which tends to be open-minded and diplomatic, makes it easier for various groups to accept his economic policies. With its success as a member of the WTO, China has gained a broader view of implementing its economic strategy in accordance with world economic developments. This allows China to meet the country’s needs and build an advanced productive force. In addition, Jiang Zemin’s persistence in upholding the principles of socialism while remaining democratic can be seen from his socialist market economy policy with a soft-landing approach.

Jiang Zemin was appointed leader of China after the 1989 Tiananmen Square protests by Deng Xiaoping, who was China’s paramount leader at that time. In the early days of his leadership, Jiang Zemin was still under the shadow of senior CCP members as well as Deng Xiaoping’s influence. This can be seen from Jiang Zemin’s insistence on the demands of the conservative faction that wanted to stop
the *Gaige Kaifang* program as well as when Jiang Zemin decided to re-run the *Gaige Kaifang* program. This decision was also triggered by Deng Xiaoping’s encouragement through *Nanxun*. After Deng Xiaoping passed away in 1997, Jiang Zemin was able to fully run the *Gaige Kaifang* without being influenced by his previous senior figures (Rosenthal, 2002). Jiang Zemin’s new breakthrough in *Gaige Kaifang* included providing opportunities for private entrepreneurs to develop and become members of the CCP. By accepting private entrepreneurs as CCP members who had to adhere to party principles, Jiang Zemin provided an opportunity for the private sector to develop and contribute to the country’s economy while providing tight control for these private entrepreneurs to stay in line with party rules.

Due to China’s achievement, Jiang Zemin had a strong foundation to validate his economic thinking in the party constitution through the *Sange Daibiao* theory. It can be said that Jiang Zemin was a leader figure with the right character and policies who appeared when China needed to improve its economy and elevate its economic position in the world. However, Zhu Rongji’s role also cannot be ruled out. In general, people know that Zhu is the person behind the success of Jiang Zemin’s economic development program, including in carrying out the corruption eradication program. The economic foundation and the strong international position made Jiang’s economic policies sustainable in both the Hu Jintao and Xi Jinping eras. With adjustments, innovations according to development needs, and commitment to eradicating corruption, it seems that the PRC will be able to realize the ideals of a strong and prosperous China awakening, as formulated by Xi Jinping in *liangge yibai*.
Notes

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1. Hong Kong was a colonial territory under Great Britain and known as British Hong Kong; the colonial period was from 1841 to 1997 based on the Nanking Agreement.

2. Macau was a trading area leased by the Ming Dynasty to the Portuguese Empire from 1557 to 1887. In 1887, Portugal obtained colony rights over Macau through the Sino-Portuguese Treaty in Beijing. This colonial period lasted until 1999 when Macau was returned to the Chinese government.

3. The 1989 Tiananmen incident was a series of demonstrations in China spearheaded by students; the peak of the demonstration took place at Tiananmen Square, Beijing. Student protests were aimed at the Chinese government over economic instability, corrupt practices, and pro-democracy demands.

4. Deng Xiaoping was the paramount leader of the People’s Republic of China from 1978 until his retirement in 1992.

5. The debate over the implementation of economic reforms in China led to competition from various factions within the CCP. There are two most
dominant political factions that can be grouped into 2 forces, namely, the conservative faction and the moderate faction (Wu, 2015).

6. Chen Yun was the deputy chairman of the CCP Central Advisory Commission for the period 1987-1992. He is called the most powerful person in China after Deng Xiaoping. Yang Shangkun was the 4th president of China for the period 1988-1993.

7. The People’s Liberation Army (PLA) is the armed forces of the People’s Republic of China (PRC) which was founded on August 1, 1927.

8. The U.S. Trade and Development Agency (USTDA) is an official agency of the United States Government to promote U.S. private sector participation in development projects in developing countries and middle-income countries.

9. Fang Lizhi (方励之) was vice-president of the Chinese University of Science and Technology and a pro-democracy activist. His ideas inspired the pro-democracy protest movement in 1986 to its climax, the 1989 Tiananmen Incident.

10. The peaceful evolution in international politics is a theory that refers to the efforts to influence the politics of China’s socialist system through peaceful means by the United States.

11. The European Economic Community (EEC) is an organization that was established through the 1957 Rome Agreement. This organization consists of European countries which aim to unify the economies of its member countries. After the European Union was formed in 1993 its name changed to European Community (EC).

12. Deng Xiaoping toured cities in southern China, namely Guangzhou, Shenzhen, Zhuhai, and Shanghai from January to February 1992. He used the tour as a method to promote the Gaige Kaifang program again. During the tour Deng Xiaoping delivered a speech emphasizing the importance of economic reform in China and criticizing those who opposed the Gaige Kaifang program.
13. Value Added Tax (VAT) is a tax imposed on every good or service in its circulation from producers to consumers. VAT is a type of indirect tax, where the tax bearer does not directly pay the taxes, he is responsible for.

14. The Consumer Price Index (CPI) is used to measure the average price of goods and services that households must pay. The CPI is often used to measure a country’s inflation rate and as a consideration for adjustments to salaries, wages and pension payments.

15. The Consumer Price Index (CPI) is used to measure the average price of goods and services that households must pay. The CPI is often used to measure a country's inflation rate and as a consideration for adjustments to salaries, wages and pension payments.

16. After the 1989 Tiananmen incident, efforts to improve relations with countries in the world such as the United States, ASEAN member countries, the Middle East, and Japan became a priority for China (Goldstein, 2001: 836). This was done to improve the economy, make friends, and improve China’s international position. In its diplomatic process, China practiced a “28 characters strategy” and convinced partner countries that diplomatic relations with China were not hegemonic, but friendship and cooperation (Mutia, 2015: 205-208).

17. The Asian Economic Crisis was a period of financial crisis that first occurred in Thailand and spread to almost all parts of East Asian countries in July 1997. The crisis at that time caused panic and even the world market prices fell apart due to deflation.

18. Trade by reducing trade tariff barriers and quotas for goods for the mutual benefit of its member countries. GATT operates under the World Trade Organization (WTO) since January 1, 1995.

19. Xinhua News Agency is the official news agency of the Government of the People’s Republic of China, which is also the largest and most influential media organization in China.
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The Rise and Fall of China’s Private Sector: Determinants and Policy Implications

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Abstract

On 3rd November 2020, Ant Group’s world record-setting initial public offering in Shanghai and Hong Kong was surprisingly suspended. In fact, there have been major shifts regarding China’s policies toward the privately-owned enterprises (POEs) recently. This study aims to examine the factors behind the rise and fall of Chinese POEs. Based on a Robust Least Squares model, this study finds that China’s economic freedom and economic conditions are significantly associated with the growth of POEs. At last, this study discusses recent policies and the implications to the Chinese economy.

Keywords: Ant Group, Alibaba, Jack Ma, privately-owned enterprises (POEs), Chinese Communist Party (CCP), economic freedom index, economic condition index, China
1. Introduction

On 3rd November 2020, Ant Group, which might be the world’s largest privately-held company, surprisingly suspended its record-setting initial public offering (IPO) in Shanghai and Hong Kong (CNBC, 3rd November 2020). Since then, Chinese billionaire Jack Ma, who is the founder of Ant Group and Alibaba, has disappeared from public view (Financial Times, 1st January 2021). It is argued that through halting Ant’s IPO, China sends a warning to Chinese businesses: no privately-owned enterprises (POEs) get to swagger unless the government is on board with it (The New York Times, 6th November 2020).

Just two years ago, however, China sent a different message. On 1st November 2018, the Chinese President Xi Jinping held a meeting with some representatives of POEs. During this meeting, President Xi stated that China’s policy of encouraging, supporting and guiding the POEs had not changed, and China’s policies of creating a good environment and providing more opportunities for the development of the POEs had not changed (Xinhua News, 1st November 2018).

The backgrounds for this 2018 meeting and the following statements are complicated. Specifically, there were four new developments regarding the role of POEs in China. First, in November 2013, the central committee of the Chinese Communist Party of China (CCP) held the third plenum. The communique stated that China would implement mixed-ownership reform, meaning that POEs can invest in state-owned enterprises (SOEs) (People’s Daily, 15th November 2013). However, this policy reminded the audience of the joint state-private ownership practice in the 1950s, when the mixed-ownership reform was considered as a way to nationalize the POEs. As a result of that, there were only 869 privately owned industrial enterprises left as of the end of 1956, while this number was 123,165 in 1949 (Zhao, 2016). Second, China has strengthened the efforts of establishing CCP cells and unions.
in POEs recently. For example, as of the end of 2016, 67.9 per cent of POEs have established CCP cells (Xinhua News, 19th October 2017). Furthermore, in September 2018, a deputy minister from the Ministry of Human Resources and Social Security of China stated that the Chinese government would strengthen the democratic management of POEs by supporting the labour unions to play a bigger role (MORSS, 13th September 2018). It is also reported in September 2018 that the Shandong Provincial and Qingdao Municipal Federation of Labour Unions have sent 92 union chairmen to the POEs (Qingdao News Network, 9th October 2018). Third, some of China’s recent policies seem to deliberately strengthen the role of SOEs and weaken POEs. For example, in March 2018, China Securities Regulatory Commission issued the ‘Regulations on Securities Companies Ownership Management (consultation draft)’ stating that the size of the net assets of the controlling shareholders should be not less than RMB 100 billion, and the aggregated main operating revenue of the past three years should be not less than RMB 100 billion (CSRC, 2018). According to these criteria, POEs will generally be forbidden to invest in securities companies. It is also reported in October 2018 that as many as 24 POEs have been acquired by SOEs this year in Chinese stock markets (Xinhua News, 10th October 2018). Fourth, as a result of recent policy changes, it is argued in September 2018 that POEs should gradually disappear (Phoenix News, 12th September 2018). This argument has brought major debates on the role of POEs in the Chinese economy among major mainstream media (Economic Daily, 4th November 2018; China Business Times, 13th September 2018; People’s Daily, 14th September 2018), and greatly caused the panic among POEs. While there are discussions on the so-called “state advances and private retreats” (Du, Liu, and Zhou, 2014), it seems that this time is more than that.
Studies on the Chinese economy have been dominantly focused on SOEs. For example, Nolan and Wang (1999) documented China’s SOE reforms before 2000. Szamosszegi and Kyle (2011) provided a comprehensive analysis on China’s SOEs including their economic footprint (output and value-added, fixed investment, employment and wages, taxes), the strategic and pillar SOEs, state and state-owned banks’ support to SOEs, the role of SOEs in Chinese government procurement and technology transfer and so on. They concluded that the state sector in China will continue to play an important role. Song (2018) conducted a comprehensive review of China’s reforms on SOEs during 1978-2018.

At the same time, studies on POEs are not as many as those on SOEs. So far, some studies have examined Chinese POEs from different perspectives. First, from the perspective of economic development, Chen and Feng (2000) found that that POEs lead to an increase in economic growth based on datasets during 1978-1989. Further, Chu and Song (2015) examined the evolution of the private sector and its performance with comparison to the performance of the state sector, and suggested much further room for more productive use of economic resources by increasing the participation of POEs. Garnaut, Song, Yao and Wang (2014) focused on matters relating to the development of private enterprise in China such as market competition; finance; taxation; internal governance; and so on. Lardy (2014) argued that the freeing of China’s private sector is the main reason for its extraordinary rapid growth since 1978. The second perspective is the relation between economic liberalism and political freedom, Tsai (2007) found that Chinese entrepreneurs are not agitating for democracy. The third perspective is corporate finance issues in Chinese POEs such as the political connections, auditor choice, and corporate accounting.
transparency (Liu, Li, Zeng and An, 2017); political connections and corporate performance (Du and Girma, 2010; Song, Nahm and Zhang, 2015); collective and private corporate political actions (Jia, 2014) and the relations among managerial incentives, CEO characteristics and corporate performance (Liu, Lin, Song and Li, 2011). The fourth perspective is management and business such as the internationalization strategy and the motivations for foreign affiliate formation (Sutherland and Ning, 2011; Ning and Sutherland, 2012) of Chinese POEs.

At the same time, few studies have examined the causes of the rise and fall of China’s POEs. Nee and Opper (2012) argued that the emergence of China’s POEs was the result of endogenous institutional change rather than shifts in state policies, but did not provide empirical evidence. This study further contributes to the studies on Chinese POEs by examining the evolution of Chinese POEs from a novel perspective, i.e., the relations among economic freedom, economic condition, and the rise and fall of Chinese POEs.

The structure of this paper is as follows: Section 2 presents a brief background introduction on Chinese POEs including their history, present state, and the theoretical grounds for the existence and development of POEs in China. Section 3 empirically examines the effects of economic freedom and economic conditions on the rise and fall of POEs. Section 4 discusses the policy implications. Section 5 concludes this paper.

2. Background: China’s Private Sector’s History, Present State and Theoretical Grounds

Modern China’s property rights reform can be dated back to the founding of the People’s Republic of China in 1949 and the following 1950s. On 24th September 1953, the CCP Central Committee announced
the ‘transitional general policy’ on the reform on private ownership. As of the end of 1956, POEs had been generally integrated into socialist public ownership (Zhao, 2016). This situation did not change for over twenty years. For example, as of the end of 1979, 97.1% of retail sales were through state-owned or collectively-owned firms (Yang, 1998). China started the ‘reform and open-up’ policy in 1978. After that, POEs began to thrive. Huang (2012) provided a detailed account of the development of China’s township and village enterprises (mainly POEs) in the 1980s and 1990s. Jefferson and Su (2006) examined China’s SOE reforms including privatization and restructuring during 1995-2001. As of the end of 2017, there are 27 million POEs and 65 million sole proprietor businesses with a combined registered capital of RMB 165 trillion. Together they contribute to over 50% of government taxes, over 60% of GDP, over 70% of technological innovations, over 80% of urban employment, and over 90% of firm numbers (Xinhua News, 1st November 2018).

China’s National Bureau of Statistics reports the details of POEs in the banking and industrial sector. So, in this section, these two sectors are taken as examples to illustrated the presence of POEs.

As the Chinese financial system is dominated by banking, it is representative to look at the private ownership in the banking sector. As of the end of 2017, there are only 17 private-owned banks among 4,532 financial institutions classified as the banking industry. The number of people employed by these 17 private-owned banks only accounts for 0.1% of all banking staff. In terms of assets, China Banking Regulatory Commission does not publish the size of assets of privately-owned banks separately, but it is believed to be neglectable. In terms of the prudential regulatory indicators, during Q1, 2017 – Q2, 2019, China’s private-owned banks’ provision coverage, capital adequacy ratio, and liquidity ratio are the highest among all types of banks. At the same
time, China’s privately-owned banks’ Non-performing Loan Ratios are the lowest. So, we can conclude that although China’s privately-owned banks’ performance is the best, it is just marginal in the Chinese banking industry.

As to the industrial sector, the 5-year (2013-2017) average of the fraction of the industrial sector in GDP is 41.7%, so it is also representative to look at the private ownership in this sector. This sector includes mining, manufacturing, electricity, gas and water production and supply industries. In the below analysis, only firms above the designated size are considered. According to the criteria established by China’s National Bureau of Statistics, the threshold of main business revenue was RMB 5 million before 2010 and RMB 20 million since 2011. Below Figure 1 shows the fractions of POEs in China’s industrial sector by different measures for firms above the designated size. It is noted that some privately controlled companies are registered in the category of limited liability corporations (Lardy, 2014), only considering POEs may understate the role and size of the private sector. However, this may not be a serious issue in this study for two reasons. First, the purpose of his study is not to estimate the size of China’s private sector, but rather the relations among the private sector, economic freedom, and economic condition. Second, the POEs are more sensitive to economic freedom and economic condition, thus using POEs data only is appropriate. At the same time, one of the main reasons why China’s privately controlled companies are not registered as POEs may be related to pursuing protection and security, thus, they are less sensitive to the changes in economic freedom and economic condition.
Figure 1 Fractions of POEs in China’s Industrial Sector by Different Measures (firms above the designated size)

Source: Wind², China’s National Bureau of Statistics.

First, Figure 1 shows that China’s POEs have experienced significant development during the past twenty years no matter by number, assets, sales, or taxes. For example, in 1997, POEs in the industrial sector only accounts for 6.5% by number, and this figure has increased to 57.7% in 2017. In 2000, POEs in the industrial sector only accounts for 3.1% by the size of assets, and this figure has increased to 21.6% in 2017.

Second, China’s POEs have outperformed the industrial sector, which is consistent with the result from the banking sector. The POEs’ economic performance such as sales and taxes are higher than the corresponding level of assets for the market.
Third, although China’s POEs have grown fast and become dominant by number, and they have contributed significantly to the Chinese economy by paying taxes (corporate income tax and value-added tax), they are still at a supplementary status if looking at the total size of POEs (assets). By the value of exports from POEs, they are even more marginal. The background is China has been adopting a qualifications registration and approval system for import and export business. As a result of this, the POEs are at a disadvantage.

Fourth, most important of all, although China’s POEs have been generally growing, there are some periods of contraction. For example, the fraction of POEs by number dropped since 2010 for two consecutive years. The fraction of POEs by asset dropped in 2011 and in 2016-2017. The corporate income tax also dropped in 2014 although no data are available for 2015-2017. The issue that which factors have contributed to the rise and fall of POEs will be explored in Section 3.

The mainstream theory explaining the existence and development of China’s POEs during the past four decades is the state capitalism theory. According to this theory, the state acts as the dominant economic player and uses markets primarily for political gain, and the main example is China (Bremmer, 2010). It is further argued that after the realization that the centrally planned socialist systems could not effectively compete with capitalist economies, former Communist Party political elites then started a limited form of economic liberalization in order to increases efficiency while still allowing them to maintain political control and power (Aligica and Tarko, 2012). Accordingly, the POEs are allowed to exist but marginal in the economy. However, this theory is challenged by Ferguson (2012) who argued that the key is the right balance between the economic institutions that generate wealth and the political institutions that regulate and redistribute it, and from this point of view, we’re all state capitalists.
In this study, the neglected area, the ideology of communism, is re-examined. If looking at the evolution of the CCP’s policies during the past forty years, it seems that they show a consistency with the core of the communist ideology. As argued by Marx and Engels (1948), the theory of communism may be summed up in the single sentence: abolition of private property. However, as argued by the then-general secretary of the CCP, since the level of productivity development in China was still relatively low and very uneven, it requires a variety of economic forms to coexist for a long time. At the same time, the SOEs must be dominant in the economy, and the POEs play a necessary and useful supplementary role (Hu, 1982). Five years later, this policy was further developed into the theory of preliminary stage of socialism arguing that the coexistence of a variety of economic forms is necessary during the preliminary stage of socialism (Zhao, 1987). After that, the general position of POEs being supplementary has been reiterated by following CCP leaders including Jiang Zemin (Jiang, 1992, 1997, 2002), Hu Jintao (Hu, 2007, 2012), and Xi Jinping (Xi, 2017). Specifically, the SOEs must be dominant, while the POEs must be under guidance. However, at the nineteenth National Congress of the CCP held in October 2017, Xi Jinping stated that China has entered a new era. This new era means the end of the preliminary stage of socialism, and China has upgraded from rising up, getting rich to getting strong (CCDI, 2017). When the level of productivity development in China has become very high, whether it is necessary to still have a variety of economic forms becomes a question mark. At the speech of the 200th anniversary of Karl Marx’s birth in May 2018, President Xi Jinping said that Marxism remains totally correct, and people begin accepting the notion that Xi Jinping actually believes in Marx and Marxism (Reuters, 4th May 2018). At the same time, the ideology of abolition of private property re-emerges in the debates on Chinese policies (Zhou, 2018).
3. Empirical Analysis

In this section, the factors that can have an effect on the rise and fall of POEs are examined. In Subsection 3.1, the regression variables are introduced, followed by the hypothesis for later tests. In Subsection 3.2, the empirical analyses are performed.

3.1. Variables and Hypothesis

The dependent variable is the fraction of POEs by assets or numbers for the industrial sector.

Regarding independent variables, first, the rise and fall of China’s POEs have been closely associated with the change of economic freedom. During the past forty years during 1978-2017, there have always been debates on conservatism on the left (左), which supports state ownership, and liberalism on the right (右), which supports private ownership, in Chinese politics (Pan and Xu, 2018). For example, after the June Fourth Incident in 1989, China turned to the left sharply, such as the role of state had been strengthened, the CCP had returned to a conventional Leninist model and re-established firm control over the press, publishing, and mass media, and many of the freedoms introduced during the 1980s were rescinded. The POEs were under severe attack arguing that private ownership was the foundation of liberalism. As a result of that, the number of POEs had dropped from 225,000 as of the end of 1998 to just 90.600 as of the end of 1989 (Yang, 1998), a significant annual drop of 57.8%. Second, the rise and fall of China’s POEs are also assumed to be associated with China’s economic conditions. As discussed in Section 2, the POEs have been positioned as the necessary supplement to the Chinese economy when the level of productivity development in China was still relatively low. After decades of development, the level of productivity development in China
has improved significantly. As a result of that, China re-positioned itself as entering a new era in 2017 rather than the previous theory of the preliminary stage of socialism. This can explain why the fraction of POEs by assets has dropped from 2015. While this is a big picture, the specific situations also apply. For example, as discussed at the beginning of this paper, before 1st November 2018, various pieces of evidence show that China was considering further strengthen its state sector while restraining or even nationalizing POEs, the China-US trade war broke out and exerts great uncertainties on the future of the Chinese economy (Liu, 2018a). The Chinese government had to adjust the policies and launched a series of measures to support the POEs afterward (Shenzhen Metropolis Online, 2nd November 2019). Accordingly, two hypotheses are proposed as follows:

_Hypothesis 1: The fraction of POEs is positively related to the Economic Freedom Index_

_Hypothesis 2: The fraction of POEs is negatively related to the Economic Condition Index_

Regarding the variable of economic freedom index, there are three types of indices in the market. The first one is the freedom index created by Freedom House, a US-based US government-funded non-governmental organization. It measures political and cultural freedom, and also incorporates a range of indicators including the freedom to establish a business and freedom of union organisation. The issue is that this index is not very quantitative. For example, China’s score almost does not change, which makes it difficult for regressions. The second freedom index is the Index of Economic Freedom, an annual index created by The Heritage Foundation and The Wall Street Journal to
measure the degree of economic freedom in the world's nations. The third one is the Economic Freedom of the World, an annual survey published by the Canadian think tank Fraser Institute. This one is the most widely-cited freedom index in the world. For example, the total citations for this index are 542 in 2018, 669 in 2017, and 412 in 2016.

**Figure 2** China’s Economic Freedom

Source: Fraser Institute.

This index measures the degree of economic freedom present in five major areas: the size of government; legal system and security of property rights; sound money; freedom to trade internationally; and regulation. Within the five major areas, there are 24 components in the index. Many of those components are themselves made up of several sub-components. In total, the index comprises 42 distinct variables. All
variables come from third-party sources, such as the International Country Risk Guide, the Global Competitiveness Report, and the World Bank’s Doing Business project, so that the subjective judgments of the authors do not influence the index. The index for past years is updated with each new edition to take account of revisions in the underlying data. Figure 2 shows China’s economic freedom scores during 2000-2016.

The other independent variable is the economic condition index, which measures the current economic conditions. This index is created by the China Economic Monitoring and Analysis Centre, an affiliate of China’s National Bureau of Statistics. This index includes four key aspects such as industrial production, employment, demand (investment, consumption, and foreign trade), and social income (government tax, corporate income, and household income).

3.2. Regressions

In this subsection, the factors that contribute to the rise and fall of Chinese POEs are examined. As discussed, the model specification is as follows:

$$ΔΔFraction of POEs_t = δ_0 + δ_1 ΔEconomic Freedom Index_t$$
$$+ δ_2 ΔEconomic Condition Index_t + ε_t$$ (1)

The $ΔΔFraction of POEs$ is the second difference of the fraction of privately-owned enterprises by assets or numbers for the industrial sector. While it would also be helpful to look at the first difference of the fraction of privately-owned enterprises, this value is non-stationary. Further work can be done when more data sets become available. $ΔEconomic Freedom Index$ is the change of economic freedom index. $ΔEconomic Condition Index$ is the change of economic condition index.
They are all yearly data. The reason for using first difference or second difference is to make sure that all time-series data are stationary (unit root tests are presented in Appendix 1)

It may be argued that the change of economic freedom may cause a change of economic condition or vice versa. It may also be argued that the change of the POE may cause the change of economic freedom or economic condition. So, there may be an endogeneity issue. In order to test this issue, the Granger Causality tests\(^6\) are conducted. The results are presented below in Table 1.

**Table 1** Granger Causality Tests

**A. Economic Freedom vs Economic Condition**

<table>
<thead>
<tr>
<th>Null Hypothesis:</th>
<th>Lag Order 1</th>
<th>Lag Order 2</th>
<th>Lag Order 3</th>
<th>Lag Order 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\Delta) in Economic Freedom Index does not Granger Cause (\Delta) in Economic Condition Index</td>
<td>0.648</td>
<td>0.847</td>
<td>0.852</td>
<td>0.940</td>
</tr>
<tr>
<td>(\Delta) in Economic Condition Index does not Granger Cause (\Delta) in Economic Freedom Index</td>
<td>0.855</td>
<td>0.498</td>
<td>0.615</td>
<td>0.345</td>
</tr>
</tbody>
</table>

**B. Fraction of POE vs Economic Condition**

<table>
<thead>
<tr>
<th>Null Hypothesis:</th>
<th>Lag Order 1</th>
<th>Lag Order 2</th>
<th>Lag Order 3</th>
<th>Lag Order 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\Delta) (\Delta) in Fraction of POE by Assets does not Granger Cause (\Delta) in Economic Condition Index</td>
<td>0.788</td>
<td>0.690</td>
<td>0.316</td>
<td>0.384</td>
</tr>
<tr>
<td>(\Delta) (\Delta) in Fraction of POE by Numbers does not Granger Cause (\Delta) in Economic Condition Index</td>
<td>0.372</td>
<td>0.398</td>
<td>0.575</td>
<td>0.215</td>
</tr>
</tbody>
</table>
Table 1 (Continued)

C. Fraction of POE vs Economic Freedom

<table>
<thead>
<tr>
<th>Null Hypothesis:</th>
<th>Lag Order 1</th>
<th>Lag Order 2</th>
<th>Lag Order 3</th>
<th>Lag Order 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\Delta \Delta$ in Fraction of POE by Assets does not Granger Cause $\Delta$ in Economic Freedom Index</td>
<td>0.560</td>
<td>0.355</td>
<td>0.993</td>
<td>0.888</td>
</tr>
<tr>
<td>$\Delta \Delta$ in Fraction of POE by Numbers does not Granger Cause $\Delta$ in Economic Freedom Index</td>
<td>0.567</td>
<td>0.315</td>
<td>0.194</td>
<td>0.860</td>
</tr>
</tbody>
</table>

Table 1 shows that all null hypotheses have failed to be rejected, indicating that there is no endogeneity issue. The most significant conclusion is that the rising private ownership in China in the past did not improve economic freedom but possibly the opposite, which is consistent with the current situation of China (Liu, 2018a). Furthermore, the speed of the change of private ownership does not change the economic condition, but possibly the opposite.

The regression results based on equation (1) are presented in Table 2. The reason for applying robust least squares is the existence of outlines (see Appendix 2: Influence Statistics). The residual test (correlogram) is presented in Appendix 3, showing that there are no serial correlations.

The results presented in Table 2 show that the model specifications generally work well. The coefficients of the change of Economic Freedom Index are both significantly negative within a 10 percent confidence level, indicating that lower economic freedom is significantly associated with a decelerating growth of the fraction of POEs by assets or numbers. This effect will take a 1-year lag. This result is consistent...
Table 2 Regressions Results for the Factors That Contribute to the Rise and Fall of Chinese POEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Prob.</th>
<th>Coefficient</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.004</td>
<td>0.195</td>
<td>-0.013</td>
<td>0.008</td>
</tr>
<tr>
<td>Δ in Economic Freedom Index (-1)</td>
<td>0.080</td>
<td>0.055</td>
<td>0.251</td>
<td>0.000</td>
</tr>
<tr>
<td>Δ in Economic Condition Index (-1)</td>
<td>-0.001</td>
<td>0.549</td>
<td>-0.003</td>
<td>0.087</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.329</td>
<td></td>
<td>0.669</td>
<td></td>
</tr>
</tbody>
</table>


with Hypothesis 1. It may also be possible that the fraction itself drops. However, because of the limitation of the datasets, this issue will be left for future work. The rationale is as follows: when the economic freedom deteriorates, Chinese POEs are then under unfair treatment. Historical evidence shows that they are either under discrimination, forced to retreat from their operations, or become even nationalized. Under some circumstances, these POEs transfer their assets abroad. As a result of that, the growth of the fraction of POEs slows down or the fraction itself drops. Vice versa. For example, after the June Fourth Incident and its seriously negative effects on POEs, the CCP introduced the socialist
market economic system in 1992. After that, China’s economic freedom had improved greatly. The POEs also experienced a significant development afterward. For example, during 1992-1995, the annual growth rate of POEs was 47.1% by number and 98.9% by registered capita (Yang, 1998). Nee and Opper (2012) argued that the emergence of China’s POEs was the result of endogenous institutional change rather than shifts in state policies, but did not provide empirical evidence. This study does not support such an argument but rather the opposite, i.e., a shift in state policies (in the form of economic freedom index) is the cause.

Also, the coefficient of the change of Economic Condition Index is significantly negative within a 10 percent confidence level for Model 2 with the fraction of POEs by numbers as the dependent variable but insignificant for Model 1 with the fraction of POEs by assets as the dependent variable. It indicates that a better economic condition is associated with a decelerating growth of the fraction of POEs although this relation is marginally significant. This result is consistent with Hypothesis 2. The rationale is as follows: when China’s economic condition gets better, the Chinese government may find it more unnecessary to need the support of POEs. As a result, POEs are then under unfair treatment or SOEs receive more preferential treatments in order to maintain the socialist system. For example, after re-positioning China as beyond the previous preliminary stage of socialism and having entered a new era, China began to strengthen the SOEs sector, and stated that China should unwaveringly make SOEs stronger, bigger, and better in 2015 (Xinhua News, 4th July 2016). As a result of that, the fraction of POEs by assets has dropped continuously for 2016 and 2017.
4. Policy Discussions and Implications

This study shows that the rise and fall of China’s POEs are significantly associated with the change of economic freedom and economic conditions. China’s economic freedom score is 57.8, making its economy the 110th freest in the 2017 Index. Although China has benefited from integration into the global economy, the Chinese economy remains mostly unfree. As of the first half of 2018, no significant reforms had been achieved since the much-expected third plenum of the 18th CCP conference. There was little momentum for further reform, and SOEs still dominate the financial sector and many basic industries. With a new ‘Socialism with Chinese Characteristics’ guiding ideology, the leadership appears to be stepping back from liberalization. Chinese President Xi Jinping has centralized his authority, ousted internal political enemies, and backed authoritarian policies to tighten control of civil society since his taking power in 2013 (The Heritage Foundation, 2018). In March 2018, China’s parliament approved the most dramatic change to the Chinese political system in three decades, removing term limits for the president, meaning that President Xi Jinping can rule for life. According to The Heritage Foundation (2020), China’s overall economic freedom score has slightly improved in 2019 with most of the gains coming in areas related to the rule of law and business regulation. However, major reforms of the financial system have not occurred. China’s overall economic freedom still lacks depth and breadth. It seems that China’s POEs may face a continuously challenging environment ahead regarding economic freedom.

Regarding economic conditions, the dramatic U-turn happened after the 1st November 2018 meeting between Chinese President Xi Jinping and some representatives of POEs. This mainly reflects the Chinese government’s concern over the China-US trade war and its negative
effect on the Chinese economy including welfare, gross domestic product, manufacturing employment, and trade (Li, He and Lin, 2018; Liu, 2020a). After November 2018 meeting, a series of policies had been implemented to support the POEs. For example, the head of China Banking and Insurance Regulatory Commission suggested that among the incremental corporate loans, large banks have no less than one-third of loans to POEs, and medium- and small-sized banks have no less than two-thirds; three years later, the proportion of the banking industry’s incremental loans to POEs be not less than 50% (China Securities Journal, 8th November 2018). The People’s Bank of China, security brokerages, and local governments have all begun to provide supporting treatments to POEs.

It seems that the China-US trade war had saved China’s POEs (Liu, 2020b). That can explain why some POEs in China support the US president (Reuters, 21st November 2018). After the China–US trade war entered a truce in December 2019 (Liu, 2020a), the Chinese economy experienced a significant rebound from the shock of the COVID-19 (Liu, 2021a), and China may be the only country that will experience positive growth in 2020 among major economies (IMF, 2020), China’s economic conditions have improved. It turns out to be a minus for Chinese POEs. On 13th September 2020, the Chinese authorities stipulate that firms that control two or more different types of financial institutions may need to establish financial holding companies. Liu (2021c) argued that this regulation primarily targets POEs, and one of the regulatory objectives is to restrict private ownership. As discussed at the beginning of this paper, one of the most recent examples is the crackdown on China’s (once) largest privately-held firm, Ant Group, an affiliate company of Alibaba (which was China’s largest technology firm by market capitalization, as of 30th November 2020). Strengthening antitrust efforts and preventing the disorderly expansion of private
capital are parts of the Chinese authorities’ major goals in 2021 (*China Daily*, 19th December 2020).

Some of China’s recent policy orientation towards POEs are subtler. For example, Chinese President Xi Jinping instructed that China should be confident in making SOEs stronger, better, and bigger (Liu, 2021b). In fact, based on a dataset of control rights transfer between listed POEs and SOEs as of September 2019, Liu (2021b) found that more POEs have been nationalized in 2019 than in any year during 2014-19. The CCP has also greatly enhanced the control over POEs recently. According to the constitution of the CCP, “all enterprises, rural areas, government departments, schools, research institutes, street communities, social organizations, local units of the People’s Liberation Army, who have more than three members with an official membership of CCP, should set up a local cell of CCP”8. According to the Company Law of China, “(each) company should provide necessary conditions for activities organized by the CCP” (NPC, 2007). So, it means that the CCP has its legal right to establish local cells in POEs. According to the data provided by the Organization Department of the CCP at a news conference, as of the end of 2016, among two point seven million non-SOEs, 67.9 per cent of them have established CCP cells; among 106 thousand foreign firms, 70 per cent of them have established CCP cells (*Xinhua News*, 19th October 2017).

If China’s POEs are continuously falling, it will have complicated implications for the Chinese economy. Various studies have shown that private ownership is more efficient than state ownership (Liu, 2018b), a more dominant SOE in the Chinese economy means more waste of resources and lower efficiency. Regarding the case of China, Du, Liu and Zhou (2014) found strong and consistent evidence of a systematic and worsening resource misallocation within the state sector and/or between the state sectors and private sectors over time, suggesting that
resources have been driven away from their competitive market allocation and towards the inefficient state sector. Johansson and Feng (2016) found that SOEs perform significantly worse than POEs after the introduction of the stimulus programme in 2008, and concluded that there will be negative consequences for aggregate performance in the economy if China’s state sector is advancing. In summary, if the fraction of POEs continues to decline, the growth prospect of the Chinese economy will be further shadowed.

5. Concluding Remarks

Recently there have been major shifts regarding China’s policies toward the POEs. While previous studies on the Chinese economy have been mainly focused on SOEs, POEs have received much less coverage. From this point of view, this paper contributes to the studies on POEs. Most importantly, this study examines the factors that have contributed to the growth of POEs. The empirical results show that the deteriorating (improving) economic freedom and improving (deteriorating) economic conditions are significantly associated with the lower (higher) speed of the growth of the fraction of POEs. These findings are closely related to the communist ideology held by the CCP from the very beginning of the reform and open-up policy in 1978 to the present Xi Jinping presidency. For example, the communist ideology advocates the abolishment of private ownership. The future of Chinese POEs depends on how China’s economic freedom will evolve, and how China’s future economic conditions are.

Previous studies argued that the emergence of POEs was the result of endogenous institutional change rather than shifts in state policies. For the first time in academic literature, this study provides empirical evidence showing that on the contrary, a shift in state policies (in the
form of economic freedom index) is the cause. Also, for the first time in academic literature, this study finds that the development of China’s private sector does not Grange cause the improvement of economic freedom.

One limitation of this study is that the number of data items is very limited. As the datasets employed in this study are yearly, it may not be easy to obtain a large number of data items. Future studies can use firm-level data to further examine the development of Chinese POEs in and after 2018. Moreover, as this study examines the effects of the change of economic freedom and the change of economic condition on the speed of the growth (change) of POE fractions, it will be valuable to see how they will affect the growth (change) of POE fraction itself. When more data items or alternative variables are available, alternative models can be applied.

Acknowledgement

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Notes

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2. Wind Info is a Chinese economic data provider (https://www.wind.com.cn/en/default.html). It serves more than 90% of China’s financial institutions and 70% of Qualified Foreign Institutional Investors.
3. For more information, please see <https://www.fraserinstitute.org/economic-freedom/citations>.

   <https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&page=dataset&min-year=2&max-year=0&filter=1&sort-field=country&sort-reversed=0&countries=CHN&year=2018>

5. For more detail information on the methodology of this index, please visit the official website of Fraser Institute <https://www.fraserinstitute.org/economic-freedom/approach>.

6. The Granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another.

7. In The Heritage Foundation data, this value is assigned to its 2018 index. Since the Fraser Institute data are only as of 2016, The Heritage Foundation data is used here accordingly.

8. <http://www.12371.cn/special/zggcdzc/zggcdzcqw/> (in Chinese). This is the official website for CCP members, and set up by the Organization Department of the CCP.

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Appendix 1 Unit Root Tests

A. Augmented Dickey-Fuller Test Statistic: Null Hypothesis: Variable Has a Unit Root

<table>
<thead>
<tr>
<th>Variables</th>
<th>t-Statistic</th>
<th>Prob.*</th>
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<tbody>
<tr>
<td>Δ in Fraction of POE by Assets</td>
<td>-2.160</td>
<td>0.226</td>
</tr>
<tr>
<td>Δ Δ in Fraction of POE by Assets</td>
<td>-4.127</td>
<td>0.010</td>
</tr>
<tr>
<td>Δ in Fraction of POE by Number</td>
<td>-2.275</td>
<td>0.189</td>
</tr>
<tr>
<td>Δ Δ in Fraction of POE by Number</td>
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<td>0.000</td>
</tr>
<tr>
<td>Δ in Economic Freedom Index</td>
<td>-3.687</td>
<td>0.019</td>
</tr>
<tr>
<td>Δ in Economic Condition Index</td>
<td>-4.917</td>
<td>0.001</td>
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</table>

B. Phillips-Perron Test Statistic: Null Hypothesis: Variable Has a Unit Root

<table>
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<th>Variables</th>
<th>Adj. t-Stat</th>
<th>Prob.*</th>
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</thead>
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<td>0.226</td>
</tr>
<tr>
<td>Δ Δ in Fraction of POE by Assets</td>
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<td>0.000</td>
</tr>
<tr>
<td>Δ in Fraction of POE by Number</td>
<td>-2.264</td>
<td>0.192</td>
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<tr>
<td>Δ Δ in Fraction of POE by Number</td>
<td>-6.978</td>
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</tr>
<tr>
<td>Δ in Economic Freedom Index</td>
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</tr>
<tr>
<td>Δ in Economic Condition Index</td>
<td>-4.923</td>
<td>0.001</td>
</tr>
</tbody>
</table>
Appendix 2 Influence Statistics

A. Influence Statistics for OLS with Fraction of POE by Asset as the Dependent Variable
Appendix 2 (Continued)

B. Influence Statistics for OLS with Fraction of POE by Number as the Dependent Variable
Appendix 3 Correlogram – Q Statistics

A. The Dependent Variable Is the Fraction of POE by Asset

<table>
<thead>
<tr>
<th>Autocorrelation</th>
<th>Partial Correlation</th>
<th>AC</th>
<th>PAC</th>
<th>Q-Stat</th>
<th>Prob*</th>
</tr>
</thead>
<tbody>
<tr>
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<td>-0.270</td>
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<tr>
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<td>2.1130</td>
<td>0.549</td>
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<td></td>
<td>4</td>
<td>-0.117</td>
<td>2.4439</td>
<td>0.655</td>
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<tr>
<td></td>
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<td>5</td>
<td>0.200</td>
<td>3.4870</td>
<td>0.625</td>
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<td></td>
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<td>6</td>
<td>-0.385</td>
<td>7.7624</td>
<td>0.256</td>
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<td>7</td>
<td>0.135</td>
<td>8.3452</td>
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<td>8</td>
<td>0.080</td>
<td>8.5743</td>
<td>0.379</td>
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<td>0.036</td>
<td>8.6277</td>
<td>0.472</td>
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<td></td>
<td>10</td>
<td>0.136</td>
<td>9.5214</td>
<td>0.483</td>
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<td></td>
<td>11</td>
<td>-0.135</td>
<td>10.568</td>
<td>0.480</td>
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<td>12</td>
<td>-0.001</td>
<td>10.569</td>
<td>0.566</td>
</tr>
</tbody>
</table>

B. The Dependent Variable Is the Fraction of POE by Number

<table>
<thead>
<tr>
<th>Autocorrelation</th>
<th>Partial Correlation</th>
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<th>PAC</th>
<th>Q-Stat</th>
<th>Prob*</th>
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<td>12</td>
<td>-0.001</td>
<td>10.569</td>
<td>0.566</td>
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</tbody>
</table>
Trade and Investment
Chinese Foreign Direct Investments in Hungary from the Perspective of BRI, International Capacity Cooperation, and Made in China 2025

Eszter Lukács* and Katalin Völgyi**
Széchenyi István University, Hungary

Abstract
This study analyses Chinese investments in Hungary from the perspective of three initiatives (Belt and Road Initiative, International Cooperation in Industrial Capacity and Equipment, and Made in China 2025) which are in line with China’s “Go global” strategy and among other things aimed at promoting the spread of Chinese companies and products abroad. The findings show a vivid cooperation between China and Hungary in automotive, ICT, renewable energy, chemical, transportation/logistics and banking sector through the three abovementioned initiatives.

Keywords: China, Hungary, FDI, Belt and Road Initiative, Made in China 2025, International Capacity Cooperation
1. Introduction

In a very short period of time China has become one of the largest FDI source countries. Beside inward FDI to China, the topic of outward FDI from China has started to attract more and more attention from scholars. With its geographical limitation, this fascinating phenomenon serves as a topic for this study, focusing solely on Chinese FDI in Hungary, the most significant host country of Chinese FDI in the CEE region.

In the academic literature, Chinese investments in Hungary are often investigated in a broader geographical context and from the perspective of the Belt and Road Initiative (BRI). The publications (Matura, 2016; 2017a) of European Think-tank Network analyse Chinese investments in the EU, including Hungary. Liu (2013), Matura (2017b), Zhang (2018), Szunomár et al. (2018), Lukács and Völgyi (2018a), Matura (2019) and Szunomár et al. (2020) investigate Chinese investments in Hungary under China-CEE relations. Some publications (Matura, 2018; Lukács and Völgyi, 2018b) have a narrow focus on bilateral relations between China and Hungary. Chinese investments in Hungary are often researched alongside political and other economic (trade, infrastructure development) relations. In addition, there are some publications (Szunomár and McCaleb, 2016; 2018; Sass et al., 2019) which compare Chinese investments with other Asian investments in Hungary or the CEE region. The aforementioned publications provide an insight into the trends, activities, motivations and modes of market entry of Chinese companies in Hungary. This study contributes to the academic literature with a unique sectoral analysis of Chinese investments in Hungary from the perspective of the Belt and Road Initiative, International Capacity Cooperation, and Made in China 2025.
In Section 2 of this paper, the evolvement of China’s outward FDI policy and outward FDI are overviewed. Section 3 focuses on three initiatives (Belt and Road Initiative, International Capacity Cooperation, Made in China 2025) which are – *inter alia* – aimed at promoting foreign expansion of Chinese companies in line with the “Go global” strategy. Section 4 contains an analysis of Chinese investments in six sectors of the Hungarian economy depicted through bilateral cooperation in the three initiatives mentioned above. Finally, the study is closed with some conclusions.

2. China’s Outward FDI Policy and Trends of Outward FDI

Before 2000, China’s OFDI policy had been widely restricted since, as a developing country with capital shortage, it focussed mainly on enhancing FDI inflows. Only after its 2001 accession to the WTO has China started to gradually relax its OFDI policy. The so-called “Go global” strategy was announced in China’s Tenth Five-Year Plan (2001-2006). “The essence of this strategy is to promote the international operations of capable Chinese firms with a view to improving resource allocation and enhancing their competitiveness” (UNCTAD, 2006: 210). The “Go global” strategy “encourages enterprises to participate in international economic and technological cooperation of various forms, including outbound investments, international EPC (engineering, procurement and construction) projects, and labour service cooperation” (Hu, 2018: 71). “Although the “Go global” strategy was proposed in 2000, the rules for its implementation were not introduced until 2004” (Wang and Gao, 2018: 623) which implicated the take-off of Chinese OFDI from 2.86 billion US dollars in 2003 to 12.26 billion US dollars in 2005. Moreover, there was a further increase of OFDI to 55.91 billion US dollars in 2008.
During the global financial and economic crisis, the boom period of Chinese OFDI started to evolve. Between 2009 and 2016, Chinese OFDI grew from 56.53 billion US dollars to 196.15 billion US dollars. Since 2012, China has been among the top 3 FDI home countries in the world. In 2016, China became the second largest source country of FDI behind the USA. A number of companies in developed countries experienced problems during the global financial and economic crisis, opening the door for Chinese companies to increase their investments. In response to the growing enthusiasm for overseas investments, further relaxation measures were introduced in 2009, 2011 and 2014, leading to a “registration-based and approval-supplemented” stage of the system managing China’s OFDI. In other words, most OFDI projects simply required registration and “only projects involving sensitive industries or countries or with Chinese investment of over 1 billion US dollars needed to obtain official approval” (Wang and Gao, 2018: 624-625). The boom period of Chinese OFDI can also be characterized by changes in target sectors, countries and motivations. There has been a growing share of developed countries in Chinese OFDI. The initial dominance of the energy and mining sector has started to fade and sectors such as high technology manufacturing and services have become more attractive for Chinese companies. These changes also reflect China’s industrial upgrading and economic transformation from an export, manufacturing and investment-driven growth model to a consumption, innovation and service sector-driven one. “Chinese FDI outflows are driven by multiple objectives such as seeking market expansion, resources and assets, brands, technology and know-how. Acquiring resources and energies used to be the priority, but in recent years acquiring high-quality assets, and access to global marketing channels, advanced technologies, products and brands (in developed countries) have become predominant motives” (Meng et al., 2018: 13).
From the record level (196.15 billion US dollars), Chinese OFDI dropped back to 158.29 billion US dollars in 2017, and further decreased to 129.83 billion US dollars in 2018. “The decline was the result of policies to clamp down on OFDI, in reaction to significant capital outflows during 2015-2016” (UNCTAD, 2018: 48). “Authorities feared that a number of private company acquisitions were motivated by the desire to transfer money abroad – especially in case of acquisitions outside of the buyers’ core area of business” (Casanova and Miroux, 2020: 96). “In late 2016, the Chinese government identified several areas of “irrational investment” and started to curb overseas investments (especially M&A) in certain industries, including real estate, hotels, cinemas, entertainment and sport clubs” (UNCTAD, 2018: 48). In August 2017, Chinese authorities issued the “Opinions on Further Guiding and Regulating the Direction of Overseas Investments” to classify OFDI into “encouraged”, “restricted” and “prohibited” categories.

In addition, in December 2017, new measures (“Administrative Measure for Outbound Investment by Enterprises”) were launched to provide clearer and more streamlined regulations for OFDI. They created a Chinese OFDI regime “largely based on filing and ex post monitoring and supervision – gradually leaving the investment decision to the enterprise itself” (Casanova and Miroux, 2020: 98). Only investments in sensitive industries/countries need to obtain an approval. In case of investments above 300 million US dollars in non-sensitive industries/countries, only a report has to be submitted before the implementation. If the total investment amount is less than 300 million US dollars, no approval, record-filing or reporting is required.
Table 1 Classification of Overseas Foreign Direct Investments of Chinese Companies

<table>
<thead>
<tr>
<th>Classification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>encouraged</td>
<td>Overseas investment in infrastructure projects that facilitate the communications and connections that are beneficial to the Belt and Road Initiative; overseas investment in projects that will facilitate the export of high standard industrial capacity, high quality equipment and technical standards; investment in and cooperation with overseas new and high technological and advanced manufacturing enterprises, and establishment of offshore R&amp;D centres; participation in the exploration and extraction of offshore oil and gas, mining and other energy resources; overseas investment and cooperation in agricultural projects; investment in commerce and trading, the cultural sector, logistics and other service sectors in an orderly manner, establishment of offshore branches and service networks of qualified financial institutions.</td>
</tr>
<tr>
<td>restricted</td>
<td>Overseas investment in sensitive countries and regions where China has not established diplomatic ties, are at war, or are restricted by bilateral or multilateral treaties or agreements of which China is a signatory; overseas investment in real estate, hotels, cinemas, entertainment and sports clubs; overseas establishment of equity investment funds or investment platforms without actual, specific industrial projects; overseas investment using outdated production equipment that does not meet the technical requirements of the investment recipient country; overseas investment that does not meet the environmental protection, energy consumption and safety standards of the recipient country.</td>
</tr>
<tr>
<td>prohibited</td>
<td>Overseas investment involving the export of core technology or product from the military industry without the approval of the government; overseas investment involving the use of technology, techniques or products that are banned from export by the government; overseas investment in industries such as gambling and pornography; overseas investment that is banned by international treaties concluded with or signed by China; other overseas investments that endanger or may endanger national interests and national security.</td>
</tr>
</tbody>
</table>

In 2018, the Chinese government continued to curb overseas investment in real estate, hotels, cinemas, entertainment and sports clubs etc., with tightened foreign exchange controls. “Investment policy uncertainties and tightened investment screening regulations also weighed on Chinese OFDI to the United States and the EU” (UNCTAD, 2019: 45). In spite of significant decrease in OFDI, China was the second largest FDI home country in 2018.

In sum, we can say that in recent years, market has been given a bigger role in the decision-making on overseas investment and the Chinese government’s guiding and regulation for overseas investment of Chinese companies has been based on the model of “encouraged development plus negative list” (Paul, Weiss, Rifkind, Wharton & Garrison LLP, 2017: 2) (see Table 1).

3. Recent initiatives related to outward FDI

In line with the “Go global” strategy, several initiatives such as Belt and Road Initiative (or One Belt, One Road), International Cooperation in Industrial Capacity and Machinery Manufacturing, and Made in China 2025 have been launched after the global financial and economic crisis when the Chinese economic growth started to slow down. These initiatives support, *inter alia*, the global spread of Chinese companies and products and help the industrial restructuring and upgrading of the Chinese economy. They especially target those overseas investments which are listed in the encouraged category (see Table 1).

3.1. The Belt and Road Initiative

The Belt and Road Initiative is a joint designation for the Silk Road Economic Belt and the 21st Century Maritime Silk Road, contemporary versions of the centuries old Silk Road trade routes which were launched
by Chinese President Xi Jinping in 2013 (Yu, 2017). “Many specific details of the Belt and Road Initiative were announced only in March 2015 when Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road was promulgated” by China’s National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce. According to this document, the BRI is designed to enhance connectivity between Asia, Africa and Europe. It mentions five types of connectivity: policy coordination, infrastructure connectivity (priority area), unimpeded trade, financial integration and people-to-people relations. (In this study we do not deal with social connectivity, namely, the people-to-people relations). “The Belt and Road was originally identified to cover 65 countries along the routes” (Wang, 2019: 92). “Now more than 130 countries are reported to have signed BRI agreements with China. These also include countries in Central America and the Pacific – far beyond the traditional Silk Road routes” (The Economist Corporate Network, 2019: 3). There are some significant economies such as the USA, Western and North European countries, Japan, India, and Australia which try to avoid this kind of open endorsement of the BRI.

Building infrastructure (transport, energy, telecommunication etc.) is designated as a priority area in the Belt and Road Initiative and represents a hub for the other areas. Policy coordination means that countries along the Belt and Road should coordinate their economic development strategies and policies, and jointly provide policy support for the implementation of practical cooperation and large-scale (infrastructural) projects (NDRC, 2015). The realization of this infrastructural connectivity requires financial cooperation among countries and tremendous financial resources. New multilateral development banks such as the Asian Infrastructure Investment Bank,
New Development Bank and several new funds such as the Silk Road Fund, China-ASEAN Investment Cooperation Fund, and the China-Central and Eastern Europe Investment Cooperation Fund have been established under Chinese leadership and partly or wholly with its financial contribution. These financial institutions or aforementioned funds have become parallel sources of financing for development to the Western/Japanese-dominated multilateral development banks such as the World Bank, Asian Development Bank, European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB). Banks in the former group complement the activities in the latter group. Moreover, it is often the case that they work together on co-financing/joint projects. Chinese state-owned banks such as the Bank of China, China Development Bank, and the Export-Import Bank of China, or the Chinese sovereign wealth fund, China Investment Corporation, directly or indirectly\(^1\) provide financing for the development of economic cooperation among the Belt and Road countries. The development of infrastructure connectivity (as a priority goal) cannot only enhance trade, but also investment relations. Trade and investment facilitation includes elimination of trade and investment barriers (through bilateral and plurilateral free trade agreements, bilateral investment treaties and simplification of customs clearance procedures), the creation of free trade zones, business and trade cooperation zones, and industrial parks. China encourages domestic companies to invest in infrastructure or industrial sectors in BRI countries.

3.2. **International Cooperation in Industrial Capacity and Equipment Manufacturing**

In line with the goals of the BRI, the initiative of International Cooperation in Industrial Capacity and Equipment Manufacturing, the guiding document of which was issued by the State Council in May

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\(^{1}\) According to Li, 2019.
2015, encourages Chinese companies to go abroad and “individually, or by collaborating with foreign counterparts, to carry out overseas business operations in various forms, including project contracting and investing and building factories” (Xu, 2019: 311). China has entered into bilateral and multilateral capacity cooperation arrangements with several countries and regional organizations (e.g. EU, ASEAN, MERCOSUR, Africa Union and 17+1 cooperation). Key sectors of capacity cooperation are iron and steel, non-ferrous metal, railways (e.g. high-speed railways), electric power (e.g. nuclear power stations), telecommunications, construction materials, chemical engineering, textiles, automobiles, engineering mechanics, aerospace and aviation, ship and ocean engineering. In most of these sectors, Chinese companies have created industry alliances which have been encouraged by the NDRC to go abroad. Capacity cooperation supports the global spread of Chinese companies and products and helps the industrial restructuring (among others, transfer of excessive capacities – in manufacturing, infrastructure and related industries – abroad) and upgrading of the Chinese economy. From the perspective of partner countries, we can say that China facilitates the industrial growth of developing countries and fulfils their growing demand on infrastructure. In the case of developed countries, there is a need for facility maintenance and upgrade in the infrastructure sector which can be met by Chinese companies (Ernst & Young, 2016). In addition, China promotes third-party market cooperation with companies from developed countries. This type of cooperation combines China’s production capacity with developed countries’ advanced technology and equipment for joint bidding of projects in third-party countries (developed or developing countries) (KPMG, 2016; Qiu, 2015).
Industrial capacity cooperation is often related to overseas economic and trade cooperation zones and industrial parks, the founding of which started in 2006. “From 2013 to 2018, 82 overseas economic and trade cooperation zones and industrial parks were established in 24 countries” (BRF Advisory Council, 2019: 8).

3.3. Made in China 2025

China’s State Council launched the ten-year industrial masterplan of Made in China 2025 in May 2015, the main aims of which are to improve manufacturing innovation, deeply integrate informatization and industrialization (smart manufacturing), strengthen the industrial base, foster Chinese brands, enforce green manufacturing, promote service-oriented manufacturing and manufacturing related service industries, restructure the manufacturing industry, internationalize manufacturing, and promote breakthroughs in key sectors (Ernst & Young, 2016). It “requires China to shift away from energy, heavy industry (iron, steel, non-ferrous metals, basic machinery, and traditional automobiles) and construction towards more sophisticated industries” (OECD, 2018: 81). In line with the international capacity cooperation, Made in China 2025 supports the restructuring and upgrading of the Chinese economy. It targets the following high-tech industries: new generation information technology, high-end digital control machine tools and robots, aerospace and aeronautic equipment, oceanographic engineering equipment and high-tech ships, advanced railway transportation equipment, energy efficient and new energy vehicles, electric power equipment, agricultural machinery equipment, new materials, biopharma and high-tech medical devices (State Council, PRC, 7th July 2015). In the aforementioned domestic high-tech industries, Chinese authorities intervene in order to benefit and facilitate the economic dominance of Chinese enterprises
and to disadvantage foreign competitors. The cornerstone of Made in China 2025 is the replacement of foreign technology with Chinese technology at home. The external dimension of this industrial masterplan includes the government’s support for the international expansion of Chinese high-tech companies through foreign direct investments or the expansion of their exports. Chinese companies are highly encouraged to accelerate the acquisition of high-tech companies with core technologies abroad in order “to speed up China’s technological catch-up and to leapfrog stages of technological development” (Wübbeke et al., 2016: 7).

In the next section, we investigate Chinese investments in Hungary with a special focus on the realization of the goals of the Belt and Road Initiative, International Cooperation in Industrial Capacity and Equipment Manufacturing and Made in China 2025, which encourages Chinese companies to expand their activities abroad.

4. Chinese Foreign Direct Investments in Hungary

As mentioned above, China has become one of the world’s largest FDI home countries in a very short period of time. China’s outward FDI stock is concentrated in Asia (67%), followed by Latin America (15.3%), Europe (6.4%), North America (5.6%), Africa (2.9%) and Oceania (2.8%) (Li, 2018). The three top destination countries, Hong Kong (57.5%), Cayman Islands (7.7%) and British Virgin Islands (6.5%) have had a relatively high share (71.7%) in China’s total outward FDI which can be explained by offshore and round-tripping activities. This means that Chinese FDI outflows to these countries are redirected to a third country or channelled back to China. At the same time, we have to highlight the growing share of developed countries (especially the USA and the EU) in Chinese outward FDI stock since 2009. CEE member
countries of the EU, including Hungary, host only a tiny part of China’s total OFDI in the EU. Between 2000 and 2017, only 4.5% of Chinese FDI transactions in the EU took place in CEE member countries. According to the data (2000-2017) of Rhodium Group, Hungary is the leading destination country for Chinese OFDI in the CEE region (Hanemann and Huotari, 2018). However, China has only a small share in Hungary’s total inward FDI stock. In 2017, China accounted for 2.1 percent of total inward FDI stock of Hungary and was the fourth largest Asian investor in Hungary behind South Korea, Japan, and India.2

Despite its low share, we can state that Chinese companies started to increase their presence in Hungary after 2004 when the country joined the EU and more significantly after 2009. The 2008 financial turmoil with the subsequent global economic downturn and the 2010-2011 European sovereign debt crisis together gave a “window period” to Chinese companies to increase further their investments in the CEE region (Liu, 2012), the economic growth of which had been traditionally dependent on the FDI from the EU-15. Of CEE countries, Hungary (beside Poland) was picked up as a key country by Chinese investors from where they started to expand their investments and used it as a “bridgehead” to invest in the whole region (ibid.). China’s approach was welcomed by the Hungarian government which was urged by the above-mentioned crises to reduce the country’s economic dependence on the EU and diversify its economic relations. The Hungarian government launched the so-called “Eastern Opening” policy in 2012 (but which had already been formulated in 2010), in which China had an outstanding role and one of the aims of which is to increase FDI from Asia.

China’s outward foreign direct investments have been encouraged by several (push and pull) factors. The government policy is one of them which is an important push (home country) as well as a pull (host country) factor for Chinese companies. China’s state led economic
model including outward the FDI policy presented above, underpins the significance of government policy as a push factor. Regarding government policy as a pull factor, the recent findings of Völgyi and Lukács (2021) show that the Hungarian government’s “Eastern Opening” policy has been playing an important role in Chinese investments in Hungary. In the last decade, there has been an increase in the number of high-ranking bilateral/regional (17+1) political meetings between China and Hungary where negotiations on Chinese companies’ Hungarian investments have been frequently conducted. In addition, with the expectation of attracting more Chinese FDI, Hungary was the first European country to officially sign a MoU on the Belt and Road Initiative with China in 2015, and to create a BRI working group with China. The Hungarian government has also concluded strategic cooperation agreements with Chinese companies located in the country to further deepen their engagement with Hungary and increase their investments.

A more intense cooperation between China and Hungary started at the beginning of the 2010s. Several business proposals were put on the negotiating table in the initial high-ranking political meetings between 2010 and 2013. Of the early Chinese investment plans, some have never entered an implementation phase or have faced a prolonged implementation phase. In the case of planned, but not realized projects, we can highlight the solar cell and panel plant of Hungarian-Chinese joint venture Orient Solar or the European production base of Wujiang Canyi New Lighting in cooperation with Hungarian DML Europe. In addition, in the field of transportation/logistics, some Chinese companies have indicated their business interests in planned or ongoing projects of the Hungarian government and have started negotiations: Hainan Group (acquisition of Hungarian airlines MALÉV), Shanghai Construction Group (development of the airport near Vát (in southwest Hungary)),

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China Railway Construction Company (V0 rail ring and downtown-to-airport high-speed train connection in Budapest). These projects have not been realized, but the latter two infrastructure development projects in Budapest have still been under planning, but without any Chinese financing. According to the latest information from the Hungarian Ministry of Innovation and Technology (Schanda, 2020; VG, 27th March 2021), they can be implemented and financed from EU budget funds in the near future. Among the prolonged Chinese projects, we can highlight the citric acid factory of Hungarian-Chinese joint venture BBCA Szolnok Biokémia and the Budapest-Belgrade high-speed railway which we touch upon in the following section of our sectoral analysis.

Despite the initial unrealised investment plans, several new Chinese companies have invested in Hungary and Chinese companies located in Hungary have also expanded their investments in recent decades. The Hungarian government (Fidesz-KDNP coalition since 2010) has remained committed to cooperating with China and new investment plans are always put on the negotiating table in high-ranking political meetings. In the subsections below, we analyse Chinese companies’ investments in several industries of Hungary such as electronics/ICT, automotive, renewable energy, chemicals, telecommunication, banking logistics, and transportation from the perspective of BRI, International Cooperation in Industrial Capacity and Equipment Manufacturing and Made in China 2025. Chinese companies operating in Hungary are partly/wholly state-owned companies or private companies. Four of these Chinese companies (Huawei, COSCO, Midea and Lenovo), which are listed by UNCTAD among the top 100 non-financial MNEs from developing and transition economies, have investments in Hungary.
4.1. Electronics/ICT

In the electronics/ICT sector, Huawei, Lenovo and ZTE are relatively early investors from China. Since their market entry in Hungary, they have considerably increased their activities and the country has become a Central European hub from where the whole European market can be supplied with their products or services. In 2009, Huawei located its European Supply Centre to Hungary which has been distributing Huawei products not only to Europe, but also to Russia, North Africa and the Middle East. Foxconn in Komárom and BYD Smart Device in Páty assemble Huawei telecom equipment. In 2013, Huawei opened an enlarged logistics centre in Biatorbágy. Huawei concluded a strategic cooperation agreement with the Hungarian government in 2013 which made Huawei invite its domestic supplier, Comlink to invest and open its first overseas factory in Hungary. In 2012, ZTE began to operate a new European regional network operation centre (NOC) and a call centre and a European mobile phone repair centre one year later. Since 2009, similar to Huawei, Flextronics as an EMS partner has been producing Lenovo PCs, servers and storage devices in Sárvár and supplying Europe, Africa and the Middle East with these Lenovo products. In 2016, Flextronics and Lenovo opened a new server plant in Sárvár.

Beside these market-seeking investments, we have to highlight the role of Huawei and ZTE in the telecommunications infrastructure development in Hungary. Between 2010 and 2015, ZTE participated in the building of the 4G mobile network of Telenor which preferred the Chinese company to its former Swedish partner, Ericsson. Cooperation between Vodafone and Huawei started in 2007 on the global level and in Hungary as well. In 2019, Telenor, with its Chinese supplier ZTE, started to operate its 5G pilot network in the City of Győr where it
concluded a cooperation agreement with Széchenyi István University to enable engineers based at the University to carry out 5G related research (Telenor, 15th May 2019). The other two big operators in Hungary, Vodafone and Telekom have been using Huawei products during the 5G testing phase, but at the moment it is very uncertain whether they will conclude any agreements with Huawei regarding the country-wide development of a 5G mobile network. Members of the Hungarian governments have affirmed several times that they will not discriminate against any suppliers regarding their origin in the case of development of critical infrastructure such as telecommunication networks. The final decision of Vodafone and Telekom depends on their British and German parent companies and home country’s regulations. Despite the current uncertainties, we can state that ZTE and Huawei have been significantly contributing to the realisation of one of the priority goals of the Chinese government, namely, the development of telecommunication infrastructure in the countries lying along the Belt and Road. They also fulfil one of the main aims of Made in China 2025 by supporting the global spread of Chinese high-tech products such as 5G mobile communication products which are used in the development of Hungarian mobile network systems. In addition, we have to mention Huawei’s latest development in Hungary, namely, the launch in 2020 of a new R&D centre in Budapest, opened on the 15th anniversary of the company’s operation in Hungary.

In the telecommunication sector we have to mention another Chinese investment which is related to the BRI. This is the acquisition of telecom company Invitel in 2017 by the China – Central and Eastern Europe Investment Cooperation Fund mentioned above which is mainly sponsored by the Export-Import Bank of China and the Hungarian Export-Import Bank.
4.2. Automotive Sector

In the automotive sector, several foreign subsidiaries operating in Hungary became part of Chinese companies which acquired their parent companies in home countries (e.g. Pex, KACO, Joyson Safety System, Wescast, SEGA). These acquisitions reflect dominant strategic asset seeking motives of Chinese companies in developed countries. Beside acquisitions, we can also find brown-field (BYD), green-field (Himile) as well as JV (Electrobus Europe) investments in the automotive sector. One of the world’s leading EV battery manufacturers, Chinese BYD, acquired the Hungarian plant of the South Korean electronics molder Mirae in Komárom in 2008 which decided on disinvestment because of the shutdown of its main vendor Nokia. It was only in 2017 when BYD opened its electric bus factory which is its first facility in Europe and from where it can supply the whole European market. In 2017, it concluded an agreement on a 20 million Euro credit line with the China Development Bank which is aimed to finance the company’s further development. Similar to BYD, Himile, the world’s largest manufacturer of tyre moulds, opened its first European facility in Hungary in 2016 and has been operating as a European service and manufacturing centre. The other electric bus factory with a Chinese stake is Electrobus Europe. This is a joint venture established in 2018 by Ikarus, a Hungarian company with a long tradition in bus manufacturing, and Chinese CRRC, the world’s largest rolling stock manufacturer. The joint venture is based on Ikarus’s high quality, European standardized vehicle manufacturing and CRRC’s unique knowledge in the area of electric propulsion. Investments of BYD and Electrobus Europe in Hungary represent the international expansion of Chinese new energy vehicle manufacturers, which is encouraged by Made in China 2025. Supplying the whole European market from Hungary is the main motive for these investments.
4.3. Renewable Energy

Electric power equipment is another target sector of the strategic industrial plan of Made in China 2025. In this field, for example, the global upsurge of Chinese solar panel manufacturers is obvious. In 2019, seven of the world’s top ten solar panel manufacturers were Chinese. The same we could say about the Chinese electric vehicle battery industry in 2017 (Zenglein and Holzmann, 2019), the Hungarian investments of which have just been mentioned above. The first investment in the Hungarian solar industry was the acquisition of a thin film solar modules supplier, Energosolar by Greensolar (subsidiary of Beijing Sevenstar Group) in 2009. Greensolar has obtained the strategic assets of Energosolar such as IP, know-how, and the technical expertise of staff. Since 2009, Greensolar has participated in the development of eight photovoltaic power stations in Hungary. In 2018, the Hungarian unit of Shanghai-based Unisun Energy Group established a ground-mounted solar power facility in Tiszaszőlős (154 km east of Budapest). In 2019, it announced the launch of a new solar photovoltaic project in Hungary (Budapest Business Journal, 30th September 2019). In 2019, China National Machinery Import & Export Corporation (CMC), which is a subsidiary of Chinese state-owned company Genertec, invested in the construction of the largest photovoltaic power station in Central Europe which has been built in Kaposvár. The project is designated by the Chinese state media as a new achievement of China’s BRI initiative and Hungary’s “Eastern Opening” policy (SASAC, 24th June 2019). It „will support the country’s climate policy targets, including making Hungary a country that can produce energy in a carbon neutral way by 2050. The investor, CMC is planning to establish a regional centre in Hungary, from which it will manage the preparations for further development in 16 Central and Eastern European countries” (Emerging
Europe, 18th June 2019). In addition to the solar industry, we can find Chinese investments in the geothermal energy sector. Zheijiang Kaishan Compressor (through its joint venture, KS Orka Renewables Pte. Ltd.) acquired 51% of the shares in Turawell geothermal company to jointly develop geothermal energy in Tura, 30 km from Budapest, in 2016. This project was the first geothermal power station of Zhejiang Kaishan Compressor in Europe. The company would like to further expand in the geothermal power generation market in the CEE region.

4.4. Chemical Sector

From February 2010 to October 2011, in three stages, Wanhua acquired 96% share of BorsodChem located in Kazincbarcika, Northeast Hungary which was rescued from shutdown. With the integration of BorsodChem into its group, Wanhua has become the world’s third largest isocyanate producer and increased its European presence through BorsodChem subsidiaries. Since then, Wanhua has been continuously investing in the development of BorsodChem in Hungary: Wanhua opened its new TDI plant in 2011. This investment was financially backed by Bank of China. In 2016, Wanhua and Huawei signed a strategic cooperation agreement on developing smart manufacturing systems. “According to the agreement, Wanhua will be establishing its European info-communication centre in Hungary in the interests of increasing the level of quality of its regional production technologies to the highest possible level and developing its operations. Cooperation between the two Chinese companies, which are among the front runners on the world market, will also introduce state-of-the-art production technology based on big-data, cloud-based technology and communication between machines, the so-called “fourth industrial revolution” in the European region” (MTI, 29th July 2016). In 2017, Wanhua announced that it would build a technologically advanced, environmentally-friendly
chlorine plant, the construction of which would be financed through a 79 million Euro credit line provided by the China Development Bank and transmitted by the Hungarian Development Bank. The projects just mentioned are in line with Made in China 2025 goals of developing smart manufacturing and enforcing green manufacturing, but in this case in Hungary, not in China’s domestic economy.

Wanhua has also established an industrial park next to the Kazincbarcika plant. In 2014, Wanhua concluded a strategic cooperation agreement with the Hungarian government which pledged to give government support to companies investing in the industrial park. This industrial park was designated as Sino-Hungarian BorsodChem Economic and Trade Cooperation Zone and put on the list of state-level economic and trade cooperation zones of China published by the Ministry of Commerce and Ministry of Finance of the PRC. Wanhua invested 200 million euros in infrastructure development to lure further biotechnology and chemistry companies. In 2018, 50 companies were operating in the zone (CRI, 17th May 2018), which has become one of the flagship projects of the BRI and the initiative of International Cooperation in Industrial Capacity and Equipment Manufacturing, which supports foreign direct investments of Chinese companies and their cooperation with foreign companies in chemical-related industries.

Another state-owned chemical company, China BBCA Group is also present in Hungary. In 2011, it launched a joint venture (BBCA Szolnok Biokémia) with MFB Invest which is a subsidiary of the Hungarian Development Bank. Later, this project became part of Chinese-Hungarian cooperation on the Belt and Road Initiative and, according to the project plans, China BBCA Group will be the supplier of the technology and complete sets of biochemical equipment, meaning that this project will drive the export of Chinese biochemical equipment to Hungary, which encourages international capacity cooperation
(ACEH, 2018a). In November 2017, the Hungarian Development Bank announced that it would negotiate with the China Development Bank about a credit which would cover partly the financing of the building of the citric acid factory of BBCA Szolnok Biokémia (MFB, 29th November 2017). Following an agreement on the financing, in April 2020, the construction of the citric acid factory began in Szolnok.

4.5. Transportation, Logistics

The transportation and logistics sector has been closely related to trade and infrastructure connectivity which is targeted by the BRI. The geographical location of Hungary makes the country play an important role in the development of a China-Europe land-sea express passage under the BRI. As we mentioned above, several market-seeking Chinese companies prefer to invest in Hungary from where they supply the whole European market. Their Hungarian affiliates have been functioning as a regional hub of their European activities. The development of a China-Europe land-sea express passage also includes efforts to increase bilateral trade flows between China and Europe via Hungary. The first overseas Chinese trade and logistics cooperation zone in Europe recognized by the Ministry of Commerce of the PRC was established in Hungary in 2015, after more than a decade of preparatory work (ACEH, 2018b). “The so-called Central European Trade and Logistics Cooperation Zone (CECZ) consists of Budapest China Mart (an exhibition centre), two logistics parks in Csepel Port (Budapest) and in Bremen Port, and is aimed at facilitating bilateral trade. The logistics park in Csepel also serves Chinese Railway Express cargo trains which have been operating between Changsha and Budapest since April 2017. Central European Trade and Logistics Cooperation Zone will be connected to the China-Europe land-sea express passage starting from China's Eastern coastal city of Shanghai/Ningbo, via Shenzhen in South
China, to Piraeus port in Greece by ship, and from there all the way to Budapest by rail” (Lukács and Völgyi, 2018a: 15). As a part of the development of this passage, we have to highlight the flagship infrastructure project of the Budapest-Belgrade railway modernisation under the BRI. This also represents the international capacity cooperation in the field of high-speed railway construction between Hungary and China. In 2015, China signed separate deals with Hungary and Serbia to construct and revamp a rail link between Budapest and Belgrade. A joint venture (Kina-Magyar Vasúti Non-profit Zrt.) was established by the Hungarian railway company, MÁV and China Railway International Corporation (CRIC) and China Railway International Group (CRIG) which is in charge of the call for bidding, contracting, project management, and monitoring related to the modernisation of the Budapest-Belgrade railway (MÁV, 2017). In Serbia, the construction of the railway line was started in 2017. But on the Hungarian side there was a delay in the construction “which was caused by a preliminary infringement proceeding launched by the European Commission in May 2016 to clarify the details of the deal concluded by China and Hungary in 2015. The European Commission was investigating whether Hungary was complying with EU procurement rules, which require public tenders for large transport projects. In May 2017, the agreement on the relevant rail link was modified by the Hungarian Parliament and then an open bidding was announced in November 2017” (Lukács and Völgyi, 2018a: 18). Two consortia (CRE Consortium, STRABAG-CCCC 2018 Consortium) applied for the public tender. The Hungarian-Chinese CRE Consortium consisting of RM International, China Tiejijuju Engineering & Construction, and China Railway Electrification Engineering Group (Magyarország) (representing China Railway Group) won the public tender and signed the contract in 2019 (Opus Global, 2019). The value
of the modernisation of the Hungarian part of the 350 km rail link stands at 2.1 billion US dollars, 85 percent of which will be financed with a loan from the Export-Import Bank of China. The remaining part will be financed by the Hungarian state. The completion of the construction project is expected by the end of 2025. The Budapest-Belgrade railway project is the first cross-border infrastructure development of China in the CEE region.

In 2019, Ocean Rail Logistics S.A., part of China COSCO Shipping Group acquired a more than 15% stake in Rail Cargo Terminal-BILK, a Hungarian member of Austrian Rail Cargo Group (Magyar Logisztika, 26th November 2019). This investment will also contribute to the development of the China-Europe sea-land express passage. It will support the rail transport of Chinese goods from the port of Piraeus to the centre of Europe.

4.6. Banking

Chinese projects mentioned above reflect the active participation of Chinese state-owned banks (such as Bank of China, Export-Import Bank of China, China Development Bank) in the financing of investments of Chinese companies in Hungary. The Bank of China opened its first CEE subsidiary in Budapest in 2003, which was followed by the launch of a second branch in Budapest in 2012. In 2014, Bank of China launched its CEE headquarters in Budapest and established branch offices in Austria, the Czech Republic and Romania. In February of 2020, the Hungarian National Bank announced that the world’s second largest bank by assets, the China Construction Bank, would open a branch office in Budapest mainly to finance corporate investments.
5. Conclusions

China is one of the world’s largest FDI source countries. The phenomenon of rapid expansion of Chinese FDI has become tangible in most of the countries in the world. In this respect, Hungary, a small CEE economy, but which is the main FDI target country in the CEE region for Chinese companies, is no exception. This study attempts to find some implications of three initiatives supporting the “Go global” strategy and launched by the Chinese government (BRI, International Capacity Cooperation, Made in China 2025) on Chinese FDI in Hungary. Investigating six sectors of the Hungarian economy, we find evidence for vigorous cooperation between Hungary and China through these three initiatives. The Belt and Road Initiative, launched in 2013, has a broad concept and in general encourages Chinese companies to invest in infrastructure or industrial sectors in BRI countries. So, it can be said that, by providing a broad framework for cooperation, BRI also covers the two other initiatives. Nevertheless, it is a common practice that the Chinese and Hungarian governments highlight some investments, coined as flagship projects under the BRI in Hungary e.g. Budapest-Belgrade high-speed railway, Sino-Hungarian BorsodChem Economic and Trade Cooperation Zone, Central European Trade and Logistics Cooperation Zone, CMC photovoltaic power station. In relation to the initiative of International Cooperation in Industrial Capacity and Equipment Manufacturing, we find one project in railway construction (Budapest-Belgrade high-speed railway) and the other one in the chemical industry (Wanhua/BorsodChem industrial park). In the first case, Chinese companies participate in project contracting (infrastructure development). In the second case, the chemical company Wanhua established an economic and trade cooperation zone to attract further foreign direct investments of Chinese companies and to support their cooperation with foreign companies in chemical-related industries.
In relation to the initiative of Made in China 2025, we can mention Chinese projects in the ICT, automotive (electrical vehicles), renewable energy and chemical sector. ZTE and Huawei contribute to the development of Hungarian mobile network systems with their 5G mobile communication products. In this way, they support the global spread of Chinese high-tech products. Regarding Chinese electric power equipment manufacturing (renewable energy) which is another target sector of Made in China 2025, we have to mention the growing investments of Chinese companies building photovoltaic power stations in Hungary. In the Hungarian automotive sector, two electric bus factories (BYD, Electrobus Europe) represent the international expansion of the Chinese new energy vehicles manufacturing sector promoted by Made in China 2025. Two recent projects of chemical company Wanhua are in line with the goals of Made in China 2025 to develop smart manufacturing and enforce green manufacturing. From the sectoral analysis we can conclude that the market entry and expansion of Chinese companies in Hungary are actively supported by Chinese state-owned banks.

Notes

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1. Through the Silk Road Fund, China-ASEAN Investment Cooperation Fund, or the China-Central and Eastern Europe Investment Cooperation Fund.
2. Ultimate investors’ data from the Hungarian Central Bank.
4. Szolnok Industrial Park also has a 3.87% stake in BBCA Szolnok Biokémia.

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US National Artificial Intelligence Strategy against the Made in China 2025 Policy

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Abstract

The United States (US) positions itself as the world’s technology and innovation leader. China’s adoption of the Made in China (MIC) 2025 policy threatens US interests and national security, leading to a US-China tariff war. Additionally, China is increasingly ambitious to become a global artificial intelligence (AI) leader, as seen through its issuance of its Next Generation AI Development Plan (AIDP). Previous literatures have analysed US strategic engagement with MIC 2025 and the impact of AI on US-China relations, but none have provided an analysis of US AI strategic engagement with China. In this article, we offer a comprehensive analysis of US strategies in dealing with MIC 2025 with regard to AI, and compare the US National Innovation System with China’s in the AI sector to prove that the US remains globally dominant in technology and innovation.

Keywords: Made in China 2025, artificial intelligence, China, US
1. Introduction

Relations between the United States (US) and China have been deteriorating for the last decade, and the issuance of China’s Made in China (MIC) 2025 policy has aggravated the tension between two countries, particularly with regard to technology and innovation. Friction between China and the US on technology began when a US investigative report declared two Chinese telecommunications companies, Huawei and ZTE, as national security threats (U.S. House of Representatives Permanent Select Committee on Intelligence, 2012). This friction was exacerbated when China announced the adoption of MIC 2025 in 2015. MIC 2025 marked China’s shifting point from a giant manufacturing country to a strong manufacturing country that focuses on high-technology industries, including the upgrading of China’s manufacturing base by rapidly developing ten high-technology industries (Chatzky and McBride, 2019).

The original stated goals of MIC 2025 are to reduce China’s dependency on foreign technology and to promote Chinese high-technology manufacturers in the domestic and global markets (Glaser, 2019). However, MIC 2025 also has the potential to significantly alter the domestic and global competitive landscape in targeted sectors (Malkin, 2020). China released another contentious policy in July 2017, the Next-Generation Artificial Intelligence Development Plan (AIDP). The plan outlined China’s ambition to become the global leader in AI by 2030 (State Council, PRC, 2017).

Together with MIC 2025, AIDP threatens the US’ global dominance in technology and innovation. The shift from the Obama presidency to the Trump administration also contributed to the aggravation of the US-China relations. Under the Obama administration, the US’ major concern surrounding the MIC policy was practices involving government-backed technology espionage and intellectual property (IP)
theft by Chinese firms (Nash-Hoff, 2016). Following the election of Donald Trump as president, Trump’s sceptical views on US-China trade relations led to the US taking further steps, such as the Section 301 investigation on MIC 2025 that discovered unfair practices (Morrison, 2018). This imbalance caused Trump to respond defensively. Trump called for the discontinuation of market-distorting subsidies and other types of support that could create excess capacity in MIC targeted industries, beginning a tariff war with China in June 2018 (ibid.). Trump also passed a presidential bill called the Fundamentally Understanding the Usability and Realistic Evolution (FUTURE) of AI Act to plan for national AI strategy (Delaney, 2018).

It is important to note at this point in the paper that there is no universal single definition of AI. In fact, there are many worthy definitions that serve different purposes for different communities. As defined by the National Institute of Standards and Technology, AI is a branch of computer science dedicated to developing data processing systems that perform functions associated with human intelligence, such as reasoning, learning, and self-improvement (National Institute of Standards and Technology, US, 2019).

Previous research has explained that US-China friction is caused by competition over technological dominance, that, over time, had led to growing US paranoia towards China and Chinese technology development, resulting in the US' hardline policies in response to MIC 2025 (Hu, 2018; Lu, 2018; Sun and Wang, 2018; Zhu and Long, 2019). The US and China have now entered an era of strategic competition on AI, where the US has positioned China as its key competitor in AI development (Wang and Chen, 2018). The announcement of AIDP made it clear that China aims to leapfrog the US in technology and innovation (Thomas, 2020), leading to a recommendation by Deutch (2018) that the US must both respond to
China’s policies while also strengthening its own innovation capability to maintain its innovation leadership. However, there has been little research to further analyse US engagement with China as a response to China's AI development, policies, and implementation.

This paper aims to contribute by providing a comprehensive analysis of US strategies in dealing with MIC 2025, focusing mainly on AI field in the 2015-2020 period. This paper will do so in three ways. First, by examining the strategies the US employs in response to AI and MIC 2025. Second, by clarifying US engagement with MIC 2025 in AI. Third, by proving that US engagement in the AI field is capable to close the gap with China and maintain its status as a global leader in technology and innovation. This discussion is particularly important in understanding how emerging powers respond toward the US-China rivalry (Campbell, 2008; Karim and Chairil, 2016; Sinaga, 2020).

This paper is structured as follows. First, an introduction consisting of background and literature, followed by an elaboration on the framework of thoughts and methodology of the paper. The paper then explores US engagement with China’s industrial policies in the AI field. In the empirical section, this paper incorporates variables from National Innovation System to examine US strategies in dealing with MIC 2025 in the AI field and to prove that the US can maintain its position as the dominant technology and innovation power through AI.

2. National Innovation System

The global dominance of a nation’s technology and innovation is influenced by its adoption and implementation of relevant national policies. Considering that such national technology and innovation policies are the focal point in this paper, we decided to use the concept of the national innovation system. National innovation systems are part
of political economy studies, focusing on the study of technical change and innovation with the purpose of constructing a selection environment which facilitates entrepreneurs to be able and willing to embark on new investments, despite the hazards which inevitably accompany such activities (Freeman, 2001). According to Christopher Freeman, a national system of innovation is the network of institutions in the public and private sector whose activities and interaction initiate, import, modify, and diffuse new technologies (Freeman, 1995).

This paper employs Freeman’s (2001) concept, based on his research titled “A hard landing for the ‘New Economy’? Information technology and the United States national system of innovation”. In his research, Freeman highlighted features that contributed to US technological and economic performance since the 1990s. Specifically, he examined how US firms regained their leadership over Japanese firms after Japan had previously successfully displacing US leadership with a Japanese management concept called lean production back in the 1980s (Freeman, 2001). Freeman’s research identified that there are three key features of US innovation: small firms, federal and state governments, and universities. This paper looks at the role of these three elements in analysing the performance of the US national system of innovation.

3. Methodology, Data Collection, and Working Hypothesis

This paper employs a qualitative method, with its case study qualitative design bounded by time, particularly looking at the period following the adoption of MIC 2025 and AI policies, as well as progress made by the US and China related to MIC 2025, to obtain deeper information and data related to US strategies, including policies, implementation, and AI innovation. For data collection, this thesis adopted the document analysis method to extract information and data through media tracking,
books, journals, and government reports. This allowed the authors to gather data over time.

Both primary and secondary data were used for this thesis. Primary data consisted of official statements from US and Chinese government agencies and private entities, with the official statements employed to clarify official US and Chinese strategies and goals in the AI sector. Secondary data used included published articles, books, reports, publications of business and industry associations, reports prepared by research scholars and economists, public records, and statistics.

This paper aims to asks how the US is maintaining its current position as the dominant technology and innovation power against the Made in China 2025 policy. In answering that question, this paper argues that the US maintains its current position through small firms’ role in research and development (R&D) investment and the commercialization of AI technology and products; the role of federal and state government policies and regulations on subsidies for the AI sector; tax regimes and foreign trade; and the role of universities through higher education and research.

4. The US Engagement with China’s Industrial Policies

The Chinese revolution in information technology began in earnest when, in 2015, President Xi Jinping called for the development of strategic emerging industries with the aim of making China a leading high-end manufacturing power. MIC 2025 was released by the State Council on 19th May 2015. The policy consists of three phases of strategic goals: Chinese manufacturing capability enters the base rank of global manufacturing power by 2025; later it envisions to enter the middle rank of global manufacturing power by 2035; and finally enter the forefront of global manufacturing power by 2049 (Morrison, 2019).

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The motive behind this decision is that despite the growth of the Chinese economy and the fact that it has been successfully leading in mass manufacturing, it still lacks national core technology capability and remains dependent on Western supplies (Wübbeke et al., 2016).

Another motive behind MIC 2025 is to avoid the middle-income trap. This is a phenomenon of economic stagnation that often occurs in middle-income countries, ultimately inhibiting them from transitioning to high-income countries (Kharas and Kohli, 2011). China as a high middle-income country currently faces unbalanced economic growth, severe pollution, and a declining population of people of productive age, which potentially could slow its future growth. Therefore, MIC 2025 seeks to upgrade the Chinese manufacturing value chain by utilizing innovative manufacturing technologies or so-called ‘smart manufacturing’ (Morrison, 2018).

Several national policies have also been put in place to support the performance of MIC 2025. One is the Internet Plus Action Plan, designed to operate in line with MIC policy, which aims to promote the integrated development of domestic mobile internet, big data, cloud computing, and Internet of Things (Sendler (ed.), 2018). Later, the Internet Plus Action Plan led to the announcement of Internet Plus Three-Year AI Action Plan (Figure 1). (Zhao, 2018) The Thirteenth Five-Year Plan on National Economy and Social Development (2016-2020) also supports both MIC 2025 and the Internet Action Plan by deepening the integration of information and manufacturing technology and promoting the development of high-end, smart, and green manufacturing to foster a new competitive edge (Wang et al., 2020). Additionally, the National Plan for Scientific and Technological Innovation is designed for technological innovation development and aims to extensively improve China’s technology and innovation
capabilities to push China into the global top 15 states (State Council, PRC, 2016).

**Figure 1** Chinese Policies Related to Made in China 2025 in the AI Field, Based on Nomenclature

Source: Authors.

The MIC 2025 policy was disadvantageous for the US, and lead to a serious response. MIC 2025 undermines US high-technology industries as well as its economic leadership through unfair trading practices, such as the Chinese government’s efforts to fund and direct acquisitions of foreign technology firms and IP to advanced its own industrial policy (McBride and Chatzky, 2019). In response to MIC 2025, President Donald Trump launched Section 301 to investigate MIC 2025, discovering unfair practices in its implementation including forced technology transfer, unfair licensing requirements, government-backed cyber-theft, and attempts to acquire US technology and IP through
acquisitions to support MIC plans (Office of the US Trade Representative, 22nd March 2018). In response to these findings, Trump decided to cease providing market-distorting subsidies and other types of support that could strengthen MIC listed sectors, and increased tariffs for targeted products that benefited from MIC, eventually leading to the current US-China tariff war (Belton et al., 2020).

The US government was the first of the two countries to release AI-related strategic planning documents in 2016 (Figure 2). First, the National AI R&D Strategic Plan listed priorities for federally-funded R&D in AI with the purpose of tracking and maximizing the short and long-term impact of AI R&D investment (Parker, 2018). To accompany the previous document, the US National Science and Technology Council and Executive Office of the President (EOP) released a paper entitled “Preparing for the future of artificial intelligence”, which provided technical and policy advice related to AI and aims to monitor AI development technology across industries, research institutions, and government agencies (Bundy, 2017). The EOP then issued “Artificial intelligence, automation, and the economy”, which outlined recommended policy responses regarding the effects of AI-driven automation on the US job market and economy (Executive Office of the President, US, 2016). Before releasing those three documents, the Office of Science and Technology Policy (OSTP) held the White House Future of AI Initiative in May-July 2016, aimed at engaging the public on AI through a series of workshops and identifying the challenges and opportunities it entails (Figure 2). The progress of this initiative can be seen in the “Preparing for the future of AI” document.
Along with technological development, China is progressively pursuing AI technology. China’s Next Generation AI Development Plan (AIDP), launched in July 2017, focuses specifically on the development of China’s artificial intelligence industry. AIDP is the first China AI policy that consists of AI development strategic plan and is marked as a national priority. The policy consists of three phases of strategic goal: by 2020, AI technology and application reach globally advanced level; by 2025, AI basic theory (big data intelligence, quantum, and brain-like intelligence computing) makes breakthroughs; and eventually become global AI leader by 2030 (State Council, PRC, 2017). China’s decision to pursue AI development may have been inspired by digital go program AlphaGo’s win over go world champion player Lee Sedol that highlighted the enormous potential of AI, specifically US-led AI achievement (Kania, 2018).
One month prior to the announcement of AIDP, in June 2017, the Chinese Minister of Science and Technology pinpointed AI as a key area for advancement as part of the MIC 2025 plan (Xinhua, 21st July 2017). As stated by Xi Jinping, AIDP and MIC 2025 form the core of Chinese strategy to becoming the global leader in AI technology and reducing its vulnerable external dependency for key technologies and advanced equipment (Figure 1). Moreover, MIC policy is at the centre of China’s AI policy, serving as a foundation for regional governments to develop AI policies (Allen, 2019).

After the announcement of China’s AIDP in July 2017, the US responded by issuing the Fundamentally Understanding the Usability and Realistic Evolution (FUTURE) of AI Act in December 2017, which established the Federal Advisory Committee on the Development and Implementation of Artificial Intelligence (Weaver, 2018). The FUTURE of AI Act followed the three earlier US documents on AI released in 2016.

The announcement of the FUTURE of AI Act coincided with the release of the Three-Years Action Plan for Promoting the Development of Next Generation of AI (2018-2020) by the Chinese Ministry of Industry and Information Technology (MIIT) in December 2017. This plan represents the first strategy document under AIDP, and aimed to achieve breakthroughs in core competencies of AI products and establish an international competitive advantage by 2020 (New America, 26th January 2018). It outlines major areas for China to focus on with regards to AI development, mentions specific industries as well as sub-technologies that fall under the AI sector, and outlines plans to implement a conducive infrastructure (Lee, 2018). The action plan is the convergence between MIC policy and the AIDP, as it implements both policies, therefore it will be the focus of analysis in this paper (see Figure 1).
In facing intense global competition, China and the US have pursued different strategies. On one side, China manages strategies to avoid AI arms races among countries, as suggested in the AI Security White Paper published by the China Academy of Information and Communications Technology (CAICT) in 2020 (CAICT, 2020). Moreover, the AIDP recommended that China deepen international cooperation on laws, regulations, and international rules relating to AI, in order to jointly cope with global challenges. On the other side, the US has taken more protectionist moves, as unveiled in their National Strategic Plan on Advanced Manufacturing that focuses on defending the economy, expanding manufacturing employment, and ensuring a strong manufacturing and defense industrial base as well as a resilient supply chain (Allen, 2019).

5. The US National Innovation System against China’s with Regard to AI

5.1. The Role of National Firms

The first feature of a national innovation system (NIS) is the role of small firms, with R&D investment and commercialization as the indicators. The first indicator, R&D investment, is measured by private R&D investment and patent application by firms. Private R&D investment plays a significant role in developing innovation and updated technology. The prominence of private R&D investment is frequently stated in both US and China AI policies.

China promotes public data sharing to increase data accessibility for government agencies, firms, and universities (Li et al., 2021). These accessible dataset resources encourage small firms to invest and develop new inventions from basic research or data that has been processed by
research institutions and universities. China’s promotion of public data sharing was emphasized in the Three-Years Action Plan for Promoting Next Generation AI Development and the Hunan Action Plan on Promoting the Development of a Next Generation of Artificial Intelligence Industry (2019-2021), to consolidate data sharing and develop information databases, an exchange platform, and an open data platform for government and public services, industry entities, and R&D (Hunan Provincial Department of Industry and Information Technology, 2019). Following that, the Guangzhou Action Plan on Promoting the Development of a Next Generation of Artificial Intelligence Industry (2020-2022) promotes data sharing between government entities as well as guides AI firms to develop the circulation of data assets and establish public data ecology (Guangzhou Municipal Bureau of Industry and Information Technology, 2020).

The US responded with a similar strategy to facilitate public shared datasets. The American AI Initiative proposed that agencies make federal data, models, and computing resources more available to US AI R&D experts, researchers, and industries (The White House, 2019). This effort is undertaken in parallel with the President’s Management Agenda to maximize federal data sharing with the local public (The White House, 2018). The US government also began partnering with industry-leading cloud service providers to develop a data-sharing platform that enables researcher access to major data assets that are funded across the National Institutes of Health (NIH), to be stored in cloud environments through the NIH Science and Technology Research Infrastructure for Discovery, Experimentation, and Sustainability (STRIDES) initiative (National Science and Technology Council, US, 2019).

Nevertheless, firms’ R&D expenditure varies significantly between the two countries. Leading Chinese AI firms’ R&D expenditure is still lower than that in the US (see Figure 3). Therefore, the Chinese central
government encourages provincial governments and firms to increase investment for AI development and projects, as stated directly in Hunan and Guangzhou Action Plan. Meanwhile in the US, US firms appear to already be keen on robust R&D investment, so the federal government does not need to encourage firms to increase their R&D investment. After the US began to facilitate more public datasets, US AI firms’ R&D investment grew rapidly in 2019 (see Figure 4).

**Figure 3** R&D Spending of US and Chinese Giant AI Corporations (2012-18)

Source: Liu (2020).
**Figure 4** AI Firms’ Funding in the US from 2011-2019 (in million USD)

Source: Liu (2020).

US AI firms’ investment in R&D is far higher than Chinese firms’ (see Figure 3), both before and after the announcement of MIC 2025 in 2015 and the Three-Year Action Plan in 2017. Since US AI initiatives began developing during the Obama administration, there have been some efforts to engage industry into AI development such as the establishment of National Science and Technology Council’s (NSTC) Subcommittee on Machine Learning and Artificial Intelligence in 2016 to foster inter-agency coordination, provide technical and policy advice on topics related to AI, and monitor the development of AI technologies across industry, the research community, and the federal government. In addition, there has been a series of public outreach activities arranged under the White House Future of Artificial Intelligence Initiative.
The second indicator of national innovation system (NIS) is the commercialization of AI products, as examined through patent applications based on if the patent application field of ‘AI’ is selected. Patent application indicates a desire by applicants to commercialize their invention (WIPO, 2019). The higher the number of the patent application, the higher the chance of a technology or product being commercialized. Given the evidence of unfair practices in the Chinese market, such as IP theft and unfair licensing requirements, China decided to develop an AI IP system, as planned in AIDP. Through the implementation of the Tianjin Action Plan on Promoting the Development of a Next Generation of Artificial Intelligence Industry (2018-2020), it encouraged the construction of a patent database for the AI industry (Tianjin Municipal People’s Government, 2018).

China’s strategy to increase commercialization targets the core needs of industries, including inspection and testing platforms, as well as other public service platforms, such as through the Hunan Action Plan (Hunan Provincial Department of Industry and Information Technology, 2019) and initiatives in Guangzhou, where the provincial government supports an exhibition and display centre to expose AI technology for business opportunities (Guangzhou Municipal Bureau of Industry and Information Technology, 2020).

In comparison, the US – with its priority to commercialize qualified and eligible products – choose to remove regulatory barriers by reducing the lengthy approval process, such as when Trump signed a Presidential Memorandum to permit states and localities to conduct innovative commercial and public drone operations currently prohibited under FAA regulations (The White House, 2017). Programs such as the Commercialization Accelerator Program (CAP) offer to help and introduce businesses with approval processes, reviews, and requirements.
related to their technology or product (National Institutes of Health, US, 2016), leading to the commercialization of a larger number of products without any compromises on standards.

As a result of US strategy, the US has been able to maintain its position in patent applications that will lead to product marketization. Of the world’s 20 companies with the most patent applications in 2019, three are US firms (Alphabet, IBM, and Microsoft) while only one is Chinese (SGCC) (WIPO, 2019). Although China has shown notable progress in the domestic AI application sector, China lacks core technologies, such as hardware and algorithm development, to build high quality AI products and compete with the US (Allen, 2019).

Thus, we can conclude that US firms remain ahead of Chinese firms. In terms of AI firms’ R&D investment, the US has been able to maintain its superiority for decades because of its much longer history of technology and innovation (Nelson, 1990), compared to China’s fairly new endeavours in this field since the adoption of MIC 2025.

5.2. The Role of Federal and Local State Government

The second feature of an NIS is the role played by federal and local state governments, with AI sector subsidies, tax regimes, and foreign trade as the indicators. Subsidies in the AI sector are measured by public expenditure. Public expenditure is the primary source of funding for long-term, high-risk research initiatives that private industry does not pursue.

Guided by the Three-Year Action Plan, China is planning to maximize its existing funds for industrial transformation and upgrades through MIC 2025, along with other state funds such as major projects and national science and technology programs. China also encourages local governments to increase their investments in AI products, pilot demonstrations, and platform construction (New America, 26th January
2018). For example, in support of the Action Plan, Guangzhou municipal government is targeting its R&D investment in key AI technical equipment (Guangzhou Municipal Bureau of Industry and Information Technology, 2020). Additionally, the Tianjin Action Plan coordinates various financial funds including 10,000,000,000 yuan (1,510,000,000 USD with annual average rate of 0.151 in 2018) for basic research, product development, public platform construction, and support of AI firm development (Tianjin Municipal People’s Government, 2018).

Meanwhile in the US, where the key technical equipment is already in use, the federal government has decided to centre its investment on high-priority, fundamental, and long-term AI research to maintain its leadership position (National Science and Technology Council, US, 2016). The 2016 National AI R&D Strategic Plan outlined a clear set of R&D priorities that address strategic research goals and focus of federal investments on areas in which industry is unlikely to invest. It also acts as guidance to identify scientific and technological needs in AI, track progress, and maximise the impact of R&D investment. It was updated under the Trump administration in June 2019, who reaffirmed the seven strategies of the 2016 plan and added an eighth strategy emphasizing public-private partnership (National Science and Technology Council, US, 2019). The 2016-2019 progress report mentioned several AI R&D programs performed by federal agencies, such as the “AI Next” campaign, which incentivized the creation of a range of new AI capabilities and applications (ibid.).

Thus, we can see that the US has great ambition in maintaining its global superiority and is attempting to do so by allocating a massive amount of investment, especially in comparison to China (Figure 5). The data indicates that US investment in AI positively contributes to the rapid progress of AI development.
**Figure 5** Comparison of AI Financing between China and the US in Q1 2019 (Unit: 100,000,000 USD)


### 5.3. Tax Regimes

Government efforts in tax regulation through preferential taxation can help boost industry development by reducing taxes for companies, meaning they can allocate the finance to R&D investment and product development.

In China, the need for preferential tax policies for firms in the AI sector was stressed in the AIDP, and China also enacted preferential tax reduction for high technology enterprises by 15 per cent, while eligible R&D expenses of science and technological SMEs were reduced by 75 per cent (CPC Hangzhou Municipal Committee, 2017). In 2017, China’s preferential tax policy supporting mass entrepreneurship and innovation
provided enterprises with tax cuts exceeding 500,000,000,000 yuan (73,500,000,000 USD with an annual average rate of 0.147 in 2017) (Xinhua, 24th March 2021).

Meanwhile in the US, R&D tax credits were offered to companies with specific terms and conditions as well as lower corporate tax rates. Enacted in 1981, the federal R&D tax credit allows a credit up to 13 per cent of eligible spending for new and improved products and processes (Goulding et al., 2017); President Obama signed a bill making the R&D tax credit permanent on December 18, 2015. In addition, in December 2017, Trump signed the Tax Cuts and Jobs Act that lowered the corporate tax rate from 35 per cent to 21 per cent, enabling firms to invest more in R&D and product efficiency (Clausing, 2020).

The impact of such tax regulations can be analysed from their efficiency, noting that a key government task is to coordinate and ensure their regulations resulted in the progress as they expected. To obtain a progressive result, firms’ capability to manage and allocate their finances is also significant. When a country’s tax regulation is efficient and firms are able to manage their finance effectively, overall AI development is boosted, including R&D investment, productivity, and patented inventions.

Claiming tax reductions is different between the two countries, however. In China, the process to claim reductions uses a self-assessment system, which has a risk of the possibility of taxpayers disputing claims made earlier, making the Chinese tax regulation less efficient (ITR, 4th December 2015). In the US, tax regulation can be said to be more efficient, and this can be seen by higher R&D investment of US AI firms and the US’ dominance in terms of AI patent applications globally.
5.4. Foreign Trade

Government policies on foreign trade determine whether they can promote as well as protect domestic technology from international competition. Chinese firms and their practices are often ethically problematic and cause disadvantages for US national security and interests, resulting in the US government tending to become more protective in permitting cooperation and partnership between US and Chinese firms, especially related to technology and AI (BBC News, 3rd December 2020). China, on the other hand, with its ambition to be a global leader in AI and its weakness in high technology infrastructure, tends to cling with the idea of international cooperation, especially with leading countries such as the US (Meltzer and Kerry, 2021).

In terms of IP protection, China seems eager to build a conducive IP system. This was emphasized in AIDP, which outlined the need to set up an AI IP system and public patent pool, which was also specified as one of the major tasks in Three-Year Action Plan. This was later translated in the Tianjin Action Plan by encouraging the construction of an IP protection alliance and a patent database for the AI industry, promoting the in-depth integration of IP protection, and increasing IP protection for AI (Tianjin Municipal People’s Government, 2018). Moreover, the Tianjin Intellectual Property Protection Regulation was implemented and become the first provincial-level IP regulation in China in 2019 (General Office of the Standing Committee of Tianjin Municipal People’s Congress, 2019). Under these regulations, examination channels for AI patent applications are prioritized. The Guangzhou Action Plan also plans to strengthen the research for legal guarantee and IP protection to enhance government systems (Guangzhou Municipal Bureau of Industry and Information Technology, 2020). Finally, in China’s efforts to promote international cooperation, the Hunan Action Plan encourages deeper cooperation with global high-end AI resources.
and support domestic firms as well as research institutions to set up specialized agencies and manufacturing enterprises in other countries, and *vice versa*, to promote international trade (Hunan Provincial Department of Industry and Information Technology, 2019).

In the US, however, their protective behavior does not appear to limit domestic market access, but rather promotes an internationally-friendly environment and open market for American firms while strengthening protection against unfair practices by foreign firms (The White House, 2019). This aim of protecting the US economy and national security interests, as well as their technological advantage in the AI sector, was emphasized in the American AI Initiative. The significance of the US IP framework is also emphasized in the US Chamber of Commerce Principles on AI, which suggested that the government should pursue IP protection on AI and recommend firms not to transfer or provide access to AI-related IP such as source codes, algorithms, and data sets (U.S. Chamber of Commerce, 2019).

Thus, it can be concluded that the US has successfully adopted policies that both respond to China while strengthening US capability. This has allowed the US to focus on developing its technology without fretting about China’s unfair practices. In addition, US protective tariffs on Chinese imports and closer scrutiny of Chinese investment are part of US strategy to impede China’s technological innovation and industrial upgrading.

Based on the analysis of the three indicators above, we can conclude that the US has managed to maintain its supremacy over China. US national subsidies for the AI sector remain ahead of Chinese subsidies; US tax policies and regulations are more efficient and comprehensive; and the US has taken strong steps to protect its domestic technology. China, meanwhile, lacks a progressive tax regime and public investment remains limited.
5.5. The Role of Universities

The third feature of an NIS is the role of universities, with higher education and academic research serving as indicators. Higher education is measured through science, technology, engineering and mathematics (STEM) graduates and AI talent. They represent the foundation to achieve technology and innovation leadership since they are the actors who perform R&D and create inventions. In accelerating AI talent, China through its Guidelines for the Development of Manufacturing Talents aims to develop capable human resources for industrial manufacturing by 2025 (Ministry of Education of the People’s Republic of China, 2017).

Following the Three-Year Action Plan, the Guangzhou Action Plan also strengthened China’s support for AI talent development by assigning municipal bureaus to encourage the establishment of relevant higher education courses, and guide enterprises and training institutions to establish joint AI training bases (Guangzhou Municipal Bureau of Industry and Information Technology, 2020). Hunan province is planning to strengthen cooperation with the world’s top AI research institutions and firms, encourage joint multiform talent training, and optimize the allocation of AI-related courses (Hunan Provincial Department of Industry and Information Technology, 2019).

Both countries’ strategies are responding to the evidence that China is producing a large number of STEM graduates. In 2016, the World Economic Forum reported that China produced 4,700,000 STEM graduates, while the US only produced 568,000 (McCarthy, 2017). Despite this, the US continues to have more AI talent, including those counted as ‘top’ (Table 1). In other words, China is pursuing a strategy to increase AI talent, while the US prioritizes boosting the number of STEM graduates. For example, in 2017, Trump signed a presidential memorandum prioritizing high-quality STEM education, with a
particular focus on computer science education, and committed 200,000,000 USD in grant funds (The White House 2017). Despite such policy, there is still little progress achieved by the US in increasing its AI talents (Gelhaus, 2021). Moreover, federal US agencies are prioritizing computer science, data science, and engineering graduates in their graduate fellowship programs to ensure US workers are capable of taking full advantage of AI (National Science and Technology Council, US, 2019).

Table 1 Global Distribution of Top AI Talent (Top AI Talent as a Percentage of All AI Talent in Each Country)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of top AI talent</th>
<th>Number of total AI talent</th>
<th>Top AI talent as a percentage of all AI talent in each country</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>5158</td>
<td>28536</td>
<td>18.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1177</td>
<td>7998</td>
<td>14.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>1119</td>
<td>9441</td>
<td>11.9%</td>
</tr>
<tr>
<td>France</td>
<td>1056</td>
<td>6395</td>
<td>16.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>987</td>
<td>4740</td>
<td>20.8%</td>
</tr>
<tr>
<td>China</td>
<td>977</td>
<td>18232</td>
<td>5.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>772</td>
<td>4942</td>
<td>15.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>651</td>
<td>3117</td>
<td>20.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>606</td>
<td>4228</td>
<td>14.3%</td>
</tr>
<tr>
<td>Australia</td>
<td>515</td>
<td>3186</td>
<td>16.2%</td>
</tr>
</tbody>
</table>

The US has a remarkable record in generating AI talent compared to other countries. China, on the other hand, still has much work to do to improve its quality of education and training to generate the best AI talent. Since it takes decades to generate such talent, the US will maintain its leadership for the next few years.

Academic research is measured by the number of academic papers published. After all, research is the basic foundation of innovation. From initial research, findings must be further developed by firms or other entities into applied research as the second foundation in developing innovation. Initial research done by universities helps diversify areas of technology and innovation development, and helps firms in developing innovation, because it means they do not have to start from nil.

Both the US and China are encouraging partnerships between public and private institutions that contribute to AI development. For example, China is increasing its construction of basic support platforms by encouraging universities, research institutes, and key AI enterprises in Hunan to build innovative platforms for AI front-end basic technology research, core technology R&D, and typical application development (Hunan Provincial Department of Industry and Information Technology, 2019). China Electronics established the Artificial Intelligence Manufacturing Technology and Innovation Application Industry Alliance, which aims to create an integrated innovation system between industry, universities, and research institutions by jointly carrying out research and technological innovation, as well as exploring new mechanisms for industry development (Xinhua, 22nd October 2019). Tianjin municipal government is relying on universities’ R&D capabilities to establish an innovative platform in Tianjin, and carry out basic theoretical research on AI (General Office of the Standing Committee of Tianjin Municipal People’s Congress, 2019).
The US has responded with the same strategy as emphasized in its national R&D strategic plan 2019. That is, to maintain its government-university-industry R&D ecosystem and generate technological AI breakthroughs through collaboration and joint research in areas of potential AI application (National Science and Technology Council, US, 2019). The US government also ensures it is providing cloud computing that is accessible for university research. So far, the National Science Foundation (NSF) has partnered with four major cloud computing vendors to make resources available to academic researchers through its BIGDATA program (ibid.).

6. Conclusion

For decade, the United States has been the global leader in technology and innovation (Deutch, 2018). Under the presidency of Donald Trump, the US became more assertive in dealing with China, particularly with regard to its industrial policy. The Made in China 2025 policy and its practices are assumed to be a threat to the US economy and its national security interests. Consequently, the Trump administration maintained the US’ position in technology and innovation, releasing an AI strategy which resumed the previous initiative under the Obama presidency. When China released the Next Generation AI Development Plan and Three-Year Action Plan, soon afterward the US signed the FUTURE AI Act to plan its own national AI development.

From this analysis, we can conclude that the two countries’ strategies employ different strategies in their attempts to be the global leader in technology and innovation. China is currently almost on par with leading countries such as the US, meaning that its next step would be to overtake the US as dominant state and become a global leader. Meanwhile, the US itself remains in a good position to maintain and
reinforce its dominance in the field. Thus, China’s strategy sounds more ambitious, as it must consistently appear to be two steps ahead of the US in order to become the global AI leader, while the US focuses on maintaining its dominance while also widening the gap between its progress and China’s.

Using Christopher Freeman’s analysis of the national system of innovation, there remain many limitations in China’s progress towards AI development in comparison to the US. For example, China’s investment in private AI R&D remains minimal and the number of patent applications is insignificant. National expenditure in AI is also low, the tax system lacks efficiency, and there is a deficiency of AI talent and academic research.

From the three features making up a national innovation system, the US is leading China with regards to artificial intelligence. The US has so far succeeded in maintaining its dominance in technology and innovation through supporting small firms to invest heavily in R&D and commercialize their AI technology and products. The US supports AI innovation through policies, regulations, and subsidies, as well as beneficial tax regimes and foreign trade. Finally, US higher education and research remains strong, despite China’s best efforts to challenge the US.

This paper focuses on analyzing US strategic engagement with MIC 2025, and compares the US and China’s national innovation systems to determine who dominates technology and innovation, specifically with regards to AI. As a result, this paper may overlook other aspects of explaining US-China competition on global technology and innovation domination. Therefore, future research may need to cover other fields to explain both countries’ efforts relating to technology and innovation.
Notes

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Towards Global Leadership?
China’s Roles in Provision of Goods and Institutions for Global Economic Governance

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Abstract

Being the second largest economy in the world, China is in a good position to exercise world leadership through provision of more resources for global economic governance as far as its growing economic strength is concerned. This paper examines China’s engagement in global economic governance through her participation in the affairs of the existing institutions of global governance – the Bretton institutions, provision of global economic goods through outward foreign direct investment (OFDI) and her position in the Belt and Road Initiative (BRI) and the newly established multilateral bank, the Asia Infrastructure Investment Bank (AIIB). From this analysis, two findings are evident. First, although China is the second largest economy and source of outward OFDI in the world, its role in the existing global economic governance architecture is minimal compared to her economic strength. Second, constraints within the existing global economic
governance system have compelled China to create new economic institutions, something that has sparked resistance from other economic powers, particularly the US and Japan. Therefore, since the economic measures that China has taken in order to ascertain her position in the globe are resisted, the paper recommends that the major actors in the global economy have to find an amicable way forward by working together to avoid friction and rivalry and bring about better global economic governance.

**Keywords**: global economic governance, economic diplomacy, inward foreign direct investments (IFDI), outward foreign direct investments (OFDI), perceptions, legitimacy

1. Introduction

Global governance is broadly understood as the complex inter-linkage between various state and non-state actors and organizational contexts involved in managing cross-border issues, which have worldwide repercussion (Luckhurst, 2018). Although not a new concept, its popularity is often linked to the publication of Rosenau and Czempiel’s co-edited book, *Governance without government: Order and change in world politics*, published in 1992. Since then, there have been a number of significant publications related to this area, whereby two basic camps of scholars have emerged to characterise the study of global governance: one which foresees a collapse of the existing global governance architecture, and another which acknowledges the existing challenges but finds more positive things and opportunities in that architecture.

Scholars in the first camp largely subscribe to a line of thought, which predicts a collapse of the existing global order. They range from those contesting and even suggesting the end of the existing global order
(Acharya, 2014; Bremmer and Roubini, 2011; Rodrik, 2006; Walt, 2011) to those who foreshadow a new era, the post-global governance era (Acharya, 2017; Bremmer, 2012; Stuenkel, 2016). Central in this line of thinking is the prediction of a fall of the United States’ world order, and subsequently the global governance architecture. In addition, they point to the declining trust in the logic of market efficacy in the liberal order, which is characterised by constant recurrence of economic crises, thus being a sign suggesting a collapse of the liberal order. On the other hand, there are those who acknowledge the challenges within the existing global governance structure but still hope that there is a chance for the global governance architecture to re-constitute itself. (Acharya, 2016a, 2016b; Luckhurst, 2018). They argue that, although fragmentation is a key characteristic of global governance, the ongoing dynamics in global governance ought to be understood as increased interdependence, integration, decentralisation or simply increased participation in global governance while maintaining that it is too early to predict a collapse of the existing architecture (Acharya, 2016a; Luckhurst, 2018). In addition, although the post global financial crisis (GFC) period indicates a kind of break-off from the old order, empirical data suggest otherwise. That is to say, “there has been growing evidence of both fragmentation and integration of the global economic architecture since the GFC due to the expansion and growing complexity of multilateral economic cooperation” (Luckhurst, 2018: 220).

In support of the second view, one of the recently published book *Why govern? Rethinking demand and progress in global governance* provides insights on how global governance is still needed and suggests alternatives to global governance. The book also suggests the way forward in advancing scholarship in global governance. These include the causes for the demand for global governance; global governance as related to less researched areas of climate change, atrocities, health and
internet; relationship between fragmentation of global governance and the future of the global order; and the role of developing countries in global governance (Acharya, 2016: 290-293).

This paper builds on that book by dealing with one of the areas suggested for future research, particularly the role of developing countries in global governance. It examines China’s role in global economic governance, paying particular attention on its active participation through provision of global economic public goods (Monga, 2019). In that regard, the paper answers two overarching questions, namely: What are the major roles that China plays in the global economic governance? How should they be understood and explained? Answers to these two questions are expected to bring about an understanding of the roles of China in global economic governance, with the hope that attention on China’s participation in the provision of economic goods will surface the appreciation of the roles of developing countries in global governance.

In answering these questions, the study relied on desk research involving extensive documentary or textual analysis (Bowen, 2009; Frey, 2018; Kuckartz 2014, McKinnon, 2014) as the most feasible and main method of data collection and was supplemented by the hermeneutics method of analysis. As a method of research, document or textual analysis entails “a systematic procedure for reviewing or evaluating documents—both printed and electronic (computer-based and Internet-transmitted) material” (Bowen, 2009: 27) or “is a form of qualitative research that uses a systematic procedure to analyse documentary evidence and answer specific research questions” (Frey, 2018: 544). As Frey (2018) suggests, in this study document (textual) analysis was used as a sole and stand-alone method for data production. As a method, documentary review or textual analysis is understood differently among scholars. For example, Bailey (1994) views it as an
analysis of documents, which contain information about a phenomenon under study. For Payne and Payne (2004), the documentary method is used to categorise, investigate, interpret and identify the limitations of physical sources, most commonly written documents whether in the private or public domain (cited in Mogalakwe, 2009: 221-222). However, according to Desai and Potter (2006), for a document to fulfil this role, the researcher needs to find out how it came into being, why it was produced and when it was prepared or written. This was the criterion used in selecting and analysing the documents used to produce the results of this study.

With regard to the hermeneutic method, the study drew insights from Hans-Georg Gadamer’s major work *Truth and method*, which stresses on finding the broader horizons of a text and its context, and calls for paying careful attention to the historically situated narratives that helped produce it (Gadamer, 2013: 406). As pointed out by Palmer (1969), in this study hermeneutic, principles were sought for to aid and facilitate a deep and critical understanding of the documents under consideration within their broader historical context (Brinkmann and Kvale, 2015). In this regard, China’s participation in global economic governance and her move of creating new institutions for global economic governance were approached from a broader historical background. The target was to try as much as possible to comply with Jameson’s (1981: 9) advice to “always historicise” as a way of putting this discussion in a continuum of the strategic arch of the ever-evolving global economic governance architecture. This is so because “to historicise means to find the correct interpretive key to understanding the contemporary historical situation, and then theorize this period in a broader trans-historical context” (Mahoney, 2013: 381). In this way, understanding the roles of China in the newly established institutions of global economic governance as presented in this paper was possible.
The paper is divided into six parts. After this first part, which introduces the paper and the subject of the study, the second part provides a synopsis of the Chinese political economy from 1970s to the present. The third section addresses the central concern of this paper, that is, the roles of China in global economic governance by focusing on two cases. It begins with an introductory overview of China as related to global economic governance and then discusses two selected cases. The first is China’s contribution in global economic governance through her provision of global economic goods in forms of outward foreign direct investment (OFDI), while the second case is about the roles of China in global economic governance through the existing institutions of global governance and through provision of economic goods, mainly through China’s foreign direct investments (COFDIs). The fourth part predicts China’s contribution to global governance through the creation of new institutions for global economic governance mainly BRI and AIIB. The fifth part presents some challenges facing the newly initiated financing schemes while the sixth draws a conclusion and makes recommendations.

2. Contemporary Chinese Political Economy: A Synopsis

China’s political, economic and foreign policies have become a subject of numerous books and journal articles in the last thirty years or so (Brada, Wachtel and Yang (eds.), 2014; Cheng and Ding, 2017; Henson and Yap (eds.), 2016; Mayer (ed.), 2018; Wong and Bo, 2010; Zhang, 2016). Most scholars have been interested in accounting for “China’s phenomenal transformation from an agricultural, self-contained and inward-looking nation into a global economic powerhouse in a mere course of three decades of reforms, which continues to be a source of “inspiration and awe” (Ehizuelen and Abdi, 2018: 386). Moreover, since
China has become the second largest economy and source of FDI in the world, many would like to tell this story. Most of the storytellers would expect China to exercise her economic power by taking global responsibilities, one of which is to provide global economic goods (Monga, 2019). As hinted by Xi Jinping during the 19th National Congress of the Communist Party of China on October 18th, 2017 that China has entered a ‘New Era’, this has manifested itself in the various leadership roles that China takes such as its commitment to the Paris environment deal after US pulled out (Cohen, 2019; Zhang et al., 2017). In addition, other areas in which China’s commitment to global economic governance is evident include various initiatives such as the expansion of its OFDI volume, establishment of new financial institutions and proposition of new and more integrated economic initiatives.

Others have argued that, as the second largest economy, China plays a key role in the reform and reconstruction of the international order (Zheng and Lim, 2015). China’s move to launch the ‘Silk Road Economic Belt (SREB)’ and ‘Maritime Silk Road of the Twenty-First Century’ Initiative (MSRI)’ or simply the ‘Belt and Road Initiative’ (BRI) in October 2013 and the leading the founding of Asia Infrastructure Investment Bank (AIIB) in 2016 have served to some as evidences for such move (Luckhurst, 2018). These initiatives add to China’s contribution in the global economy through OFDI whose focus has moved from resource extraction in the developing countries to asset acquisition in the developed world (Meunier, 2014; Yao and Wang, 2014), and exportation of complex and sophisticated technology (Rabe and Gippner, 2017). All these indicate how China’s foreign and economic development policies and particularly her economic diplomacy are determined to guide China as it defines the length and width of her engagement in global economic governance.
As such, if one is set to examine the China’s trends in its foreign and economic development policy in the last thirty years; one evident feature one would immediately find is that China has been evolving to reflect various forms of economic development. For instance, it has evolved from the opening-up policy, through the integration (in the existing international order) policy to the going-global policy (Zheng and Lim, 2015). With the economic reforms that started in the late 1970s and more radical changes in 2000s; some scholars and observers of contemporary Chinese politics and economy have described China as a country which has been adopting tactics of market economy and modern democracy without embracing such models in their totality (Brady and Wang, 2009; Zhang, 2016). As a result, emphasis on economy development in the past two decades or so, especially after ascending to World Trade Organization (WTO) in 2001, have facilitated China’s economic rise. This economic development made China not just a developing country or an emerging economy but the second largest economy and source of foreign direct investment (OFDI) in the world (Ren, 2016; Yao et al., 2017; Yu, 2017). With regard to OFDI, for example, by 2016 China became the second largest source of FDI, of approximately USD180bn (Yao et al., 2017). With this new status, China is expected to provide and “exercise leadership in the world compatible with its growing economic strength by providing more resources for development and other global goals” (Ren, 2016: 439).

Nevertheless, China is often portrayed as a country that has always avoided becoming a global leader in many aspects, although the evidence on ground attests otherwise. China has been active engaging itself with the world through “its membership and involvement in multilateral organizations that have risen from 7 between 1949-1970 to 298 between 1980-2007” (Zhang, 2016: 15), and as from 2013, more
emphasis has been on economic diplomacy by declaring it as one of the priorities in its comprehensive strategy diplomacy. Under this new approach to diplomacy, economic diplomacy, “the process through which countries tackle the outside world to maximize their national gains in all the fields including investments and other forms of economically beneficial exchange” (Rana, 2007: 201), the current Chinese economic endeavours are articulated. Moreover, through this form of diplomacy one can understand and contextualize the current role of China in global economic governance such as the soaring of her OFDI in the world, and her roles in the Brazil, Russia, India, China and South Africa (BRICS) multilateral group and her newly created economic initiatives, the BRI and AIIB. This paper discusses issues and prospects of China in global economic governance through the provision of OFDI, BRI infrastructure financing and creation of AIIB.

3. China’s Roles in the Global Economic Governance

This part examines China’s engagement in global governance. In particular, it pays attention to the tremendous economic success that China has attained in the past four decades and links them with the roles it has been playing in global economic governance. However, it must be made clear that, although it is no longer disputable that China occupies an important position in the world, how China is likely to use this position is a concern that attracts the attention of various scholars. Moreover, although China often reveals itself as a peaceful nation, thus its rise is a peaceful rise, her engagement with other nations has raised concerns (Alves, 2013; Burgos Cáceres and Ear, 2013; Panda, 2017; Pavličević, 2018). While some scholars are in a heated debate about the implications of its expansion (Henson and Yap, 2016; van Dijk (ed.), 2009), there are others who are concerned with its rise as a prominent
global political power (Bardy, 2017; Danner, 2018; Rudolph and Szonyi (eds.), 2018). Nevertheless, as per some scholars, resistance to China’s economic power is now mounting (Hanemann and Huotari, 2018; Rabe and Gippner, 2017), although the fact that China’s influences, particularly economic influence are evident everywhere and cannot be denied (Kelly, Coner and Lyles, 2013; Meunier, 2014).

This section discusses China’s roles in global economic governance under two parts. The first part examines China’s increasing motivation to take part in global economic governance within the existing global institutions. It particularly examines and discusses China’s participation in the existing economic world order particularly in the affairs of the US-led financial institutions, International Monetary Fund (IMF) and the World Bank. The second part focuses on China’s participation in global economic governance through provision of economic public goods in the form of outward foreign direct investment (OFDI).

3.1. China and the Bretton Woods Institutions (BWIs)

One of the better ways to appreciate the roles of China in global economic governance is to appraise its participation in the Bretton Woods Institutions (BWIs), the World Bank, the International Monetary Fund (IMF), the International Finance Corporation (IFC), the International Development Association (IDA), and the Multilateral Investment Guarantee Agency (MIGA), all established in the 1940s. These were put in place as a response following the failure of the first initiative, the Bank for International Settlement (BIS), created in 1930.

Given the vastness of the institutions, this paper is restricted to China’s engagement with IMF and the World Bank. One of the reasons for this choice is that, according to the International Bank for Reconstruction and Development (IBRD)—the World Bank Articles of Agreement, membership in IDA, IFC and MIGA is conditional on
membership to IBRD. In addition, under Article II, Section (b), IBRD Membership shall be open to other members of the Fund, at such times and in accordance with such terms as may be prescribed by the Bank. As such, the choice of these two leading global institutions in the world is expected to surface China’s motivation to engage in global economic governance through its membership to the BWIs.

The evolution of the BWI global economic governance architecture or “the international institutionalization of multilateral cooperation intensified during the 1940s, primarily through the Bretton Woods agreements and the new UN system” (Luckhurst, 2018: 30) created conditions for the United States’ dominance in these institutions. However, this was not an easy battle to be won given that the key negotiators Harry Dexter White, John Maynard Keynes, and the Mexican finance minister, Eduardo Suárez, were almost from countries that were oriented towards different economic principles. As such, with each chairing a commission at Bretton Woods, it is obvious that the newly created institutions had some elements of non-American economics. Basically, “the agreements at Bretton Woods were intended to achieve what might be termed in today’s political lexicon as a ‘sustainable’ and ‘inclusive’ economic recovery. This was to be accomplished by introducing new controls on capitalism” (Luckhurst, 2018: 31). However, this was not realized partly because of the share of financial resources, which the US gave in the creation of these institutions, thus making them reflect the common image of US-led institutions. However, how, did the People’s Republic of China’s (PRC) become a member to BWIs?

China joined the BWIs in the 1980s. Having regained her UN seat in 1971, and launched its opening policy in 1979, China assumed membership to the BWIs in April 1980, a membership that had been held by the Republic of China (ROC) (Taiwan) since December 27,
1945. Since then, China has been one of the largest borrowers and recipients of technical assistance from BWIs. In recent years, China has gone beyond the only role of being a recipient country and has increased its influence inside the Bank (BWIs, 2011: 5). Later, although short-lived, there was a kind of widening for a more liberalised global economic order since 1989/1990s, marked by the disintegration of the United Soviet Socialist Republics (USSR). Despite these new changes, however, China’s contribution to global economic governance through BWIs has not been recognized as significant. The structure of these institutions give more voting rights to the Group of seven (G-7) countries. Even when China rose to become the second largest economy in the world, her influence in the BWIs remained low. This was reflected in China’s low percentage of voting right quota, which continued to stand at 6.09 percent in the IMF and at 4.61 percent the World Bank. This is one of the things limiting her active participation in global economic governance. Because of this, as days passed, China together with other emerging economies and developing countries began pushing for reforms within these BWIs.

In spite of such contestation, not much was changed to accommodate the emerging economies and China in particular. Even after the global financial crisis, things were still not better. As Luckhurst (2018: 71) puts it, “although the global financial crisis had made it increasingly important, economically and politically, to integrate the Chinese more in global economic governance, …[and] the Obama administration intended to integrate the Chinese as ‘responsible stakeholders’, partly to deter any potential revisionism, this proposal could not go through in the US Congress.” In fact they gained nothing in terms of voting quota in the IMF and World Bank through the 2010 reforms, except some minor cosmetic changes which included an increase of BWI employees from China who increased from 51 in 2007

Slightly positive change was in terms of incorporating Chinese employees in the top management. For the first time, following long time agitation, some Chinese officials were appointed to senior positions in the BWIs, namely the position of deputy director of IMF and vice-president of the World Bank (Luckhurst, 2018: 61), though duopoly tradition among the G-7 members have continued within the BWIs. The roles entrusted to China through the positions of deputy director and vice-president of the IMF and World Bank respectively signify the recognition of the role of China in the global economic governance. As well, it gives China a chance to participate in managing the day-to-day activities of these institutions and hence the possibility of influencing their policies. However, critics have been arguing that this move signifies China’s co-optation into the BWIs and blocks the possibility for a continual push for reforms in these BWIs.

On the other hand, incorporation of China in the BWIs top management position seems not to work best. China seems not to be satisfied with what has been offered to her. China then has been looking for alternative avenues to help her exercise her influence in the global economic governance. That is why it has come up with proposals for the Belt and Road Initiative (BRI) and the establishment of multilateral bank, the Asia Infrastructure Development Bank (AIIB) that will be discussed in section five of this paper. For now, the next part examines the participation of China in the existing framework of global economic governance through provision of economic goods in the form of outward foreign direct investment (OFDI).
3.2. Chinese of Outward Foreign Direct Investment (COFDI)

China’s engagement in the global affairs has been increasing ever since she regained her seat in the United Nations in the early 1970s. Since then, she has been an active participant in almost all the UN led programmes and initiatives. Scholars interested in examining China’s engagement in global economic governance and outward investment often pay attention to the major economic landmarks of China. These can be summarised as follows: from 1979 to 1991, which reflect the ‘Open-Door’ policy; from 1992-2001, an economic acceleration responding to Deng Xiaoping ‘South Tour’; and from 2002 to present reflecting the ‘Go Global’ policy (Yao and Wang, 2014: 18-20). While the late 1970s marked the beginning of China’s serious engagement and influence in global economy, her engagement became more evident in the period reflecting the ‘Go Global’ policy.

Prior to the launching of the ‘Go Global’ policy, Asia was hit by a serious financial crisis, the 1997/1998 Asia Financial Crisis (AFC). China, as one of the powerful economies, was actively engaged in economic governance initiatives to address the effects of this financial crisis. One of the effects of this financial crisis with regard to global economic governance was that it laid the foundation for the future “contestation between advocates of market efficiency and rationality versus those who argued that government intervention was a necessary corrective solution to the flaws in market capitalism” (Luckhurst, 2018: 16). Notwithstanding this impact, and loss of trust in the liberal world, China proceeded with its long-ambitioned goal of joining the World Trade Organization (WTO).

One of the effects of China’s membership to the WTO was felt in terms of inward foreign direct investment (IFDI), and OFDI. In both forms of investment financing, China’s participation was evident. Although many often ignore pointing out IFDI as an area in which
China’s role in global economic governance should be appreciated, it remains an important aspect of the global economy. This is because of the fact that, without proper enabling environment, foreign firms could not penetrate their capital and carry out their production activities and trade without the support of the government. As such, opening China for worldwide investments was an act of participation as it created ground for the flourishing economies to tap the existing market of the former closed China. With this note, the paper goes on to discuss the role of China in global economic governance as the provider of global economic goods not because of insignificance of IFDI, but because in terms of volume, OFDI from China has surpassed IFDI from the rest of the world.

That said, the soaring of OFDI marked another significant step towards China’s engagement in global economic governance. This time, China was a provider of economic goods in terms of capital and technology. Some important trend with regard to IFDI in China and OFDI from China is that, while OFDI is soaring, IFDI is decreasing. According to Yao et al. (2017: 1-2), by 2016, the amount of Chinese COFDI was approximately 180 US billion dollars or 50 US billion dollars more than the country’s IFDI. According to different scholars, this soaring of Chinese OFDI after benefiting from significant amount of IFDI reflects China’s economic policy as well as the economic growth (Wang, Mao and Gou, 2014; Wei and Alon, 2010). It seems as well to support Dunning’s (1981) investment development path theory which suggest that, with an increase in per capital income, a country initially attracts a growing amount of foreign direct investment (FDI) and subsequently becomes an ODI player (Wang, Mao and Gou, 2014: 227). In playing this new role, China has surpassed its classification as an investor who invests in resource seeking and politically risky countries (Kolstad and Wiig, 2012; Lee, 2015) and has now become an investor.
who invests in developed and politically stable countries (Anderson and Sutherland, 2015; Chen and Tang, 2014; Cui and Jiang, 2009; Salidjanova, 2011; Yao and Wang, 2014). Moreover, China has made her way from just what is often described as asset, brand and technology seeking to technology exporting (He and Lyles, 2008; Rabe and Gippner, 2017; Araújo and Cardenal, 2013). Table 1 summarises the Chinese OFDI in the last ten years, 2011-2020 according to two sources, the China Global Investment Tracker (CGIT) and Chinese Ministry of Commerce (MOFCOM).

Table 1 Chinese Foreign Direct Investment Outflow (COFDI), 2011-2020 (in billion US$)

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<tr>
<td>CGIT</td>
<td>70.2</td>
<td>79.8</td>
<td>78.6</td>
<td>101.0</td>
<td>119.5</td>
<td>163.7</td>
<td>171.0</td>
<td>123.1</td>
<td>89.2</td>
<td>30.5</td>
<td>1026.6</td>
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<tr>
<td>GROWTH %</td>
<td>+14</td>
<td>–2</td>
<td>+28</td>
<td>+18</td>
<td>+37</td>
<td>+4</td>
<td>–28</td>
<td>–27</td>
<td>–66</td>
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<tr>
<td>MOFCOM</td>
<td>74.7</td>
<td>87.8</td>
<td>107.8</td>
<td>123.1</td>
<td>145.7</td>
<td>196.2</td>
<td>158.3</td>
<td>143.0</td>
<td>136.9</td>
<td>132.8</td>
<td>1306.3</td>
</tr>
<tr>
<td>GROWTH %</td>
<td>+18</td>
<td>+23</td>
<td>+14</td>
<td>+18</td>
<td>+35</td>
<td>–20</td>
<td>–10</td>
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Source: Scissors (2021: 3).

One key trend in Chinese OFDI in the last ten or twelve years has as well challenged the conventional wisdom that China is investing more in the developing world. Instead, the developed world received the largest amount of the total Chinese OFDI, with US as the country receiving a top lion’s share of the total Chinese investments outflow. According to Scissors (2021: 5), the top recipients of Chinese FDI were the US 185.0, Australia 101.2, Britain 95.2, Switzerland 61.2, Brazil 60.7, Canada 56.9, Germany 47.6, Singapore 36.2, Russia 34.4, and France 32.2,
billion US dollars respectively. All in total, they received about $710.6 billion, equal to 56% of the total Chinese OFDI between 2005 and 2020. This is against what is often conveyed, about developing world as the major destination of Chinese investment. In addition, in terms of distribution of the total value of Chinese OFDI and construction combined, a total of $2.1 trillion was invested, Europe ranked first receiving a total of $428.2 billion, followed by the Sub-Saharan Africa, which received $303.2 billion. The region that followed was West Asia which received $302.1 billion, followed by East Asia which received $300.6 billion, then North America (US included) which received $261.8 billion, Arab Middle East and North Africa (MENA) which received $196.9 billion, South America which received 182.9 billion, and Australia which received $119.9 billion respectively (Scissors, 2021: 6). Even under this category, which combines Chinese OFDI with construction, an area describing China’s engagement with the developing world and Sub-Saharan Africa in particular, the region still received less amount compared to the other regions. It received, $303.3 billion compared to developed world, especially West and East Asia, which received $602.7 billion, followed by Europe which received $428.2 billion from the total of $2.1 trillion of China’s global investment and construction (Scissors, 2021: 6). From these figures, one can argue that China is seriously engaging in the provision of global economic goods all over the world and thus playing a key role in global economic governance.

OFDI in developed world and Europe in particular needs a caveat, especially when examined in terms of what happened in the post financial crisis period. Economic crisis in Europe and the Eurozone in particular pushed countries to attract more Chinese investment in Europe. Three things were evident. First, the economic meltdown rendered many European companies incapable to continue with
production at a full scale and hence risking workers’ layoff. To cope with the situation, some companies were seriously seeking for investors. Since both the US and the rest of European countries and firms were severely hit by the crisis, China, whose economy was less affected, became the main source for investment (Meunier, 2014; Rabe and Gippner, 2017; Araújo and Cardenal, 2013). For example, Media acquisition of KUKA robotic company was only possible because there were neither European nor American companies that could outpace the amount that this Chinese home appliance company bid. In addition, in spite of the social and political tensions in opposition for Media acquisition of KUKA AG, the high office was able to give a go ahead for any company to bid, and allow the winner to acquire the company on sale regardless of where the investor came from (Rabe and Gippner, 2017: 473-476).

Second, there were the lowering investment standards to allow easy flow of Chinese capital into Europe. Cases in point are the European initiatives to attract Chinese capital through a number of incentives such as financial and fiscal, operational and assistance like the Research and Development (R &D) grant loans and those focusing on citizenship and residency (see Meunier, 2014: 294-299). The third issue was opening doors for Chinese investment in strategic infrastructure, an area that was traditionally restricted for external investors for security purpose. This was evidenced by the Chinese acquisition of tenders to construct infrastructures such as airports, harbours and railways in Iceland, Greece, and Spain, and China’s winning of the bid to construct a nuclear power plant in the UK (Meunier, 2014; Rabe and Gippner, 2017; Araújo and Cardenal, 2013). With the latter, it also signified China’s advances and readiness for technological transfer to the developed countries, something unusual.
4. The Future of China’s Engagement in Global Economic Governance

One of the implications of the 2008-09 financial crisis is related to China's confidence in its economic statecraft machinery which is now defined in a number of economic policy adjustments prompting China to take “a more proactive leadership role, reforming economic governance, and exercising greater international influence” (Wong, 2019). The launching of BRI twin projects and the lead to establish AIIB are significant marks in this endeavor. Because of these, the future of China’s contribution to global economic governance is likely to be carried under two major economic projects. The first is the proposed Belt and Road Initiative (BRI) and the second is the establishment of the China-led Asia Infrastructure Investment Bank (AIIB). In fact, under Xi Jinping, China is more articulate and bold in the sense that it has put in place and adopted a foreign and economic policy that seems to be more definitive in terms of what China wants from the world and what it wants to do for the world.

This part examines the trajectories of China’s future engagement in global economic governance. It concentrates on discussing the implication of the China-initiated BRI infrastructure-financing plan, and China’s membership to AIIB as a country, which is behind its establishment but also having the majority share. Within these, and especially the establishment AIIB, China has demonstrated not only her ability to plan and come out with possible future solutions, but also her readiness to work with others. This section is divided into two subsections. The first focuses on the prospects of China’s future participation in global economic governance through its newly proposed development strategy, the Belt and Road Initiative (BRI), while the second sub-section advances the possible future roles of China in global economic governance through the newly established bank, the AIIB.
4.1. BRI and the Future of China’s Global Economic Governance

Belt and Road Initiative (BRI) is an official name of the development strategy or grand Chinese economic initiative previously known as One Belt, One Road (OBOR). It comprises of twin economic initiatives, the ‘Silk Road Economic Belt (SREB)’ that was launched by China’s President Xi Jinping in September 2013 during his visit to Kazakhstan, and the ‘Maritime Silk Road of the Twenty-First Century’ Initiative (MSRI)’, also launched by President Xi Jinping during his visit to Indonesia (Rana and Ji, 2020a). Given the existing global economic governance architecture, BRI provides a new framework that will define China’s ways of providing economic goods to the world and possibly restore the historical place of China in economic affairs through infrastructure financing to establish connection among countries all across the continents for the betterment of the world.

Although China’s economic progress since 2010 may not have shocked many, its recent dramatic re-emergence at the centre of world politics throws familiar issues into nearly sharp relief (Beeson and Bisley, 2013). One of the issues is the BRI. Since it was launched in 2013, it has been of much interest to policy makers (Blanchard ed., 2021; 2019; 2018; Blanchard and Flint, 2017; Rana and Ji, 2020a), and as of 2015 this concept has expanded immensely as a vision that links China to Asia, Europe and Africa in trade, development and culture. In fact, China’s BRI forms “the centrepiece of the economic, political, and strategic policy framework of the fifth generation leadership of China” (Ehizuelen and Abdi, 2018: 393) new foreign policy. However, although BRI remains an “important topic in international discussion, which has much to do with some broad topics, such as [the] rise of China, the direction of China’s foreign policy and [the] China-US rivalry in Asia Pacific regional order” (Wang, 2016: 455). And as of now, and echoing Bhattacharya (2016); Fallon (2015); Fasslabend (2015), Blanchard and
Flint (2017: 224) observed that although the “coverage of BRI in policy papers and the mass media has been steadily expanding, there are, relatively speaking, a few academic treatments of this initiative.”

China is clearly a pivot to the Silk Road (SR), both old and new. Geographically, the SR comprised of two parts: the overland SR and the maritime SR, with the former being more established and better known (Zheng and Lim, 2015: 7). The overland Silk Road, that was more than 10,000 km long connecting China to Rome can be traced back to the Han Dynasty (206 BC–220 AD) when imperial envoy Zhang Qian was sent to China’s far West to develop friendly relations. The other road, the Maritime Silk Road was introduced slightly later. It began when the Chinese ventured into Southeast Asia, traditionally called Nanyang, particularly during the Song Dynasty (960-1279) (Ehizuelen and Abdi, 2018: 386). Even from the economic perspective, China was also a pivot to the ancient SR because the Chinese economy was historically not only larger but also relatively more developed than those states along the trade routes (Zheng and Lim, 2015: 8). Given this historic, economic and geographic traces of these routes, the new BRI reflect another one more significant aspect of the new era. It represents “a more proactive approach by the Chinese President Xi Jinping to the global anticipations concerning China’s international obligation and leadership” (Ehizuelen and Abdi, 2018: 387) and how China is set to contribute significantly to global governance and global economic governance in particular. In addition, it evidences how China is determined to influence the world by creating new grand economic projects at the global scale.

Since “China’s economic and political ascent signals an epochal change” (Mayer (ed.), 2018: 1); it makes sense to examine what these ascent signals mean in terms of economic, strategic and geopolitical implications of BRI, one being how China is providing or likely to provide economic goods to the world through this initiative.
Economically, BRI was conceived to solve two major problems of the Chinese economy: overcapacity and excessive foreign exchange reserve (Wang, 2016). However, one wonders how China can distance itself from resorting to use BRI for geopolitical, hegemonic or empire-building motives (Bhattacharya, 2016; Fallon, 2015; Fasslabend, 2015). As of today, BRI seems not only a dream but a reality. Moreover, among many others, BRI intends to create “six economic corridors encompassing more than 60 countries in Asia, Europe and Africa so as to encourage trade and investment among those countries” (Huang, Fischer and Xu, 2017: 160). This is likely to transform how China will relate with the rest of the world especially in relation to its provision of economic goods.

The envisaged overland SREB will consist of railway links through Central Asia, Iran, and Turkey that would circumvent with railway connections through Russia itself along the trans-Siberian Railway line (Fallon, 2015: 15). On the other hand, the sea route (MSRI) is expected to begin from Fuzhou (a city in Fujian, China) and then to Southeast Asia through the South China Sea and then via the Malacca Strait, Indian Ocean and Mediterranean Europe. The other route will go directly from Kolkata India to Nairobi Kenya. In addition, it will as well connect from Europe, Mediterranean and Suez Canal and branch to various Eastern African countries such as Djibouti, Kenya, Madagascar, Mozambique, and Tanzania (Blanchard and Flint, 2017: 226). Once completed, BRI is expected to promote connectivity in the fields of trade, infrastructure and currency through multilayered collaboration among relevant countries and international organizations, leading to increased trade and cooperation among nations.

Scholarship on BRI has been steady and expanding. Since the launch of BRI, there have been two major kinds of views. From a number of “cheerleaders” who see it as part of a benevolent
development project led by the Peoples Republic of China to doom laden geopolitical representations that portray the project as another step towards an inevitable confrontation between the United States and China over dominion in the Asia Pacific Region and global hegemony” (Blanchard and Flint, 2017: 238). Although, emphasis has been always on economic benefits; some, studies have indicated that there are some geopolitical motives linkage with China’s BRI (Fallon, 2015; Sidaway and Woon, 2017; Summers, 2016). For example, for Fallon’s (2015: 140-141) views BRI as having three drivers: (1) energy, (2) security, (3) markets. Like the silken strands on a loom, these drivers will weave together to create a fabric of interconnected transport corridors and port facilities that will boost trade, improve security, and aid strategic penetration, or simply ‘‘great rejuvenation of the nation,’’ as it is an expression of China’s confidence and international clout” (Fallon, 2015: 140). In addition, Yu (2017: 368) further cements that BRI “form[s] the centrepiece of the Chinese leadership’s new foreign policy and is a reflection of China’s ascendancy in the global arena, economically, politically, and strategically.” Making it more explicit, Zhao (2016: 114) observes that some European policy elites view BRI as China’s own Marshall Plan, and that China intends to leverage the initiative to transform its economic power into geopolitical influence, increase its control over the Eurasian continent, and promote the Chinese version of globalization. As such, “from geopolitical and geo-economic perspectives, BRI is bound to alter relations between China and Europe, Russia, the United States, and other major powers” (Zhao, 2016: 109). Moreover, if executed successfully, BRI may lead to the creation of a single Asian-European or perhaps even a single Asian-European-Africa trading bloc, which would challenge the present US-centred trans-Atlantic and trans-Pacific trading bloc (The Economist, 2016). This will be one of the significant economic master plans since US Marshall Plan,
which will not only alter the centre of economic logics, but which might compel those outside the belt to seek affiliation with the bloc. This envisaged Asian-European-Africa economic bloc and probably even Chinese OFDI are likely to be negotiated based on membership affiliation to this anticipated economic logic.

4.2. AIIB and the Future of China’s Global Economic Governance

The Asia Infrastructure Investment Bank (AIIB) is China’s second brainchild institution for global economic governance. This is a bank of its kind in which China has demonstrated not only ability to plan and come out with possible future solutions to the chronic problems facing BWIs, but also readiness to work with others in solving global challenges. Thus, this sub-section examines the trajectories and the future of China’s engagement in global governance through AIIB. AIIB is a multilateral development bank whose mission is to improve people’s social and economic welfare by investing in sustainable infrastructure and other productive sectors and connecting people with services and markets. It also aims at building a better future in Asia and elsewhere (https://www.aiib.org/en/about-aiib/index.html). Its formation explicitly reveals China’s detestation against the politics that has kept her down in terms of influence within the BWIs despite the fact that it is the second largest economy in the world. As such many scholars equate the move to establish AIIB as an expression of China’s dissatisfaction with governance structures within the BWIs, which continually relegate China to a less influential position regardless of the actual economic strength that she (China) has (Dollar, 2015). But as per Chow, (2016: 1273), the idea to establish AIIB was a sign of China’s peaceful nature, that is to say, “instead of fighting a battle for greater power in the World Bank and IMF that it could not win, China decided to set up its own bank where it would play the leading role.”
AIIB became operational on January 16th 2016 although the idea to create it came much earlier in 2013. Its establishment is related to two important things. First is the political change in China that brought in Xi Jinping into power as the president in 2012. Second, it is linked to an earlier publication, the Asia Development Banks (ADB) report of 2009. In this report it was projected that Asian countries’ needs for infrastructure between 2010 and 2020 would be almost 8 trillion US Dollars plus an addition of 290 billion US Dollars for regional transport and energy projects (Ren, 2016: 436). These were in addition to China’s economic acceleration in 2010 as the second largest economy in the world and as a country with a huge foreign-exchange reserve of about $3.82 trillion. With these in place, one of the emerging questions was “how China should constructively and effectively use its newly acquired economic power and resources, especially against the backdrop of the on-going debate on whether it was wise for China to continuously purchase US Treasury bonds” (Ren, 2016: 435). The response was almost obvious: to establish a new financial institution that could address both – an overdue of Deng Xiaoping, Jiang Zemin and Hu Jintao’s ‘tao guang yang hui’ (韬光养晦) policy, that basically meant keeping a low profile which no longer stood the test of time. The other was the imperative for establishing an institution, which could address the economic challenge ahead by tapping the prospective economic opportunities of funding infrastructure projects in Asia.

However, the establishment of AIIB is often described as a response to China’s rivalry over the US-led BWIs. According to Callaghan and Hubbard (2016: 116), China led the establishment of the bank because she was ‘frustrated with the United States’ reluctance to cede her power at the International Monetary Fund (IMF), and the World Bank, and so she decided to usurp the United States’ economic leadership by creating
her own institutions in order to challenge the Bretton Woods institutions.” This is significantly a divergence from the previously popularised long-term reasons and is probably one of the extreme misinterpretations of the observations by the former president of Harvard University and former US Treasury Secretary Lawrence Summers who is often quoted as having commented on the establishment of AIIB as follows:

I can think of no event since Bretton Woods comparable to the combination of China’s effort to establish a major new institution and the failure of the United States to persuade dozens of its traditional allies, starting with Britain, to stay out. This failure of strategy and tactics was a long time coming, and it should lead to a comprehensive review of the U.S. approach to global economics. With China’s economic size rivalling that of the United States and emerging markets accounting for at least half of world output, the global economic architecture needs substantial adjustment,

(Summers, 2015, as cited by Chow, 2016: 1261)

Such testimony reflects the danger, which the US felt on learning that China was establishing a new and prestigious multilateral bank. One of the remarkable observations associated with such US leadership’s failure to convince its closest traditional allies particularly Britain not to join the new bank has been in the media. For the US media, such failure, as Chow (2016: 1276) quotes them, was “a diplomatic disaster and a humiliation for the Obama administration.” Although change of political leadership, and the aspiration to meet the needs of infrastructural projects in Asian countries that cannot be adequately and timely financed by ADB, IMF and the World Bank; serve as the fundamental reasons for the establishment of AIIB (Dollar, 2015), it is often and

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famously linked to China’s frustrations within the BWIs. As for Ren, (2016: 436), although “for years, China had wished to have a greater say in the existing international institutions like World Bank, the International Monetary Fund (IMF) and ADB, reforms to better reflect China’s increased economic power and status had encountered resistance and had been painfully slow. In addition to that are the long tradition of the US unwillingness to cede power and the general negative sentiments towards China in the US Congress, which were viewed or perceived by China as blocks for the possibility of gaining a real clout within the BWIs (Chow, 2016: 1271-1273). With regard to space within the ADB, although China has the second largest economy, the tradition of Japanese dominance in ADB is as well maintained. For example, Japan holds the position of the bank’s president while she (Japan) and the US hold two times more voting rights than China by 12.80, 12.752 against 5.477 percent by Japan, the US and China respectively, something that makes China uncomfortable within the ADB. These are said to be the reasons that have prompted China to create this new bank as the best and amicable solution to accommodate all the arguments advanced. The remaining question was how China would avoid the pitfall of what it has been complaining against within ADB, IMF and the World Bank.

China’s success in attracting non-Asian countries particularly US allies to join the bank remains one of the key successes in AIIB’s establishment process (Dollar, 2015). This defines China’s ability to organize and provide global leadership. According to (Ren, 2016: 438), one of the reasons behind this success was China’s open mindedness and inclusiveness in accommodating other opinions in the creation of this institution. In addition, the question of veto power did not occupy the central theme of discussion, something that increased trust among all members interested in the establishment of an inclusive financial institution of the twenty first century. Because of this, the idea about
AIIB was quickly accepted and has been experiencing fast expansion in terms of membership to the bank. Moreover, on March 31, 2018, from the 57 founding members, membership to the bank has expanded to 86. This is not a simple indication of future success.

Then, how likely is China to influence the global economic governance through AIIB? This is a question that is going to be answered fully as time unfolds and AIIB functions. Yet, few things can be commented on in terms of what is likely to happen based on the existing structures of decision making within the AIIB. First, China’s quota in the bank is the biggest and hence has the largest voting share amounting to 26.06 percent of the total bank voting rights almost three times to the country that follows which is India, which has 7.51 percent of the voting rights. Others with a little and considerable share of voting rights are Russia with 5.93 and then Germany with 4.15 percent of voting rights respectively. As such, “China’s voting power in the AIIB is currently significantly larger than the United States’ 15.02 percent voting share in the World Bank and Japan’s 12.84 per cent voting share in the ADB” (Callaghan and Hubbard, 2016: 129). What this entails is that China will always have a hand in all key issues and in the decision-making process within the bank.

Second, China holds key positions in using its veto to decide on some important matters within the bank. For example, compared to the US in the World Bank, “China has a veto power over the appointment of the AIIB’ President whereas the influence of the US in the World Bank and Japan in the ADB depends on informal arrangements” (Callaghan and Hubbard, 2016: 130). Together with this, China is privileged to use its veto in other key decision-making issues including, “increasing the bank’s capital; increasing the capital subscription of a member; expanding the operations of the bank; changing the size of the board of directors; changing the structure of the board; appointing or removing
the president; suspending a member; terminating the bank and distributing its assets; and amending the Articles” (Callaghan and Hubbard, 2016: 129-130). This is a potential for influencing decisions, which satisfies the long-awaited desire for having such ability in a multilateral organization.

Given these two together with the economic size, which is predicted to continue with positive growth and the gains that China is likely to obtain through investing some of her capital in lending in the bank, one can predict the future of China in global economic governance through AIIB. As such, though it cannot be argued as of now that China is determined to rule the world through economic institutions, given that the establishment of AIIB which is in itself framed within the BRI philosophy, China is likely to be the world’s leading source of economic goods. As such, AIIB is likely to provide a critical challenge to ADB, IMF and the World Bank, which since their establishment have enjoyed the status of being major capital lending institutions globally.

5. Challenges facing China’s BRI and AIIB

While there are numerous lessons that China has learnt from the mistakes she has been making in her economic strategies, the country still faces a number of challenges in relation to its newly proposed institutions of global economic governance. There have been some concerns related the invitation made by China to welcome other countries to join in her newly proposed financing plan, the BRI and the newly launched AIIB. Thus, the invitation has been received with mixed feelings (Wong, 2019). Although more and more countries have been joining the proposed infrastructure financing institutions, some others have been sceptical about them, while more of the resistance has been waged against BRI (Dollar, 2015). As from 2017, for example,
within the academia, a new line of critical thinking towards China’s BRI, has evolved and gained attention both from East to West.

A novel framing of the implication of the proposed Chinese financing schemes has emerged, under which China’s plan has been dubbed as “Debt-Trap Diplomacy”. The term Debt-Trap Diplomacy is credited to an editorial piece titled “China’s Debt-Trap Diplomacy”, which first appeared in the Project Syndicate magazine January 23, 2017. This piece was by authored by Brahma Chellaney, a professor of Strategic Studies at the New Delhi-based Centre for Policy Research and Fellowship at the Robert Bosch Academy in Berlin. As such, the subsequent analyses which attribute negative effects to Chinese-financed projects often give credit to this formulation (Rana and Ji, 2020a; Hurley, Morris and Portelance, 2018; Jones and Hameiri, 2020). Essentially, the debt-trap diplomacy entails “luring poor developing countries into agreeing unsustainable loans to pursue infrastructure projects so that, when they experience financial difficulty, Beijing can seize the asset, thereby extending its strategic or military reach” (Jones and Hameiri, 2020: 3). To Challaney (2017), the aim of China’s Belt and Road Initiative (BRI) was to saddle small nations with debt to such an extent that they cannot be able to repay thus, “leaving them even more firmly under China’s thumb.”

In fact, the debt-trap diplomacy (DTD) formulation emanated from the critical examination of China’s BRI-related financing for the updating of the fishing harbour of Hambantota into a mega container transhipment international port. In addition, it is linked to China’s loans for the construction of the East Coast Rail Link (ECRL) in Malaysia, which is associated with China’s strategic interests along the Strait of Malacca (Melaka) (Jones and Hameiri, 2020). Since then, Sri Lanka and Malaysia have come to represent two most widely cited ‘victims’ of DTD. Further DTD has emerged as one of the frameworks guiding
the discussion on the negative consequences and the accusations advanced against of China’s financing schemes, especially those related to BRI and to some extent AIIB (Rana and Ji, 2020a; Hurley, Morris and Portelance, 2018; Jones and Hameiri, 2020).

Critics of China’s infrastructure-financing institutions peg their arguments on a number of things, including lack of transparency in Chinese deals project cost inflation, the possibility of dual use of the Chinese-built ports and the accusation that China aspires to manipulate economic power for statecraft and strategic gains (Bhattacharya, 2016; Fallon, 2015; Fasslabend, 2015). Some, however, object these accusations and even speculate how much of debt is owed by those reference countries to China (Hurley, Morris and Portelance, 2018; Jones and Hameiri, 2020). However, what remains puzzling is what could be behind the growing Chinese appetite for lending countries whose economies seem not in position to repay the loans. Nevertheless, it remains true that the infrastructure financing through BRI comes with a number of challenges associated the nature of projects funded. As Hurley, Morris and Portelance (2018: 1) put it, “Infrastructure financing, which often entails lending to sovereigns or the use of a sovereign guarantee, can create challenges for sovereign debt sustainability. And when the creditor itself is a sovereign, or has official ties to a sovereign as do China’s policy banks – China Development Bank (CDB), the Export-Import Bank of China (China Exim Bank), and the Agricultural Development Bank of China (ADBC) – these challenges often affect the bilateral relationship between the two governments.” This is critical, as it is an antithesis to the commonly practiced procedure from the multilateral financial institutions such as the World Bank.

Lack of clarity in the rebranding and repackaging of projects launched earlier before the pronouncement of BRI in 2013 is another troublesome aspect of BRI financing. The list of these projects is long
and includes often praised BRI projects inside and outside Asia, such as the China-Pakistan Economic Corridor (CPEC), the Djibouti-Ethiopia SGR (Blanchard and Ziso, 2021), the Multi-Purpose Port (MPP) at Doraleh in Djibouti (Styan, 2021), the Kenyan Mombasa-Nairobi SGR (Mboya, 2021), and the frozen MSRI project, the Bagamoyo Port complex in Tanzania (Masabo, 2021). This plus the fact that there is no official list of all BRI funded projects make it hard to even pinpoint the impact of BRI infrastructure financing.

In addition to that, there is another critical challenge that the BRI especially the Silk belt Economic Road (SBER) is facing, the one direction belt road. There is a growing concern among analysts on the economic return of this proposed land infrastructure. While it is true that it will shorten the time to reach in Europe, the concern has been in terms of cargo from Europe. Studies report that, “the 12,000-km China–Europe railway will have up to 45 per cent surplus capacity on the return journey, rendering it loss-making without Chinese government subsidies of $1,000–$7,000 per container (Hillman, 2018). Therefore, if that is the case (which is likely to be case given the move toward Made-in-China 2025), there will be less import from Europe to China and thus magnifying the loss.

Because of these and many other issues related to corruption scandals in the Chinese economic initiatives, slowly, countries are becoming cautious with the economic incentives from China including those associated with BRI, but more and more are joining the AIIB (Dollar, 2015), which in itself is good for China. Given the impact of Covid-19 pandemic to the economies of the world, there seems to be a possibility that China will soon assume a position as the number one economy in the world, probably by 2028. If this is to happen, then, no matter how bad China’s introduced schemes may be, many countries will not have a chance to object them.

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Although commenting on China’s proposed infrastructure financing schemes and associating the debt distress of the recipient countries to DTD have picked up, there are emerging counter arguments that challenge this line of thinking (Jones and Hameiri, 2020; Singh, 2021; Brautigam and Rithmire, 2021). The proponents of these arguments hold that, instead keeping thinking of debt-trap diplomacy, our understanding need to be re-oriented since the “bumps on the Belt and Road are typically caused by the intersection between powerful interests and [the] associated governance shortcomings on the Chinese and recipient sides” (Jones and Hameiri, 2020: 11). To them, DTD is a myth and is an overexertion. The reaction has been to debunk the CDTD thesis. Some of these include Lee Jones and Shahar Hameiri (2020), ‘Debunking the myth of ‘debt-trap diplomacy’: How recipient countries shape China’s Belt and Road Initiative’; Pradumna B. Rana and Xianbai Ji (2020a), China’s Belt and Road Initiative: Impacts on Asia and policy agenda; and John Hurley, Scott Morris and Gailyn Portelance (2018), ‘Examining the debt implications of the Belt and Road Initiative from a policy perspective’. Though acknowledging other challenges related to BRI infrastructure financing, they seem to be convinced that the bumps on the Belt and Road are typically caused by the intersection between powerful interests and associated governance shortcomings on the Chinese and recipient sides (Jones and Hameiri, 2020: 11). For instance, in their book Rana and Ji (2020a) (see also Rana and Ji (2020b) in The Diplomat, 6th November 2020) make three arguments against the DTD thesis.

First, after having considered both the benefits and costs of the BRI, on balance, 41.6 percent of the respondents believed that the BRI represented a net benefit for their countries while only 17.8 percent said that it was a net loss. Second, on the DTD thesis itself, more than 42
percent of the respondents to our stakeholder survey rejected the alarmist narrative, although it is important to bear in mind that 30.6 percent felt otherwise. More than a quarter (27.3 percent) of the respondents had not made up their minds yet. Third, using the methodology developed by the Center for Global Development, which focuses on the level of public and publicly guaranteed debt-to-GDP ratio, we found that three out of the five South Asian countries are presently having a debt distress. These are Sri Lanka, Pakistan and the Maldives. However, Sri Lanka owes more to Japan than to China, which holds only 3 percent of its debt.

That said; close reading of the very literature debunking DTD indicates that China’s conduct in pursuing this financing scheme still leaves a lot to be desired. For instance, although scholars such as Jones and Hameiri (2020) have objected the use of DTD as a correct reference to Chinese funding of the Hambantota port; they still acknowledge that the construction to have been directed by China Harbour Engineering Group (CHEG). This Chinese SOE which seduced the government in Colombo to transform and expand Hambantota port from just a small fishing harbour into a megaproject by offering a free feasibility study and exaggerating the likely economic benefits (Jones and Hameiri, 2020: 14). Thus, while China’s institutions proposed for global economic governance are positioned to make an impact and provide an alternative to the project financing that is often frowned by the major BWI, for AIIB and BRI to really make an impact, important adjustments will have to be made These ought to touch many aspects such as project financing transparency, proper organisation of the funding and developing a template for better practice.
6. Conclusion

This paper has analysed China’s participation in the existing institutions of global economic governance and her leadership in creating new ones. It has examined China’s participation in the BWIs, its provision of OFDI and the implications of its participation through the AIIB and BRI. It is evident that the topic is wide and complex, and what is provided is just a tip of the iceberg. Nevertheless, the paper has made an analysis of selected issues by tracing their origin and capturing their possible implications on global economic governance. The central goal of the analysis has been to understand the evolution continuum of China’s engagement in global economic governance.

From analysis made, two findings were evident. First, China’s participation in the existing institutions of global economic governance does not reflect its growing dominance in economic matters (Shi and Langjia, 2020). Although China has become the second largest economy and the second most reliable source of OFDI in the world, its role in the major institutions of global economic governance such as ADB, IMF and the World Bank has continued to be almost the same. Probably, that is why it is often categorized a developing country despite the fact that its economy is bigger than any other economy in the world except that of USA. As such, since 2012, China has stood up to address her diminished recognition as the second largest economy and most populous country in the world. The second finding is that, because of her low perceived status within the existing world institutions, China is seeking alternatives outside the existing global economic system. Together with the move towards a closer relationship with the Association South East Asian Nations (ASEAN) as well as BRICS, China has made radical steps to lead the way by proposing and leading the process for the establishment of a new multilateral bank, the AIIB. Since Japan and the US strongly
oppose this establishment, there is a possibility of posing threats to the future of the global economy and its governance.

Based on these findings and the dynamics within the global economic governance architecture, the paper concludes that it is too early to predict the end of the existing global economic governance architecture. While there have been notable challenges, fragmentations and at times legitimacy crises, the existing global governance or global economic governance is still relevant. As we is a witness to the growing collaboration through decentralisation and integration among actors as well as institutions, such as the proposed memorandum of understanding between ADB and AIIB, which have agreed to collaborate in financing infrastructure projects in Asia; there is the hope for amicable future collaboration among existing and emerging new institutions of global economic governance. Thus, while the elements of fragmentation will likely continue to characterise the trends of global governance, with the way the economies of the world are interwoven, it is not easy for the global governance architecture to fall although tensions must be expected.

Given the fact that the establishment of institutions like AIIB, can lead to rivalry among the major economic powers in the future this paper proposes ways to mediate for their co-existence. There is a need for all the major actors to come together and define the model of coexistence since continued tensions and frictions are likely to retard the economic progress made in the world and possibly cause other crises. Contenders of China’s rise have to accept the reality that China of today is not the same as that of several years back. Her current economic power and contribution to OFDI define her place in the world differently. However, China ought to realise that her current economic might is a result what it has been benefiting from the liberal economic order and that there is no reason for dismantling the existing institutions of economic governance.
but rather continue pushing for reforms. China owes her success to this order since that was the major source of funding, which financed most of her development projects. She must also realise that, given her lion share of voting rights in AIIB and the kind of money she is going to lend to countries through BRI, she might end up behaving just like the US within the BWIs. Furthermore, given the volatility of the global economy, it is better for both the market-owned and state-owned economies to coexist as a way to save one another like the way the market-owned economies have benefitted from the state-run economies and vice versa.

Note

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Power Transition and the
United States-China Trade War

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Abstract

This paper examines how power transition theory could provide insights into the trade war between the United States and China. The paper shows that the trade war between the United States and China is a manifestation of power transition in the international system. As a rising power with growing economic might, China seeks to increase its influence and position in the international system through various global initiatives. In responding to this, the United States tries to maintain its position as a global leader by imposing trade barriers to suppress the rise of China. This strategy intends to slow the U.S.’ decline as a global hegemon. This article aims to contribute to understanding the relations between power transition, hegemony, and trade wars.

Keywords: trade war, power transition, United States, China, hegemony, rising power, industrialisation
1. Introduction

Since the end of the Cold War and the collapse of the Soviet Union, the world has recognized the United States (U.S.) as the only hegemon in a unipolar international system (Layne, 2009; Schweller and Pu, 2011). The United States has also been the world’s largest economy for several decades (World Bank, 2019). As a hegemon, the U.S., since the 1990s, has worked to convince the world that the liberal international order is the most stable and peaceful system compared to other types of order. Andrew Hurrel (2014) describes the liberal international order as an order that prioritizes open market principles, optimizes the role of international institutions or organizations, and promotes the idea of democracy and human rights.

Meanwhile, China’s economic rise, which began in 1978 when Deng Xiaoping began economic reforms and industrialization, has led many to believe that China is challenging the United States’ hegemony in the international system. The Federation of American Scientists found that China’s economy increased by an average of 9.5 percent per year until 2018, and the World Bank has described China’s economic growth as “the largest sustainable economic expansion” in history (Morrison, 2019). This dynamic of international relations eventually led the U.S. and China as the two world’s largest countries into a trade war.

There have been many reports in the literature analyzing the trade war and the dynamics of U.S.-China relations. However, such literature mostly focuses on the impact of the trade war, including the economic impact and the spillover, as well as aspects of adaptation and conflict caused by the rise of China (Li et al., 2018; Liu, 2018; Liu and Woo, 2018; Sinaga, 2020). This paper fills the research gap by analyzing the trade war between the U.S. and China through the lens of power transition.
By using the power transition theory, this paper argues that the trade war between the United States and China is a sign of power transition in the international system, affecting international stability. To deter China’s growing economic might, the U.S., as a hegemon, tries to delay China’s industrialization without direct intervention in China’s affairs. For example, the U.S. imposed tariffs as a barrier to their trade with China, sparking a trade war, which can thus be seen as an extension of U.S. strategic preventive measures to limit the rise of China. We should note that this article is not the first attempt to understand U.S.-China relations through power transition theory. Much has been written to understand such relations, particularly in regards to impact of the rise of China on the liberal global order (Kim and Gates, 2015; Lim, 2015; Zhao, 2005). However, arguably, few serious studies aim to utilise the power transition theory in order to understand the current U.S.-China trade war. Our article then contributes to this strand of literature.

This article thoroughly provides the detail of each country’s policy during the power transition period. This qualitative research utilizes the method of case study analysis by applying a process-tracing approach to understand the case study’s causal process as guided by the theory. In order to fulfill the data and information needed, this paper uses mainly secondary data, such as official documents, newspapers, journal articles, and books.

This paper is organized as follows. The next section explains the conceptual framework and briefly summarizes the previous literature discussing trade wars and the between the United States and China. The third section explains the trade war between the United States and China through the lens of power transition theory.
2. Power Transition Theory and Trade War

Scholars of international relations believe that creating international stability requires a leading state to voluntarily act as a quasi-international government and provide public goods for the international community by mobilizing their resources, both economic and military (Ikenberry & Nexon, 2019). As a form of “reward” for the public goods it provides, other countries will then accept the hegemon as the global leader (Hurrell, 2013). This hegemonic order arguably creates a relatively peaceful system (Gilpin, 1988; Webb and Krasner, 1989). However, such a peaceful system would become unstable should new powers compete for the hegemon’s position.

Power transition theory examines the outcomes of war and peace during periods of hegemonic transition in the international system. A.F.K. Organski and Jacek Kugler (1980) in The war ledger argue that if competing countries have similar political, economic and military capabilities, the likelihood of war during the power transition period is increased. However, peaceful conditions will last if the disadvantaged countries that benefit from the international system have asymmetric capabilities. Similarly, Ikenberry and Nexon (2019) argue that war will occur if a new power emerges with a capacity that matches a current hegemon. Such relative preponderance incentivizes the new power to threaten the hegemon’s position.

In other words, wars are generally triggered by new forces or a faster-growing upstart trying to replace the declining hegemon (Chan, 2007). If such a war occurs during a power transition, this is often referred to as a “hegemonic war” (Gilpin, 1988). This hegemonic war would determine which country becomes the dominant power in the international system (Gilpin, 1983). There are two possibilities for such a war. First, it could occur when the hegemon declares war to prevent the rise of new powers (“rising power”) in the system that may threaten
their position. Second, when the rising power feels capable and confident to compete with the hegemon to start a war (Ikenberry and Nexon, 2019). There are also two different results of the war, whether the rising power has risen to become a new leader in the system, or the previous hegemon remains a hegemon.

Two essential aspects will explain the possibility of war in the power transition period. The first one is power parity, which occurs when a rising power is developing its power and gains a level of power similar to that of the dominant state. The second aspect is the evaluation of the status quo by the rising power. If the rising power is not satisfied with the status quo, there will likely be a war in the power transition period. However, if the rising power is confident with the status quo, then there will be no war, even though it has reached the power parity condition (Zhu, 2006).

2.1. Types of State’s Characteristics in the International System

The international system is described as a pyramid with a dominant state at the top, as shown in Figure 1. The dominant state creates and controls the current international world order, from which the dominant state gains tremendous benefits (Organski, 1958). The difference in power capacity between the dominant state and other states serves to ensure the security of the dominant state as well as the international order’s stability as a whole.

There are four types of state according to Organski (1958):

1. The powerful and satisfied.
2. The powerful and dissatisfied.
3. The weak and satisfied.
4. The weak and dissatisfied.
The first type – the powerful and satisfied – consists of the dominant state and its allies. Their satisfaction stems from the notion that the current world order provides them with excellent opportunities to achieve their goals. Given their preponderant power, they are the ones who shape the international order. As a result, they can shape the international order in a way that enables them to gain greatest benefits.

The second type – the powerful and dissatisfied – usually also consists of the great powers, but not the ones who shape the current
international order. They consider that the power they gained from industrialization entitles them to form an international order that suits their own goals. This then pushes them to become revisionist states, aiming to change the current world order. Organski (1958) argues that industrialization is the source of many global problems, as industrialization broadened the people’s aspirations and increased their power, which could be used to overturn their dissatisfaction with the current order. This type of state can create problems in the international system if they become strong enough to challenge the dominant state to increase their satisfaction.

The third type – the weak and satisfied – usually consists of states that are middle powers, small powers, and dependencies. Generally, such states have accepted the prevailing international order and have received certain benefits from the system (Schweller, 1994). This type of state is believed to be unlikely to cause problems in the international system for several reasons: they are satisfied with the status quo, do not have sufficient strength to fight back, are compliant and committed to the current order, and will stand against a challenger to the dominant state, despite the insignificant benefits they receive from the existing international order (Walt, 1985).

The last type – the weak and dissatisfied – consists of dependencies that are not satisfied with the current system and do not have the power to fight (Rynning and Ringsmose, 2008). These countries are forced to follow the prevailing order even though the benefits they receive are also insignificant. Countries in this category are not necessarily peaceful; they can carry out insurrections, but such insurrections will generally not destabilize the world unless they ally with major challengers. The main factor for these states’ dissatisfaction is that they remain dependent on the non-industrial sector, thus becoming the target of exploitation by powerful countries.
2.2. Industrialization Motives of Rising Powers

Industrialization is the most critical factor for states to obtain power and wealth. At the same time, industrialization is also seen as the source of many global problems. The power and wealth gained by a nation from industrialization could be converted into a threat to the status quo, as it could be used to satisfy their desires in the international system (Organski, 1958).

In terms of international power relations, there are two possible motives behind why a rising power may begin industrialization. Some states may undertake industrialization without the intention to replace the global hegemon. In this case, the rising power is usually satisfied with the current international order and benefits from being a part of the current international order to increase their national power and wealth (Kang, 2007). Though both the hegemon and the rising power may compete in many fields and even face conflicts, they aim to work together to arrange international order based on their common interests and goals.

The second possibility behind the industrialization of a rising power is to replace the hegemon. In this situation, the rising power is not satisfied with the current international system (Newman and Zala, 2018). The rising power likely holds a different ideology to the international order, so they are motivated to replace the current hegemon in the system in order to replace the global mandate with their own (Legro, 2007).

2.3. Hegemon’s Response to a Rising Power

Three possible policies can be considered by a hegemon while facing a rising power in the system. First, the hegemon may attempt to directly control the rising power to prevent them from developing their
industries, thus reducing the threat of industrialization. Moreover, a hegemon can foster internal subversion within a rising power and seek to replace that state’s government with one that is more easily influenced by the hegemon. If all of these steps do not work, the hegemon is likely to carry out preventive war. This preventive war aims to destroy the rising power before it becomes too strong to contain (Organski, 1958).

The second possible policy is an indirect influence. A hegemon can indirectly influence a rising power that has the potential to become its rival in the future. A hegemon may implement trade barriers and embargoes or refuse to provide aid to the rising power. Though it will hurt the rising power when a hegemon refuses to provide them with aid, this will not stop its industrialization (Layne, 1993). A hegemon also can persuade its allies to do the same to further delay the rising power’s industrialization process. This will limit the rising power from accessing the necessary goods and information they need in the period leading to industrialization as well as during the industrialization process itself (Organski, 1958).

The last possible policy for a hegemon in dealing with a rising power is to help the rising power. This takes the contrary approach to the first two policies. The hegemon can help the rising power in the hope that the rising power will remain friends, even if it becomes powerful enough to replace the hegemon (ibid.). In this third possibility, the hegemon establishes good relations with a rising state instead of making an enemy of them, but the hegemon will still simply have to hope that the rising power will not surpass it (Karim and Chairil, 2016). The drawback of this approach is that no state can guarantee that a “friend” will consider our interests as important as theirs (Organski, 1958).

The motives of the rising power behind their industrialization as well as the the hegemon’s choice of policy will determine the conditions during the power transition period. Suppose the two states – the
hegemon and the rising power – choose to be friends and share common interests. In that case, peaceful conditions will last during the power transition period, even if the two states face several conflicts (ibid.). Peaceful conditions could also be realized if the rising power increases their power and capability through industrialization without replacing the hegemon (ibid.).

However, war will occur if a hegemon feels the need to prevent the rising power before it becomes too strong to be contained (ibid.). The stronger the rising power gets, the greater the threat to the hegemon’s status as a global leader. Additionally, war could be initiated by a rising power who feels that they are strong and powerful enough to fight the hegemon’s domination (ibid.).

Arguably, the final result of the power transition period is one of two possibilities: either the rising power replaces the hegemon as a global leader, or the hegemon in charge.

3. Power Transition and U.S.-China Trade War

This section provides a general overview of the relationship between the United States and China, and examines the trade war between the two states. The manner in which power transition theory could provide insights into the trade war will also be explained in the following section.

3.1. China’s Economic Rise

In the early days of its modern economic reform, China implemented several policies to increase the role of Chinese exports, such as decentralizing trade planning, adopting a more realistic exchange rate, and reducing bias towards exports. In 1992, China signed a Memorandum of Understanding (MoU) with the United States that
discussed the two states’ commitment to reducing trade barriers (United States General Accounting Office, 1995). This MoU emphasized China’s seriousness in its trade liberalization process. Tariff reductions began on January 1, 1992, when China reduced tariffs on 225 products from an average of 45 percent to 30 percent. In April 1992, China reduced between 20-80 percent tariffs on 14 products, and in December, additional tariffs of 3,371 products were reduced by an average of 7.3 percent (Li and Jiang, 2018). In the same year, China also committed to reducing other trade barriers not in the form of tariffs (non-tariff barriers) by 90 percent as well as reducing the number of quantitative restrictions from 1,247 to 240 in 2000 (ibid.).

Tariff reduction by China continued to expand with a broader product scope. In January 1994, China reduced import tariffs by 8.8 percent for additional 2,818 other products, while an average of 50 percent tariffs reduction also applied to around 200 industrial and agricultural goods. The following year at the 1995 Asia-Pacific Economic Cooperation (APEC) Summit, China announced that it would further reduce tariffs for 4,000 products from an average of 35.9 percent to 23 percent (ibid.). In December 2001, China officially became a member of the World Trade Organization (WTO). Since that year, trade, copyright, and foreign investment regulations and laws have become increasingly transparent, tariffs have been reduced, and non-tariff barriers have been removed (ibid.).

The global importance of China and its trade has increased significantly in the twenty-first century. This is supported by the capacity of Chinese factories and their human resources, leading to China currently being nicknamed the “world’s factory” because of their ability to produce vast quantities and varieties of products needed by consumers worldwide (Zhang (ed.), 2006). McKinsey & Company found that, in 2017, China became the largest source of imports for 65
countries worldwide, and Chinese goods represented 11.4 percent of global trade as a whole (CNBC, 23rd September 2019). This shows how China has the ability to meet the needs of consumers all around the world.

According to data from the World Bank (2021), China’s GDP in 2018 was US$13.895 trillion. This amount represents a rapid increase from to 1978, when China began its initial implementation of economic reforms; at the time, China’s GDP was only US$149.541 billion (World Bank, 2021). Trade alone contributed approximately 38 percent of China’s total GDP in 2018, while in 1978, its contribution was less than 10 percent of China’s GDP (ibid.). This trade percentage is calculated from the total exports and imports of goods and services.

In 1978, when China began to liberalize its economy under Deng Xiaoping’s leadership, there was a marked increase in China’s bilateral trade with other countries, including the United States. This lead to closer relations between the U.S. and China, not only in the economic sector but also in the political sector. Nevertheless, the U.S.-China relationship remains complicated to this day. The United States and China often have the same concerns on international issues, such as the nuclearization of the Democratic People’s Republic of Korea (North Korea). On the other hand, they also face disputes on various topics such as South China Sea freedom of navigation, human rights issues, and intellectual property rights protection (Steinberg and O’Hanlon, 2015; Yang and Qu, 2020).

As of 2018, the total trade in goods and services between the U.S. and China is US$736.8 billion, with U.S. exports to China amounting to US$178 billion and Chinese exports to the United States amounting to US$558.8 billion (Office of the United States Trade Representative, 2020). This data shows that the U.S. trade deficit with China was US$380.8 billion in 2018. The total trade for goods alone between the
two countries in 2018 was US$659.5 billion, making China the United States’ largest trading partner in goods and resulting in a U.S. trade deficit to China of US$419 billion for goods only (Goulard, 2020). China’s exports to the U.S. are dominated by computers, cell phones, clothing, toys, and sporting goods, while U.S. exports to China are primarily commercial aircraft, soybeans, and semiconductors (Amadeo, 2021).

The data show that the U.S. and China are extensive trading partners and greatly influence one another. In fact, China is the third-largest export partner for U.S. goods and is the U.S.’s largest partner in terms of imported goods. This remains the case today, despite the focus of the previous Donald Trump administration on the U.S.’s trade deficit with China and attempts to implement trade practices considered to be unfair to China (Yang and Qu, 2020).

### 3.2. The United States-China Trade War at a Glance

The current trade war between the United States and China began in July 2018 when the U.S. imposed a tariff of 25 percent on U.S. trade with China, equivalent to approximately US$34 billion (CNBC, 15th June 2018). In response, China retaliated and increased the import tariffs on U.S. products by 25 percent (Reuters, 6th May 2019) (see Figure 2). The Trump administration hoped their new tariff on Chinese imports would increase the price of Chinese products in the American market, inspiring consumers to choose local American products for their cheaper price (Sheng et al., 2019). As the United States sees international trade as a zero-sum game, a trade deficit is seen as a loss that must be fixed. In the end, the United States believes that such an increase in tariffs can fix a trade deficit with China (Moosa et al., 2020).
Figure 2 The United States and China Trade Tariffs Increase

Source: Nicita (2019).

Many scholars believe that its trade deficit with China is one of the issues that prompted the United States to start this trade war (Chong and Li, 2019; Pangestu, 2019). The U.S. administration under Trump believed that this trade deficit would cause a reduction in the number of jobs in the country (Sheng et al., 2019). In addition, the U.S considered China to be using illegal and unfair trade practices to acquire U.S. technology; they believed that China was trying to weaken U.S. national security and its international status (Liu and Woo, 2018). China was also considered by the U.S. to have failed in protecting intellectual property rights (Lai, 2019). However, others argue that imposing tariff barriers will not solve the U.S.’s problems (Guo et al., 2018; Krugman, 2016). Such change requires deep structural reforms and large new investments that would make the U.S. economy dynamic and its workers competitive again (McCormack and Novello, 2020; Moosa et al., 2020).
The current trade war between the U.S. and China affects not only the two states’ economies but also those of other states, such as the European Union, member states of the Association of Southeast Asian Nations (ASEAN), South Korea, Japan, and Taiwan (Chong and Li, 2019). The U.S.-China trade war is thus affecting the global economy and is considered to be hampering global economic activity and trade as a whole (Iqbal et al., 2019).

According to the World Economic Outlook report released by the International Monetary Fund (IMF) in April 2019, the forecast for global economic growth in 2019 was 3.3 percent. However, with the implementation of U.S. trade tariffs on China and vice versa, the IMF lowered the estimated global economic growth to 3 percent (IMF, 2019). In fact, global economic growth in 2019 reached just 2.3 percent, the lowest figure since 2008 (UNCTAD, 2020). This shows that the trade war between the U.S. and China has affected the global economy and slowed its growth.

3.3. Trade war as a Sign of Power Transition

According to power transition theory, war is possible if competing countries have similar political, economic, and military capabilities (Organski and Kugler, 1980). These relatively equal capabilities can also be referred to as power parity, which is an important aspect that determines the conditions during power transition (Zhu, 2006). The United States and China are the world’s two largest economies. U.S. GDP grew from US$19.485 trillion in 2017 to US$20.529 trillion in 2018, while China’s GDP grew from US$12.31 trillion to US$13.895 trillion over the same period (World Bank, 2021). This shows that the two countries are approaching power parity (see Figure 3).
A hegemonic war is a war to determine which country will become the dominant state to control the system (Gilpin, 1983). This potential for this type of war between China and the U.S. is not only driven by power parity, but also driven by the fact that China is a state that belongs to the second type of national characteristics; that is, the powerful and dissatisfied (Feng, 2009). According to the power transition theory, if rising power identifies with this type, then transition is most likely through war. Meanwhile, if the rising power comes from a state that can be identified as the powerful and the satisfied, the power transition period is more likely to be peaceful (Organski, 1958).

As mentioned before, China started its economic reforms in 1978 under Deng Xiaoping. This wide-reaching financial reform means that
China is currently experiencing a significant economic rise, with its economy growing by an average of 9.5 percent per year (Morrison, 2014). In this period of reform and industrialization, China is seen to be integrated into the current liberal international order by joining several international organizations, such as WTO and the UN. However, in the integration process, China often encounters problems with other states due to differences in common international values, rules, and norms with the country’s internal domestic (Weinhardt and ten Brink, 2020). This leaves China involved in violations of international rules and contestation influenced by its domestic preferences. Weinhardt and ten Brink (2020) explained that two types of contestation are faced by China: frame contestation (rules validity contestation) and claim contestation (action contestation; rules violation).

In economic sectors dominated by state owned companies, such as steel, China tends to break the rules and even question the rules’ validity. In the steel sector, for example, China is involved in both frame contestation and claim contestation because this sector is a crucial one directly dominated by the state. Thus, it will be impossible for China to pressure this sector to fully conform to WTO rules because they contradict its domestic rules and preferences (ibid.).

In sectors that are quite important to the country but are not directly dominated by the government, such as agriculture, China tends to bend the rules to argue that they are not a developed country but a developing country. China is involved in claim contestation in the agricultural sector because it considers agriculture alleviates poverty for small-scale farmers in areas that are not economically competitive, thus increasing development indicators. China claims that the existing rules are too focused on developed countries, so, according to China, they are allowed to bend the rules to make them more suitable for developing countries, including themselves (ibid.).
In a competitive sector like information and technology (IT), China tends to comply fully with international rules (Yang and Qu, 2020). By complying, China will become more developed in this sector and obtain more opportunities and profits in the international market (Weinhardt and ten Brink, 2020).

With its growing economic might, China appears to have motivations to replace the U.S. as a global hegemon. China’s actions relating to international trade signal its dissatisfaction with the current international order, where China calls into question the order’s validity in several sectors, in line with their domestic preferences.

China’s motivation to replace the U.S. are reflected in its global initiatives, notably the Belt and Road Initiative (BRI). BRI is a Chinese-led initiative to promote connectivity and strengthen partnerships in Asia, Europe, and Africa. China is trying to build infrastructure to connect countries in the world through sea and land routes and increase trade traffic. Through this initiative, China argues that it seeks to build shared interest and responsibility communities and promote cooperation in all fields. China claims that BRI promotes mutual trust in politics, economic integration, and cultural inclusiveness among the countries that are members (State Council, PRC, 2015).

The giant BRI initiative is seen as Chinese statecraft that will help it to achieve its goals of expanding its global influence on politics and economy. At least two thirds of all countries or around 139 countries in the world have joined this initiative (Sacks, 2021). China is also investing in port development to support its objective to deepen trade links with the world (Chatzky and McBride, 2020). However, despite benefits such as improved infrastructure that can increase the rate of global trade, the drawbacks of BRI could also be dangerous. For example, China provides low-interest loans to states involved, and ultimately these loans can leave countries deep in debt. In some cases,
China even requires the countries involved to use the services of Chinese companies on local infrastructure initiatives instead of local companies (ibid.).

China’s second global initiative is known as the Made in China 2025 Strategic Plan. In this plan, China aims that by 2025, they will have 70 percent self-sufficiency in the high-tech industry (ibid.). It will no longer depend on other countries’ technology and will even be able to promote Chinese high-tech producers in the global market. The aim is to increase the productivity and efficiency of China’s industries, in turn boosting China’s industries further and improving their economic competitiveness (Sutter, 2020). The strategic plan, which inspired by Germany’s industrial 4.0 development plan, aims to catch China up with the technological capabilities of the West and perhaps even to surpass the capabilities of Western countries. However, the Chinese government later re-framed the Made in China 2025 Strategic Plan as an aspirational and unofficial one, following significant attention from leaders of Western states, who judged the plan as demonstrating China’s ambition to become a global leader (McBride and Chatzky, 2020).

In the military sector, China is also trying to increase its defense power through various efforts. China initiated a project entitled Civil Military Integration (CMI), intending to harmonize its civil and defense technology development to achieve efficiency, innovation, and growth. In addition, China has strengthened the People’s Liberation Army (PLA) through an array of training and evaluation programs (Office of the Secretary of Defense, US, 2020). China is also noted to have increased its defense budget to maximize and accelerate the development of its military capabilities, including an increase in ownership of fighter jets, aircraft carriers, and anti-satellite missiles, leading China to become the country with the world’s second-largest defense budget, behind the United States (Funairole et al., 2021).
Once a hegemon faces a rising power, the hegemon may initiate a hegemonic war as a method of prevention, before the rising power becomes too strong to contain (Organski, 1958). By imposing tariffs on its trade with China, we can see that the United States has chosen to indirectly influence China in order to delay China’s industrialization and economic rise. These tariffs have brought the two states into a trade war. In this context, the hegemonic war is being carried out not conventionally with military warfare, but with a trade war. The United States is trying to restore its competitive advantage by trying to hold back the pace of China’s economic growth, which, if left unchecked, is likely to threaten the U.S.’s position and international status as a global leader. The Trump administration also explicitly stated it believes that the Made in China 2025 Strategic Plan is a plan that will harm companies from not just the United States but from around the world (The Guardian, 4th April 2018).

For the United States, imposing tariffs on trade with China was justified by argument that the U.S. was attempting their trade deficit. Moreover, the United States considered that China was using illegal and unfair trade practices to acquire U.S. technology and was failing to protect intellectual property rights, in addition to attempting to weaken U.S. national security and international status (Lai, 2019; Liu and Woo, 2018). For example, China was seen to conduct unfair trade practices by providing subsidies to Chinese companies to sell commodities at lower prices. Thus, besides aiming to fix U.S. trade deficit, this measure was also seen as a financial ‘fine’ for China. On the other hand, through the lens of the power transition theory, increased tariffs can also be seen as a preventive measure that the United States considers capable of containing China’s economic rise and increased influence.
The current U.S.-China trade war indicates that the world is potentially in a not-peaceful power transition. The United States as a hegemon feels the need to implement a preventive war (in this case, a trade war in the form of increasing tariffs on China’s products) so that China’s economic growth can be limited. However, this action is a measure of protectionism that violates the WTO rules (*CNBC*, 15th September 2020). As a rising power and the world’s second-largest economy, China feels capable of fighting back against the U.S. by increasing tariffs for American products. This reciprocal action occurred in several rounds, until finally, the two states were involved in a trade war that has had far-reaching effects on the global economy as a whole.

As can be seen from World Bank data, global economic growth in 2019 only reached 2.6 percent, the lowest figure since 2008, despite projections of 3.3 percent (World Bank, 2019). This decline in the global economic growth rate has the potential to significantly disrupt global financial stability. In fact, global economic stability is one of the international public goods that the United States as a hegemon should fulfill.

The United States claims that the cheap Chinese products and its trade deficit with China are hurting local firms and causing reduced employment opportunities in the U.S. The U.S. argument is that an increase in price will cause a drop in consumer interest in Chinese-made products, instead causing them to turn towards local products. Thus, this policy is also seen as a protectionist measure by the United States for their local companies and workers.

The introduction of higher tariffs by the U.S. was followed by its withdrawal from several international agreements and organizations, such as the Trans Pacific Partnership (TPP), the Iran Nuclear Deal, the Paris Agreement, the U.N. Educational, Scientific and Cultural
Organization (UNESCO), and the U.N. Human Rights Council (Narine, 2018; Wolfe, 2018; Zhang et al., 2017). The Trump administration saw these schemes as detrimental to the U.S. because many countries became ‘free riders’, even though these international schemes are formed based on liberal values, which the U.S. tends to promote globally (Karim, 2020).

The United States’ withdrawal from various international organizations and agreements illustrates its reluctance to provide international public goods as the hegemon. According to Ikenberry and Nexon (2019), to create stability, the international system needs a country that is willing and able to act as a quasi-international government and provides public goods for the international community by mobilizing their resources, both economic and military. Through this explanation, it can be concluded that a hegemon must be willing to make sacrifices to mobilize its resources to create public goods and create international stability. The trade war started by the U.S. has the potential to disrupt one of these public goods – global economic stability – because of the trade war’s extremely broad impact on the decline in global economic growth as a whole.

The United States has thus abandoned its role as the provider of public goods and has turned into a consumer of public goods (Zhang et al., 2017). International organizations and agreements can facilitate cooperation between countries to produce public goods in international policies. Collaboration between countries can also create complex interdependence between countries that are needed to maintain international peace, security, and stability, which are also a part of international public goods. In the context of international trade, the United States’ withdrawal from the TPP can be seen as a decrease in their commitment to promoting free trade in the international system. According to the United States, the TPP did not benefit them; in fact, it
caused losses (Narine, 2018). With this, it can be seen that the U.S., as a hegemon, refuses to devote its resources to providing international public goods to create free trade. This decline in the United States’ role can ultimately be seen as a decline in US global hegemony.

China has so far responded to the decline in U.S. hegemony by using its poistition as a rising power and taking an active role in the international system. In the United Nations Human Rights Council, which under Trump was abandoned by the U.S., China seemingly took an important role in promoting human rights, which are one of the essential values of the liberal world order (Cooley and Nexon, 2020). In addition, China has shown its significant influence in the international health sector by becoming a provider of health goods for other countries while facing the COVID-19 pandemic. This contrasts with the United States’ decision to cut off funding to the World Health Organization (WHO) because the US considers China to have dominant influence over the organization (The BMJ, 1st June 2020).

The decline in U.S. hegemony and China’s increasing role shows that the world is indeed in a power transition period, though the United States itself has tried to maintain its position as a global leader by attempting to suppress China’s rise through the implementation of a trade war. By understanding the conditions explained above, we can see that the international system’s power transition is inevitable. As a rising power, China seeks to be in the dominant position in the system, which can be seen in their global initiatives. The United States, as the current hegemon, tries to hold China’s economic rise by imposing tariffs on its trade with China before China gets too strong to contain. This later became a trade war. In addition, the fact that the United States’ global influence is declining while that of China is increasing, further triggers the power transition.
4. Conclusion

This paper has shown how the current trade war between the United States and China can be seen as a form of power transition in the international system. In accordance with power transition theory, China’s rise began with its internal transition through economic reforms and industrialization, which took China from a developing country to become the world’s second-largest economy. This economic rise led to China almost achieving power parity with the U.S., making China a challenger for the position of global hegemon. In addition, power transition theory explains that stability can be obtained if there is a dominant state in the system, which is willing and able to use its resources to create international public goods. The growing reluctance of the United States to provide international public goods shows signs of diminishing U.S. hegemony. At the same time, as a rising power, China has shown its increasingly significant global influence and its role in creating international public goods. This can be interpreted as China’s aspiration to replace the U.S. as hegemon.

Seeing China as a potential threat in taking its position as a global leader, the United States implemented trade barriers by increasing tariffs on Chinese-made goods. The U.S. hopes this tariff increase will reduce China’s economic rise, given that it will affect China’s income from exports to the United States. In other words, these tariffs are preventive measures from the U.S. to suppress China’s economic rise before China becomes too strong. As a rising power, China feels capable of retaliating, so China has since applied tariffs in return on U.S. products. These repeated increases have ultimately placed the two states into a trade war, impacting the global economy.

According to the power transition theory, the transition of power can take place both peacefully and war-ridden. However, looking at the United States and China’s conditions with their strength approaching
power parity, this power transition appears to be occurring in line with the definition of a hegemonic war. This theory explains that a war during in a power transition will most likely occur if the challenger is a country that is “powerful and dissatisfied”.

The U.S.-China trade war is thus a tangible form of the power transition process in the international order. It shows that even though the United States rejects China’s rise, indications of a power transition have already occurred, with the trade war being the most obvious indication. Through a trade war, the United States is preventing China from replacing them as the hegemon in the system, yet at the same time, the U.S. is showing signs of hegemonic decline.

However, as the trade war is still ongoing, the power transition period’s result cannot be analyzed in this paper. Whether China as a rising power replaces the U.S. as a hegemon, or the U.S. remains a hegemon, is not provided in this research. Therefore, future research will be needed to complete this analysis of the U.S.-China trade war through the lens of power transition theory.

Notes

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China’s Investments in Africa: Does Investment Facilitation in Africa Matter?

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Abstract

China, through its open policy, has enhanced its cooperation with Africa through outward foreign direct investment (OFDI) in the region’s production capacity. Though China’s investment prospects in Africa remain vast and diversified, the continent constitutes a small share of the stock of Chinese global OFDI. There is a dearth of research on the relationship between the level of African investment facilitation and the scale of China’s investments in the continent. The paper provides a comprehensive measurement of investment facilitation in 19 African countries spanning the 2010 to 2017 period using the entropy weight method. The expanded investment gravity model analyzes the impact of African investment facilitation on China’s OFDI in the continent. Investment facilitation levels of most African countries are found to be relatively low, except for South Africa and Morocco. The empirical results support a significant and positive impact of investment facilitation in Africa on China’s OFDI. From a disaggregated investment facilitation perspective, the application of information technology is found to be significant for aiding China’s investments in Africa.
Keywords: outward foreign direct investment, investment facilitation, entropy weight method, gravity model, China, Africa

1. Introduction

In 2000, the China-Africa long history of economic relations reached a milestone with the establishment of the Forum on China-Africa Cooperation (FOCAC). In 2006, the Chinese government published relevant documents to clarify its principles and position in the continent. After that, China provided many preferential loans and credits and established the China-Africa Development Fund to further its investments in the continent. The 2013 “Belt and Road Initiative” (BRI) promotes further outward foreign direct investment (OFDI) to developing countries like Africa. Africa, a participant of the BRI and a region rich in natural resources and mineral reserves, is an important strategic partner for China that wants to address its resource gap to meet its development needs. Africa, in turn, has been actively courting partnerships through foreign capital inflows to overcome its slow economic development and address its development funding gaps.

Before the “going out” policy in 2002, China only provided economic assistance for construction projects in Africa. China gradually changed from restricting OFDI activities to allowing powerful state-owned enterprises (SOEs) and private enterprises to invest abroad. Between 2010 and 2019, China’s OFDI flows in Africa grew at an average of 13.1 per cent and reached USD2.7 billion (USD44.4 billion in terms of OFDI stock), or 2.6 per cent of China's total OFDI flow (2.0 per cent of China’s total OFDI stock) (see Figure 1). In 2019, China’s OFDI stock in Africa was distributed to construction (30.6 per cent), followed by mining (24.8 per cent), manufacturing (12.6 per cent), financial services (11.8 per cent) and leasing and business services (5.6 per cent)
(MOFCOM, 2020). Africa’s strong demand for infrastructure (covering railways, highways, telecommunications, power stations, and other critical public utilities) investments for its large-scale construction and mining projects mainly attracted China’s SOEs.

**Figure 1** China: OFDI Flow and Stock in Africa, 2010-2019 (USD million)

Note: Flow is reflected by the left axis, while the stock is depicted by the right axis.

China’s OFDI to Africa is not only diversified in terms of sector, but also location (country). The coverage rate of China’s direct investments in Africa is as high as 87 per cent (52 countries), higher than the global coverage rate of 80 percent. It includes not only middle and high-income countries in the continent such as South Africa, the largest recipient of Chinese capital (see Figure 2; 31.8 per cent of China’s total FDI stock in Africa in 2010 and 13.9 per cent of China’s total OFDI stock in Africa in 2019), but also low-income countries such as
Zimbabwe (a non-traditional recipient of Chinese OFDI), as investments by the Chinese small and medium-sized enterprises (SMEs) in Africa are motivated by the unique small-scale technical advantages in the African market. The top ten recipients of China’s capital stock in Figure 2 accounted for approximately 76.1 per cent and 65.9 per cent of China’s OFDI stock in Africa in 2010 and 2019, respectively.

Despite the diversification of Chinese OFDI in Africa, the Continent only made up less than three per cent of China’s global OFDI flows and stock (MOFCOM, 2019), while China accounted for approximately five per cent of global OFDI in Africa. China's investment prospects in Africa therefore remain vast. According to Zhang (2013) and Zhang and Daly (2011), improving investment facilitation in Africa can further unleash China’s investment potential in Africa, optimize its own industrial structure and resolve excess capacity. Investment facilitation in the Continent becomes even more important for attracting capital inflows given the unstable political and economic environment in some parts of Africa. Investment facilitation in this context refers to infrastructure quality, business environment, financial convenience, investors’ protection, and other factors that minimize the costs of investing.

The existing research on China's OFDI in Africa is relatively abundant, but there is a lack of research on the relationship between the level of African investment facilitation and the scale of China’s investments in Africa (see also Chen et al., 2020). Previous studies on China’s OFDI focused on its motivations for investing globally (Deng, 2004; Gu, 2009; Drogendijk and Blomkvist, 2013; Huang, 2016), the influencing factors of China’s investments in Africa (Chen et al., 2018), the location choices of Chinese companies when making direct investment decisions in Africa, the modes of Chinese capital and the effects of China’s OFDI on Africa. Only a few studies
**Figure 2** Top 10 African Recipients of Chinese OFDI Stock (%), 2010 and 2019

(Cheung and Qian, 2009; Kaplinsky and Morris, 2009; Cui and Huang, 2016; Zhang, 2016a; Qiao, 2017) directly addressed the issue of investment facilitation in African countries.

In that context, singular issue of investment facilitation in Africa becomes necessary, particularly understanding the types of investment facilitation that matter for China. The paper provides answers to the following questions: How has the investment facilitation in Africa (the host country) affected China’s OFDI? Which type of investment facilitation in the Continent matters for China?

The paper proceeds as follow. Section 2 defines investment facilitation and the theoretical links between investment facilitation initiatives and FDI. Section 3 describes the construction of the investment facilitation index, the empirical specification of the investment gravity model and the data. Section 4 compares the computed investment facilitation indices across the African countries and discusses the empirical findings on the impact of investment facilitation on China’s OFDI in Africa. Section 5 concludes.

2. Theoretical Exposition: Investment Facilitation and FDI

Investment facilitation (not to be confused with investment promotion, though both activities are closely linked) involves a government’s approach in making it easier for investors to establish or expand their investments, as well as to conduct their day-to-day business. It includes the following: stable investment environment; best investor protection standard; prompt and fair solution to investment disputes; transparent and sound administrative procedures; good governance; quality infrastructure; high standard business services; and sound property rights protection (APEC, 2008). Though there is no international standard for
the concept of investment facilitation (Chen et al., 2020), transparency, efficiency, and predictability are the main principles of investment convenience (UNCTAD, 2016; WTO, 2017). This provides the current definition in use.

Hees et al. (2017) argued that investment facilitation should include market access, investment protection and integrated services, while Hees et al. (2018) forwarded that the focus should be on improving the investment environment, supervision platform and system, and simplifying procedures. Mann and Brauch (2019) concluded that investment facilitation is complex and covers many aspects since investment is a continuous process that involves a series of laws and is subject to investment behaviours. In advancing the notion of investment facilitation from the host country perspective, Zheng (2019) divided facilitation measures into pre-investment, mid-investment, and post-investment. For example, investments are negatively affected when there is no transparency of regulations and if investment approvals and access procedures are complex in the host country (Badinger, 2008). Facilitation measures are also important as they provide firms with the after-care support for retaining investments.

While elements of investment facilitation are emerging as a hot topic in the international development literature, theories on investment determinants, comparatively, have a rather long history. The investment-induced factor combination theory (Fisher, 1952) combines direct and indirect factors affecting OFDI behaviour. The direct inducing factors in host countries comprise productive factors, such as labour, capital, and resources. Indirect inducing factors for OFDI refer to factors other than direct inducing factors, which include the following two aspects: First, the host country’s factors affecting FDI, including the host country’s political environment, infrastructure, business environment and financial services. Second, global factors affecting OFDI, such as regional
economic integration and technological revolution. The investment factor-induced portfolio theory instead focuses on the impact of indirect factors on OFDI and the role of host countries and the international environment in directing FDI decisions. According to the theory of investment-induced factor combination, the host country's infrastructure, information technology (IT), financial service efficiency and business investment environment are direct inducing factors, while institutional supply quality facilitation is an indirect inducing factor (see Pradhan, 2004).

The Coase theorem (Coase, 1937), grounded on the concept of transaction costs, alludes to the same factors of the theory of the investment-induced factor to explain their links with transaction costs. Infrastructure influences international investment transfer costs through the construction of an adequate transportation system, while the widespread use of IT reduces the costs of information gathering and communication transactions. A conducive business investment environment reduces the approval process time for investments and encourages entrepreneurship, while the rules on corporate investment and market openness impact creation costs of MNCs. The efficiency of financial services dictates capital market financing capacity and the overall convenience of its services and the quality of institutional supply is important for intellectual property protection and investor protection.

The theory of small-scale technology, proposed by Wells (1977), combines the market characteristics of developing countries with competitive advantages (namely small scale technical advantages of higher flexibility and lower technology costs) to analyze the OFDI behaviour of developing countries. Dunning (1977), in turn, introduced the concept of location advantage when examining MNC investment behaviour. The so-called location advantage refers to the advantages that the host country has over the home country, that are, the host country’s
good geographical location, natural resources, markets, production factors, infrastructure, laws and regulations and cultural history.

Considering some of the investment determinants, scholars examining China’s OFDI (Chen et al., 2020; Cui and Huang, 2016; Qiao, 2017), more specifically, chose various indicators to evaluate the impact of investment facilitation. The common indicators used are infrastructure, business environment, IT, financial services, and institutional supply.

Salidjanova (2011) and Wang et al. (2012) analyzed the determinants of China’s investment from the perspectives of institution, industrial organization, and resources. The study found that government support and the home country’s institutional structure play an important role in directing OFDI. Zhang and Daly (2011) instead believed that bilateral and multilateral trade relations, market size and resource endowment have a significant impact on China’s OFDI. Hu and Li (2008) when comparing China’s OFDI in different countries, found that the advantages of developed countries in attracting direct investments from Chinese enterprises lie in their high scientific research ability and technical level, good political system, and sound infrastructure, but fierce market competition and high labour costs hindered Chinese enterprises from making much progress in those countries. In contrast, Chinese enterprises prefer to invest in developing countries given their cheap labour and abundant natural resources.

Alternatively, Lu and Yan (2011) found that China not only considers the natural resource endowment of the host country but also focuses on the difficulty of acquiring the natural resources of the host country. Generally, it is more difficult to obtain natural resources in countries with higher political risks. Therefore, China prefers to obtain natural resources from countries with relatively low political risks. Kolstad and Wiig (2012) disagreed as they showed that China is more
likely to invest in countries with rich natural resources but poor political systems (see also Buckley et al., 2009; Chen et al., 2018). Additionally, Ramasamy et al. (2012) found that apart from resource abundance, wages and market size of host countries significantly influence China’s OFDI.

Gani (2007), Wang and Xiang (2015) and Kurul and Yalta (2017) highlighted the importance of the host country’s supply system (or institutional factors) for China’s OFDI. Wang and Xiang (2015) argued that if the FDI motive is resource seeking, the quality of the supply system in the host country matters relative to the case of technology seeking FDI. Contrary to the institutional setup in the host country, some studies indicated that China's OFDI is also shaped by the home government support and institutional advantages.

Different methodological approaches were adopted for analyzing the effects of investment facilitation on China’s OFDI. Used the dynamic generalized method of moments (GMM), Berger et al. (2013) emphasized the importance of the host country’s investment environment for foreign investment inflows for selected 28 countries based on 28-year foreign investment flow data. Zhang (2016a; 2016b) used the mean principal component analysis method and an expanded gravity model to establish five first level and 24 second level index systems of infrastructure, business environment, IT, financial services, and institutional supply, and measured the investment facilitation degree of 50 countries impact on China’s OFDI. The findings, however, have been, at best, mixed.
3. Model Specification

For estimating the impact of investment facilitation on China’s OFDI in Africa, an evaluation system of investment facilitation is constructed. Then, investment facilitation is employed as a core argument in the extended gravity model of investment.

3.1. Construction of Investment Facilitation Evaluation System

Since there is no precise definition of investment facilitation, based on data availability and quantifiability, and an integrative study of evaluation index system proposed by previous studies (Chen et al., 2020; Cui and Huang, 2016; Zhang, 2016a; 2016b; and Qiao, 2017), the paper applies five typical measures or primary indicators of investment facilitation that cover the micro, meso and macro levels (see Chen et al., 2020). The micro-level involves the establishment of a foreign-funded enterprise, the meso-level refers to the overall investment market environment of an industry, and the macro-level considers the overall economic status, credit situation, and access rules for foreign investment in a country. The primary indicators are infrastructure quality (IQ), business investment environment (BIE), IT application (ITA), financial service efficiency (FSE) and the system supply quality (SSQ) (see also Chen et al., 2020) (see Table 1). IQ measures the country’s efficiency in transport (land, sea, and air) and utilities. BIE measures conducive investment conditions based on competitive goods and labour markets. ITA measures the country attraction advantages for technological adoption (including talent availability). FSE measures the funding conditions for FDI. SSQ measures the strength (efficiency and accountability) of institutional quality for FDI.
### Table 1 Investment Facilitation Evaluation System

<table>
<thead>
<tr>
<th>Primary indicators</th>
<th>Secondary indicators</th>
<th>Score</th>
<th>Attribute</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure Quality (IQ)</strong></td>
<td>2nd Pillar: Infrastructure</td>
<td>(2.02) Quality of roads</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.03) Quality of railroad infrastructure</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.04) Quality of port infrastructure</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.05) Quality of air transport infrastructure</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.07) Quality of electricity supply</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td><strong>Business Investment Environment (BIE)</strong></td>
<td>6th Pillar: Goods Market Efficiency</td>
<td>(6.06) Number of procedures to start a business</td>
<td>0-100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(6.07) Number of days to start a business</td>
<td>0-200</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(6.12) Business impact of rules on FDI</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td><strong>Information Technology Application (ITA)</strong></td>
<td>7th Pillar: Labour Market Efficiency</td>
<td>(7.02) Flexibility of wage determination</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td><strong>Financial Service Efficiency (FSE)</strong></td>
<td>9th Pillar: Technological Readiness</td>
<td>(9.01) Availability of latest technologies</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9.02) Firm-level technology absorption</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9.04) Internet users</td>
<td>0-100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12th pillar: Innovation</td>
<td>12th pillar: Innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(12.06) Availability of scientists and engineers</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td><strong>System supply quality (SSQ)</strong></td>
<td>8th Pillar: Financial Market Development</td>
<td>(8.01) Availability of financial services</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8.02) Affordability of financial services</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8.03) Financing through local equity market</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8.04) Ease of access to loans</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8.05) Venture capital availability</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st Pillar: Institutions</td>
<td>1st Pillar: Institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.02) Intellectual property protection</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.10) Efficiency of legal framework in settling disputes</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.12) Transparency of government policymaking</td>
<td>1-7 (best)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.21) Strength of investor protection</td>
<td>1-7 (best)</td>
</tr>
</tbody>
</table>

Note: The indicators are sourced from the GCR.
The five primary indicators contain information from 22 secondary (corresponding) indicators, which are sourced from seven out of the 12 pillars of the Global Competitiveness Report (GCR), published by the World Economic Forum (WEF). They include indicators from the following pillars: 1st pillar (Institutions – one indicator of property rights, two indicators of government efficiency and one indicator of accountability), 2nd pillar (Infrastructure – four indicators of transport infrastructure and one indicator of electricity infrastructure), 6th pillar (Goods Market Efficiency – two indicators of domestic competition and one indicator of foreign competition), 7th pillar (Labour Market Efficiency – one indicator of labour market flexibility), 8th pillar (Financial Market Development – five indicators of financial market efficiency), 9th pillar (Technological Readiness – three indicators of technological adoption) and 12th pillar (Innovation – one indicator of ICT use). The selection of the secondary indicators from the relevant pillars of the GCR for the construction of investment facilitation is based on previous related studies. The scoring range of the secondary indicators is 1-7, 0-100 and 0-200.

The entropy weight method (EWM) is employed to compute the composite index on investment facilitation in the host (African) countries. The EWM is an objective weighting method that can calculate the weight of each indicator and provide a basis for comprehensive evaluation of multi-indicators. That is, the weights for the primary indicators are assigned according to the importance of the information in the secondary indicators to obtain the total evaluation index. According to the characteristics of entropy, the randomness and disorder degree of an event can be judged by calculating the entropy value, or the dispersion degree of an indicator can be judged by using the entropy value. When the entropy value is smaller, the degree of dispersion of the
indicator is greater, and greater is the influence of the indicator on the comprehensive evaluation.

The computation of the investment facilitation index involves the following steps. First, to eliminate the influence of the dimensions of the basic index and the size of its own variation, the inverse index of the five primary indicators is taken to obtain the standard value. Second, according to the definition of the EWM, the weights of various secondary indicators (22 indicators) of the five primary indicators (see Table 1) are calculated using the entropy value method, and then weighted to obtain a comprehensive score level of five primary indicators (sub-indices) representing the different types of investment facilitation. Finally, the composite index of investment facilitation, the average of the five sub-indices, are computed. It is calculated as follows:

\[ y_{ij} = \frac{x_{ij}}{x_{ij \text{max}}} \]

where \( y_{ij} \) represents standardized data, \( x_{ij} \) is the original data and \( x_{ij \text{max}} \) is the maximum value that the original data can take. The \( y_{ij} \) value range is \((0, 1)\). It is on this basis that the scores of the investment facilitation levels of the 19 African countries are determined for the study. (The details of the index weight analysis computed for each country are detailed in the Data Appendix).

3.2. Gravity Model of Investment

The gravity model is applied to analyze China’s bilateral OFDI in Africa (see also Hejazi, 2005; Zhang 2016a; 2016b) in a panel framework. The empirical specification is given below:

\[
\ln OFDI_{ijt} = \beta_0 + \beta_1 \ln GDP_{it} + \beta_2 \ln GDP_{jt} + \beta_3 \ln DIS_{ij} + \beta_4 \ln LAB_{jt} + \beta_5 \ln RES_{jt} + \beta_6 \ln TE_{jt} + \beta_7 \ln IFI_{jt} + \beta_8 \ln POL_{jt} + \varepsilon_{ijt}
\]

(1)
where $i$, $j$ and $t$ represent the home country (China), host country (19 African countries) and time (year) respectively. $OFDI_{it}$ is the stock of China’s direct investments in the host country; $GDP_{it}$ and $GDP_{jt}$ are the GDPs of China and the host country respectively; $DIS_{ij}$ is the geographical distance between China and the host country; $LAB_{jt}$, $RES_{jt}$ and $TE_{jt}$ refer to total labour, natural resource endowment and technological endowment (capacity) of the host country respectively; $IFI_{jt}$ is the core explanatory variable, the investment facilitation level of the host country. The $IFI_{jt}$ in equation (1) is further disaggregated by types of investment facilitation. $IQ_{jt}$, $BIE_{jt}$, $ITA_{jt}$, $FSE_{jt}$ and $SSQ_{jt}$ are the five primary indicators of investment facilitation of the host country, which are, infrastructure quality, business investment environment, IT application, financial service efficiency and the system supply quality, respectively. $POL_{jt}$ takes the value of one the year the African country becomes a BRI participant. $\varepsilon_{ijt}$ represents the residual term of the equation.

From the home country perspective, OFDI is driven by its own market size ($GDP_j$) and its internal capabilities. The higher the GDP of the home country, the higher the capacity for OFDI (Dunning, 1977; Krugman, 1986). Alternatively, the location advantage applies to specific advantages, including market size of the host country ($GDP_j$). Krugman (1994) argued that when the OFDI is export-oriented, that is, the purpose of investment is to find cheap raw materials and labour, then market size of the host country may not be important for OFDI. When OFDI is market-oriented, the relationship between OFDI and the host market size (Sanfilippo, 2010; Claassen et al., 2012; Breivik, 2014; Mourao, 2018) becomes significant.

Apart from GDP, distance ($DIS_{ij}$) is another core argument of the gravity model. Firms seeking markets often choose to invest in geographically close countries. Geographical distance increases the
transportation and transaction costs, and therefore hinders capital outflows. A negative impact of geographical distance is therefore expected on China’s OFDI in Africa.

Resources are obviously important for attracting FDI. The abundant and cheap labour in Africa \((LAB_j)\) drives Chinese firms to invest in the Continent. Likewise, countries with natural resource \((RES_j)\) abundance can attract more FDI (Cheung et al., 2012). Resource-seeking (raw materials and energy resources) investment has been an important driver of Chinese investment in Africa (Sanfilippo, 2010; Claassen et al., 2012; Blomkvist and Drogendijk, 2013). Technological endowment (capacity for innovation, technology transfer and business sophistication) is essential for developing countries to retain FDI inflows, and for that reason developing countries court technology-seeking investment by encouraging MNCs to invest in their production capacity and form industrial clusters for technology transfer. Therefore, the technological endowment or capacity \((TE_j)\) of African countries becomes an important determinant for drawing investments from China.

The variable of interest, the investment facilitation index in Africa \((IFI_j)\), is expected to reduce the investment costs of China in the continent. Likewise, the dimensions of investment facilitation in Africa, better infrastructure quality \((IQ_j)\), conducive business investment environment \((BIE_j)\), applications of information technology \((ITA_j)\), efficiency of financial services \((FSE_j)\) and stable system supply \((SSQ_j)\), affect transaction costs and subsequently investments from China. \(IQ\), such as the transportation system, impacts the international investment transfer costs; \(BIE\), comprising the approval process and time required for investment and entrepreneurship, impacts FDI rules on corporate investment, market openness, and affects the creation costs of MNCs; \(ITA\) reduces the cost of information collection and communication transactions at the time of investment; \(FSE\) or the efficiency and
convenience of financial services reflects capital market financing capacity (Li, 2010; Dong, 2015); and SSQ, which includes protection of intellectual property rights, investor protection, and policy stability, affects the operating costs of enterprises.

### 3.3. Data Description

Based on data availability, 19 out of 52 African countries representing the sub-regions of Africa and 56.9 per cent (71.9 per cent) of China’s total OFDI stock in Africa in 2019 (2010), were chosen. They include Namibia, South Africa, Botswana, Algeria, Cameroon, Egypt, Ghana, Kenya, Morocco, Mauritania, Nigeria, Zambia, Ethiopia, Mali, Mozambique, Malawi, Senegal, Tanzania, and Uganda. According to the 2020 *Statistical Bulletin of China’s Outward Foreign Direct Investment* (MOFCOM, 2021), South Africa, Zambia, Ethiopia, Nigeria, Ghana, Algeria, and Kenya are among the top ten countries for China’s OFDI stock in 2019 (see Figure 2). The sample of countries, covering the five sub-regions (Northern, Eastern, Middle, Southern and Western) of Africa and including low income and middle-income (lower-middle and upper middle) countries, is considered a good representation of the major recipients of Chinese OFDI in the Continent.

The data spanning the 2010 to 2017 (latest data available from the GCR 2017/2018 at the time of study) period is compiled from different sources (see Table 2 for the definition of the variables). They include the National Bureau of Statistics of the Ministry of Commerce in China or MOFCOM, World Development Indicators (WDI) of the World Bank, CEPII database, UN Comtrade database, GCR and official website of China’s Belt and Road (https://www.yidaiyilu.gov.cn/). Table 3 provides the summary statistics of the balanced panel data of 152 observations (19 countries x 8 years).
### Table 2 Variables and Data

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Coefficient Estimate</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OFDI</strong>&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Stock of direct investments (cash, in-kind assets, intangible assets) by China’s residents/firms in Africa - includes establishing, participating in, merging, and acquiring enterprises in Africa, owning 10% or more of the enterprise's equity, and economic activities centered on owning or controlling the operation and management rights of the enterprise.</td>
<td>-</td>
<td>MOFCOM</td>
</tr>
<tr>
<td>GDP&lt;sub&gt;i&lt;/sub&gt;</td>
<td>GDP of home country, China (USD, constant 2010 = 100)</td>
<td>Positive</td>
<td>WDI</td>
</tr>
<tr>
<td>GDP&lt;sub&gt;j&lt;/sub&gt;</td>
<td>GDP of the host country (USD, constant 2010 = 100)</td>
<td>Positive</td>
<td>WDI</td>
</tr>
<tr>
<td>LAB&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Total labour force of the host country</td>
<td>Positive</td>
<td>WDI</td>
</tr>
<tr>
<td>DIS&lt;sub&gt;ij&lt;/sub&gt;</td>
<td>Geographical distance between China and the host country - measured as the bilateral distance (in kilometers) between the largest cities of the host and home countries, weighted by the share of the cities in the overall country's population.</td>
<td>Negative</td>
<td>CEPII</td>
</tr>
<tr>
<td>RES&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Natural resource endowment of the host country – share of agricultural raw material exports in total merchandise exports (%). [Used interchangeably with share of fuel exports in total merchandise exports (%), denoted as RESF&lt;sub&gt;j&lt;/sub&gt;].</td>
<td>Positive</td>
<td>WDI</td>
</tr>
<tr>
<td>TE&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Technological endowment or capacity of the host country (values range from 1-7 best) – capacity of companies to innovate (pillar 12.01). [Used interchangeably with level of business sophistication to assess how conducive firms are to innovation activity (11&lt;sup&gt;th&lt;/sup&gt; pillar), denoted as BS&lt;sub&gt;j&lt;/sub&gt;].</td>
<td>Positive</td>
<td>GCR</td>
</tr>
<tr>
<td>INF&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Investment facilitation index in the host country.</td>
<td>Positive</td>
<td>Computed based on the GCR</td>
</tr>
<tr>
<td>IQ&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Infrastructure quality in the host country.</td>
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<td></td>
</tr>
<tr>
<td>BIE&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Business investment environment in the host country.</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>ITA&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Information technology application in the host country.</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>FSE&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Financial services efficiency in the host country.</td>
<td>Positive</td>
<td></td>
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<tr>
<td>SSQ&lt;sub&gt;j&lt;/sub&gt;</td>
<td>System supply quality in the host country.</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>POL&lt;sub&gt;j&lt;/sub&gt;</td>
<td>Dummy variable to indicate BRI participant</td>
<td>Positive</td>
<td>China Belt and Road Official Website</td>
</tr>
</tbody>
</table>
Table 3 Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
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</thead>
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<td>lnOFDIji</td>
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<td>19.919</td>
<td>1.275</td>
<td>17.219</td>
<td>22.735</td>
</tr>
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<td>lnGDPI</td>
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<td>29.707</td>
<td>0.167</td>
<td>29.437</td>
<td>29.952</td>
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<td>lnGDPj</td>
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<td>24.398</td>
<td>1.243</td>
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<td>0.134</td>
<td>8.961</td>
<td>9.442</td>
</tr>
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<td>1.182</td>
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</tr>
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<td>RESj</td>
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<td>5.253</td>
<td>0.010</td>
<td>31.555</td>
</tr>
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<td>RESFj</td>
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<td>28.916</td>
<td>0.000</td>
<td>98.400</td>
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<tr>
<td>T Ej</td>
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<td>2.538</td>
<td>4.519</td>
</tr>
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<td>IF Ij</td>
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</tbody>
</table>

4. Results and Discussion

This section, first, reports the results and discusses the findings related to the investment facilitation levels and types of facilitation for the sample of African countries. Then follows the findings from the empirical estimates of the OFDI impacts of investment facilitation.

4.1. Results of Entropy Method

Table 4 presents the results, and the rankings of the investment facilitation levels for the 19 African countries for the 2010 to 2017 period. In terms of the time series characteristics, the level of investment
Table 4 Level of Investment Facilitation in African Countries, 2010-2017

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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<tr>
<td>Algeria</td>
<td>0.396</td>
<td>0.333</td>
<td>0.258</td>
<td>0.297</td>
<td>0.329</td>
<td>0.345</td>
<td>0.405</td>
<td>0.470</td>
<td>0.354</td>
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<tr>
<td>Botswana</td>
<td>0.526</td>
<td>0.507</td>
<td>0.507</td>
<td>0.487</td>
<td>0.452</td>
<td>0.440</td>
<td>0.536</td>
<td>0.563</td>
<td>0.502</td>
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<td>0.325</td>
<td>0.377</td>
<td>0.381</td>
<td>0.374</td>
<td>0.374</td>
<td>0.390</td>
<td>0.401</td>
<td>0.364</td>
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<tr>
<td>Egypt</td>
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<td>0.580</td>
<td>0.570</td>
<td>0.538</td>
<td>0.462</td>
<td>0.464</td>
<td>0.486</td>
<td>0.601</td>
<td>0.540</td>
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<td>Ethiopia</td>
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<td>0.350</td>
<td>0.340</td>
<td>0.336</td>
<td>0.322</td>
<td>0.379</td>
<td>0.456</td>
<td>0.402</td>
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<tr>
<td>Ghana</td>
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<td>0.504</td>
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<td>0.439</td>
<td>0.451</td>
<td>0.495</td>
<td>0.454</td>
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</tr>
<tr>
<td>Kenya</td>
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<td>0.552</td>
<td>0.560</td>
<td>0.567</td>
<td>0.613</td>
<td>0.606</td>
<td>0.639</td>
<td>0.628</td>
<td>0.580</td>
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<tr>
<td>Malawi</td>
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<td>0.358</td>
<td>0.344</td>
<td>0.341</td>
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<td>0.266</td>
<td>0.253</td>
<td>0.249</td>
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<tr>
<td>Mali</td>
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<td>0.346</td>
<td>0.404</td>
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<td>0.355</td>
<td>0.358</td>
<td>0.378</td>
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<tr>
<td>Mauritania</td>
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<td>0.227</td>
<td>0.323</td>
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<td>0.225</td>
<td>0.241</td>
<td>0.216</td>
<td>0.218</td>
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<td>Morocco</td>
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<td>0.663</td>
<td>0.709</td>
<td>0.704</td>
<td>0.714</td>
<td>0.698</td>
<td>0.703</td>
<td>0.730</td>
<td>0.691</td>
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<td>Mozambique</td>
<td>0.362</td>
<td>0.345</td>
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<td>0.328</td>
<td>0.322</td>
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<td>Namibia</td>
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<td>0.618</td>
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<td>Nigeria</td>
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<td>0.411</td>
<td>0.440</td>
<td>0.414</td>
<td>0.378</td>
<td>0.392</td>
<td>0.424</td>
<td>0.358</td>
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<td>Senegal</td>
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<td>0.420</td>
<td>0.422</td>
<td>0.442</td>
<td>0.474</td>
<td>0.491</td>
<td>0.503</td>
<td>0.526</td>
<td>0.462</td>
<td>7</td>
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<td>South Africa</td>
<td>0.671</td>
<td>0.690</td>
<td>0.734</td>
<td>0.790</td>
<td>0.785</td>
<td>0.759</td>
<td>0.798</td>
<td>0.707</td>
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<tr>
<td>Tanzania</td>
<td>0.340</td>
<td>0.370</td>
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<td>0.358</td>
<td>0.336</td>
<td>0.333</td>
<td>0.389</td>
<td>0.411</td>
<td>0.362</td>
<td>14</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.337</td>
<td>0.392</td>
<td>0.394</td>
<td>0.361</td>
<td>0.351</td>
<td>0.373</td>
<td>0.427</td>
<td>0.420</td>
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<td>Zambia</td>
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<td>0.467</td>
<td>0.474</td>
<td>0.452</td>
<td>0.432</td>
<td>0.453</td>
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</tr>
</tbody>
</table>

Average 0.427 0.437 0.449 0.447 0.437 0.438 0.464 0.470 - -

Note: The scores for investment facilitation levels range from 0 to 1, with 0 being the worst and 1 being the best. The mean refers to the average of the 2010 to 2017 period.

Source: Authors’ own computation.

facilitation for the sample of African countries, on average, has increased marginally from 0.43 in 2010 to 0.47 in 2017. The levels of investment facilitation in most African countries are found to be somewhat low (below 0.6), particularly in the low-income countries of the Continent, such as Malawi, Mozambique, and Mali. Based on the period average, Mauritania has the lowest level of investment facilitation over the period of review. Comparatively, South Africa, and Morocco, both of which are upper and lower middle-income countries respectively, are found to have relatively high levels, of investment facilitation (above 0.6). The levels of investment facilitation in Kenya

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and Namibia (both of which are also middle-income countries) have progressed over time and reached beyond 0.6 in 2014 and 2017, respectively. There is no clear pattern pertaining to the link between income group and the level of trade facilitation.

Table 5 reports the average scores for the 2017 to 2019 period and the rankings for the five primary indicators of investment facilitation. There are clear differences in the levels of investment facilitation between the African countries when the types of investment facilitation are considered. In the case of infrastructure quality, Namibia, South Africa, and Morocco are better off than the other countries, having recorded higher average scores. For business investment environment, the scores are generally low in Africa, with the highest recorded score of 0.98 for Morocco. Morocco, South Africa, Kenya, Egypt, and Nigeria have performed relatively better than the other African countries in the application of IT, while in the case of financial service efficiency South Africa, Kenya, Morocco, Botswana, Namibia, Egypt, and Ghana fared better with scores exceeding 0.1. Overall, the average scores for quality of system supply in African countries is the lowest compared with all other types of investment facilitation. All countries, except for South Africa, scored less than 0.1 for quality of system supply.

Worth mentioning here is that South Africa, the country that stands above the rest in terms of the level of trade facilitation (see Table 4) is also the largest recipient of Chinese OFDI stock in the Continent (see Figure 2). That said, South Africa’s ranks low (at 16th position) relative to the other African countries when it comes to BIE (see Table 5). The differences in overall investment facilitation levels and types of investment facilitation that vary across the 19 countries justify the empirical analysis of their impacts on China’s OFDI in Africa in the next section. The patterns of the scatter plots in Figure 3 further suggest a positive relationship between the IFI and the stock of OFDI.
Table 5 Investment Facilitation Scores and Ranking, by Types of Investment Facilitation

<table>
<thead>
<tr>
<th>Country</th>
<th>Infrastructure Quality</th>
<th>Business Investment Environment</th>
<th>Information Technology Application</th>
<th>Financial Service Efficiency</th>
<th>System Supply Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
<td>Score</td>
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<tr>
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<td>0.077</td>
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<td>Botswana</td>
<td>0.140</td>
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<td>0.081</td>
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<td>Zambia</td>
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<td>12</td>
<td>0.095</td>
<td>2</td>
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</tbody>
</table>

Notes: The scores for investment facilitation levels range from 0 to 1, with 0 being the worst and 1 being the best. Refers to the average of the 2010 to 2017 period.

Source: Authors’ own estimation.

Figure 3 Scatter Plot between InOFDI and IFI
4.2. Results of Investment Gravity Model

Before analyzing the results, several diagnostic tests are performed. The tests indicate no problem of cross-sectional dependence in the panels and no multicollinearity problem between variables. Table 6 presents the estimates of the investment gravity model. Based on the Hausman test, the random effects (RE) model is preferred over the fixed effects (FE) model for all cases; estimations based on the overall investment facilitation level [(columns (1) and (2)] and the different types of investment facilitation level [columns (3) to (7)]. Hence, the FE estimate is presented only for the case of the overall investment facilitation level \((\text{IFI}_j)\), for purposes of comparison with the RE estimate. For all estimations in Table 6, the Breusch–Pagan Lagrangian multiplier tests indicate that the RE model is more appropriate than the ordinary least squares (OLS or pooled model). Worth mentioning here is that the RE also has the advantage of not requiring the exclusion of the \(\text{DIS}_j\) variable that is time invariant. Time fixed effects are included in all estimations since the null that the coefficients for all years are jointly equal to zero is rejected.

The expansions of both China and the African partner market sizes have significant impacts on the former’s investments in the latter. The magnitude of the coefficient estimate is however larger for \(\text{GDP}_i\) relative to \(\text{GDP}_j\), that is a one per cent increase in China’s GDP increases its bilateral investments in Africa by 1.98 percent, relative to 0.76 per cent (comparable with the elasticity of 0.74 per cent; see Chen et al., 2018) for a one per cent increase in Africa’s GDP. Nevertheless, the significant impact of Africa’s GDP on China’s OFDI supports the Chinese motivation of seeking markets in the continent. The impact of geographical distance, the second core argument of the gravity model, on China’s investments in Africa is negative, albeit insignificant.
Table 6 Estimated Results of Panel Gravity Investment Model

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<td></td>
<td>FE</td>
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<td>RE</td>
<td>RE</td>
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<td>1.980***</td>
<td>2.684***</td>
<td>2.282***</td>
<td>2.245***</td>
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<td></td>
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<td>(0.426)</td>
<td>(0.287)</td>
<td>(0.500)</td>
<td>(0.383)</td>
<td>(0.343)</td>
<td>(0.323)</td>
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<td>0.720***</td>
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<td>0.767***</td>
<td>0.640***</td>
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<tr>
<td></td>
<td>(1.185)</td>
<td>(0.252)</td>
<td>(0.216)</td>
<td>(0.233)</td>
<td>(0.171)</td>
<td>(0.220)</td>
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<td>(1.563)</td>
<td>(1.186)</td>
<td>(1.561)</td>
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<td>(0.009)</td>
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<td></td>
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<td>(0.106)</td>
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<td>Prob &gt; χ² = 0.000</td>
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Notes: ***p < 0.01, **p < 0.05, *p < 0.10. IFI – investment facilitation level; FE – fixed effects; RE – random effects. The robust standard errors are reported in the parentheses.

*Contemporary Chinese Political Economy and Strategic Relations: An International Journal 7(1) ♦ 2021*
The abundance of the labour force and natural resource endowment in Africa do not seem to matter for China’s OFDI in that region. The impact of resource endowment on China’s investments in Africa is positive, albeit insignificant, contrary to the common perceptions about the significance of resource-seeking FDI (Biggeri and Sanfilippo, 2009; Breivik, 2014). This reflects that the purpose of China's investments in Africa is no longer all about natural resources, but that of seeking markets. Comparatively, there are only a few Chinese projects in natural resources, as China has diversified its investments in the continent mostly to services (wholesale and retail), with a significant number of projects in manufacturing. The finding of this paper concurs with Chen et al. (2018), as they concluded that the recent patterns of China’s investments in Africa seem to be profit-driven and therefore they are no longer radically different from FDI from other countries to Africa. Alternatively, the technological capacity (levels of innovative capacity) of Africa is found to be important for drawing Chinese OFDI to the continent.

The key variable of interest, investment facilitation in Africa, is positive and significant (albeit weak) for China’s investments in the region. A one unit increase in the investment facilitation level increases China’s direct investments in the continent by 2.08 (e^{0.731}). This corroborates the findings of Chen et al. (2020); for a one per cent increase in the investment facilitation levels of the host countries (BRI participants), the growth in the potential demand scale enables China’s OFDI flow to increase by 2.17 per cent.

Table 6 further reports the results of the RE model for the different types of investment facilitation levels (five primary indicators of investment facilitation). ITA, FSE and SSQ significantly increase China’s investments in Africa, albeit weak significance at 10 per cent for the latter two indicators. This suggests that with better technology adoption,
better funding conditions for FDI and stronger institutions in host countries, the lower the investment costs and the investment risks for China, and the higher the outflow of Chinese investments to Africa. The results suggest that the types of investment facilitation levels matter for attracting OFDI from China.

In terms of investment facilitation related to IT application, the results lend support to China’s recent penetration into the African development of ICTs, by investing in indigenous companies and digital infrastructure. In fact, China has emerged as the largest foreign ICT investor in Africa. It is therefore not surprising to note that technology adoption and absorption, which in turn reflect ICT maturity in the host country, are crucial for attracting Chinese OFDI, especially in its telecommunications sector.

The importance of the quality of the supply system (SSQ) relates to the findings by Chen et al. (2018) that good property rights and rule of law is the preference of Chinese FDI in Africa. It also lends support to several initiatives taken in Africa to provide greater transparency (see also Drabek and Payne, 2002; Lejarrage, 2017) and efficiency in public service, and thereby improve governance. Namely, the network of live open data platforms (ODPs) of the African Information Highway (AIH), linking the African countries and 16 regional organizations, has been implemented to improve data quality, management, and dissemination. Country-level improvements in supply systems (institutional quality) include the e-regulation system in Tanzania and Kenya, and the iGuide in Benin. These are online tools to help investors gain easy access to up-to-date information on investment-related procedures and reduce their cost of doing business.

Alternatively, the findings that infrastructure quality (IQ) and the business investment environment (BIE) do not significantly matter for OFDI from China to Africa contradicts previous works based on early
reflections of China’s FDI in Africa (Dong, 2015; Kumari and Sharma, 2017). Likewise, participation in the BRI does not significantly matter for OFDI flows from China.

To ensure the robustness of the regression results, we conducted additional tests (not reported here in want of space). First, the host country’s resource endowment, measured as the share of agricultural raw materials exports in total merchandise exports \((RES_j)\), was replaced with the share of fuel exports in total merchandise exports \((RESF_j)\). Second, the capacity of companies to innovate \((TE_j)\) was replaced with the level of business sophistication \((BS_j)\). Tables 2 and 3 provide the descriptions and the descriptive statistics of both variables, respectively. Despite the changes in the measures of natural resource endowment and technological adoption, the significance, and the signs of the core explanatory variables of investment facilitation levels \((IFI_j, IQ_j, BIE_j, ITA_j, FSE_j, SSQ_j)\) remained the same.

5. Conclusion

This paper constructs an investment facilitation levels for 19 African countries spanning the period 2010 to 2017. Then using the extended investment gravity model in a panel framework, this paper empirically examines the investment facilitation effects of Africa on OFDI from China.

The key findings are summarized herein. First, the overall investment facilitation of African countries is on an uptrend for the period of review, but the levels of investment facilitation differ considerably across the African countries. From 2010 to 2017, on average, South Africa and Morocco score relatively higher investment facilitation levels. Second, there are considerable differences in the levels of investment facilitation when the types of investment facilitation
are considered. The scores for systems supply or institutional quality are the lowest relative to the other forms of investment facilitation, and countries that rank high in the overall investment facilitation level rank low for different types of investment facilitation. Third, improvements in investment facilitation levels of African countries can promote China’s OFDI. Fourth, the impacts of the five primary indicators of investment facilitation in Africa show different significance for Chinese OFDI. The higher application of IT, efficient financial services, and better-quality institutions, significantly matter for attracting OFDI from China.

The empirical findings of the paper support the improvement of investment facilitation in Africa to further exploit their potentials in drawing investments from China. More importantly, the differential impacts of the types of investment facilitation on Chinese FDI in Africa justifies the disaggregated analysis of investment facilitation to inform the policy debate on the preference of China’s FDI in the continent. Obviously, infrastructure (hardware conditions) and the business investment climate are no longer key for explaining Chinese investments in Africa that have diversified beyond sector (construction and mining to manufacturing and services) and beyond traditional locations. Critical to attracting (plausibly horizontal or market seeking) FDI from China is the quality of system supply (or institutions) in Africa, where most African countries score lowest in this category against other forms of investment facilitation.
Data Appendix: Entropy Method

The index weight analysis based on the entropy method involves the following stages:

(i) Standardized treatment

\( y_{ij} \) is the \( j \) index of \( i \) unit after dimensionless treatment. \( x_{ij} \) is the original value of the \( j \) index of unit \( i \).

Positive index: 

\[
y_{ij} = \frac{\text{max} x_{ij} - x_{ij}}{\text{max} x_{ij} - \text{min} x_{ij}} \quad (i \in C)
\]

Negative index: 

\[
y_{ij} = \frac{x_{ij} - \text{min} x_{ij}}{\text{max} x_{ij} - \text{min} x_{ij}} \quad (i \in B)
\]

Neutral index: 

\[
y_{ij} = 1 - \frac{|x_{ij} - r|}{\text{max} |x_{ij} - r|} \quad (i \in F)
\]

(ii) Share of the \( i \) country for the \( j \) indicator:

\[
p_{ij} = \frac{y_{ij}}{\sum_{i=1}^{n} y_{ij}}
\]

where \( i = 1, 2, \ldots n; j = 1, 2, \ldots m; n \) is the number of countries, and \( m \) is the number of indicators.

(iii) Entropy of the \( j \) indicator \( e_j \):

\[
e_j = -k \sum_{i=1}^{n} p_{ij} \ln (p_{ij})
\]

\[
k = 1 / \ln(n), \ e_j \geq 0
\]
(iv) Coefficient of variance for the $j$ indicator $d_j$:

$$d_j = 1 - e_j$$

(v) Weight of the $j$ indicator $w_j$:

$$w_j = \frac{d_j}{\sum_{i=1}^{m} d_j}$$

Notes

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DTU), and the European Union H2020 Research and Innovation Framework Programme on Competing Regional Integration in Southeast Asia (CRISEA). <Email: evelyns@um.edu.my> (ORCID: https://orcid.org/0000-0001-9698-8698)

References


China’s Belt and Road Initiative: An Intuitive Insights Extraction from Text Document Clustering

Aiman Syakir Othman*, Chen Chen Yong** and Nur Annizah Ishak***
Faculty of Economics and Administration, University of Malaya

Abstract

China’s Belt and Road Initiative (BRI) marks an unprecedented effort in building transport and energy infrastructure across Asia and Europe. Considering the scale of the initiative, there exist a large number of researches focusing on different aspects and topics. This paper intends to collate the textual data from academic studies and official reports to highlight important themes and issues that stand out from the geopolitical, environmental and trade aspects. Findings suggest that in the geopolitical context, China is still facing opposition from certain countries while its presence in the Arctic is one of its central foci. Within the environment corpus, most studies are focused on the historical trends of carbon emissions, consumption or inequality rather than predicting the impact of BRI on the environment. There are concerns by countries involved in the BRI regarding the impact of the development of new ports on possible disruption to their trade activities and competitiveness.

Keywords: Belt and Road Initiative, geopolitics, environment, trade, text mining
1. Introduction

Ever since the inception of the Belt and Road Initiative (BRI), the People’s Republic of China (PRC) and its president Xi Jinping had promised for win-win cooperation and mutual benefits to its participating countries. In Xi’s keynote speech at the World Economic Forum Annual Meeting in 2017, he emphasised the concept of “community of shared future for mankind” in which China is pursuing the goal of common prosperity for its citizens. Later in the year, during the first Belt and Road Forum (BRF), President Xi pushed the concept into the BRI, envisioning it as a vehicle in achieving peace, prosperity, opening up, innovation and forming connections between different civilisations. Through BRI (see Figure 1 “Major Stakeholders in BRI” and Table 1 “UN Agencies and Their Involvement with BRI”), China hopes that prosperity can be shared globally for humankind.

Despite its promises, BRI is plagued with controversies. Firstly, its financing model was put into question as the United States’ Centre for Global Development warned on the debt sustainability of the member countries of the BRI. Utilising data from debt sustainability analysis taken from the IMF and World Bank, Hurley, Morris and Portelance (2018) discovered that smaller economies like Tajikistan, Montenegro, Laos, Mongolia and Djibouti are facing higher probability of debt distress as the debt-to-GDP ratios may exceed 50 percent in which more than 40 percent is owed to China. Such allegations had cast doubts in mega projects initiated in BRI member countries. According to the report, some of the eight countries flagged as high risk are Pakistan, Djibouti, Maldives, Laos and Mongolia.

Further, several parties had raised plausible accusations on the China-centric nature of the initiative. As highlighted by the Centre for Strategic and International Studies (CSIS), lion’s share of the contracts for planned BRI projects were awarded to Chinese companies as
compared to the host country’s contractors.

Security-wise, many scholars are pinpointing the BRI with PRC’s expansion of political influence, especially in Central and South Asia which are lacking in a strong rule of law and governance.

Within the geopolitical context, scholars are citing the changing power dynamics between US and China for international order. Nevertheless, President Xi had set his nation’s ambition to be a global leader by 2050 during the 19th Party Congress in which many Chinese experts are viewing his new vision as a new era for a quest for power (Duchatel, 2019).

**Figure 1** Major Stakeholders in BRI

<table>
<thead>
<tr>
<th>Project Coordination</th>
<th>Project Execution</th>
<th>Project Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>• National Development and Reform Commission (NDRC)</td>
<td>• Ministry of Commerce</td>
<td>• Asian Infrastructure Investment Bank (AIIB)</td>
</tr>
<tr>
<td></td>
<td>• Ministry of Foreign Affairs</td>
<td>• New Silk Road Fund</td>
</tr>
<tr>
<td></td>
<td>• Ministry of Culture</td>
<td>• China Development Bank (CDB)</td>
</tr>
<tr>
<td></td>
<td>• China International Development Cooperation Agency (CIDCA)</td>
<td>• New Development Bank (NDB)</td>
</tr>
<tr>
<td></td>
<td>• Local provincial or municipal authorities</td>
<td>• Export-Import Bank of China</td>
</tr>
<tr>
<td></td>
<td>• State-owned enterprises</td>
<td>• China Investment Corporation</td>
</tr>
<tr>
<td></td>
<td>• Private corporate actors</td>
<td>• China's State Administration of Foreign Exchange</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• China-ASEAN Investment Cooperation Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Silk Road Gold Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Green Ecological Silk Road Investment Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• International Bank for Reconstruction and Development</td>
</tr>
</tbody>
</table>
Table 1 UN Agencies and Their Involvement with BRI

<table>
<thead>
<tr>
<th>No.</th>
<th>Agency</th>
<th>Engagement</th>
</tr>
</thead>
</table>
| 1   | International Monetary Fund (IMF)                       | • Policy advice  
• Launch of China-IMF Capacity Development Centre (CICDC)                                                                           |
| 2   | World Bank Group                                        | • Committed USD80 billion for infrastructure projects  
• Provides advisory services and analytics                                                                                           |
| 3   | United Nations Development Program (UNDP)               | • Signed MOUs and Action Plan                                                                                                           |
| 4   | United Nations Industrial Development Program (UNIDO)   | • Bilateral meetings  
• Signed MOUs  
• Policy research Agreement of cooperation on infrastructure                                                                         |
| 5   | Food and Agriculture Organisation (FAO)                 | • Policy coordination  
• Agricultural collaboration                                                                                                           |
| 6   | International Labour Organisation (ILO)                 | • Signed MOU                                                                                                                            |
| 7   | World Meteorological Organisation (WMO)                 | • Signed Letter of Intent                                                                                                               |
| 8   | International Maritime Organisation (IMO)                | • Signed Letter of Intent                                                                                                               |
| 9   | International Organisation for Migration (IOM)          | • Provide support in promoting unimpeached trade along Belt and Road                                                                 |
| 10  | International Telecommunication Union (ITU)             | • Cooperation agreement of the BRI                                                                                                       |
| 11  | UN Habitat                                               | • Signed MOU                                                                                                                            |
| 12  | International Development Law Organisation (IDLO)       | • Signed MOU                                                                                                                            |
| 13  | United Nations Economic Commission for Europe (UNECE)   | • Joined the International Coalition for Green Development on the Belt and Road                                                         |
| 14  | World Intellectual Property Organisation (WIPO)         | • Signed cooperation agreement                                                                                                          |
| 15  | United Nations Economic and Social Commission for Western Asia (ESCWA) | • Conduct preparatory studies and strategy development                                                                                  |
| 16  | United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) | • Conduct policy research and facilitation                                                                                           |
| 17  | United Nations Educational, Scientific and Cultural Organisation (UNESCO) | • Deepen cooperation in TVET and skills training                                                                                          |
| 18  | United Nations Framework Convention on Climate Change (UNFCCC) | • Policy advice                                                                                                                            |
| 19  | United Nations Children’s Fund (UNICEF)                | • Invitation to UNICEF for their expertise in programme design and production                                                           |
| 20  | United Nations Office for South-South Cooperation (UNOSCC) | • Support South-South Cooperation  
• Nurture Youth Leadership for Agricultural Development in Africa                                                                        |
| 21  | World Tourism Organisation (UNWTO)                     | • Policy advice for capacity building and marketing                                                                                      |
| 22  | Universal Postal Union (UPU)                            | • Signed Letter of Intent                                                                                                               |
| 23  | World Food Programme (WFP)                             |                                                                                                                                           |
| 24  | International Fund for Agricultural Development (IFAD)  |                                                                                                                                           |
| 25  | International Civil Aviation Organisation (ICAO)        |                                                                                                                                           |

Source: United Nations (UN).
The insecurity against the initiative is reasonable. President Xi in his Chinese Dream asserted the idea of China with strong armed forces and as a maritime nation. Within ten years, military funding went up by 83%. Aside from that, China is establishing its military presence elsewhere; setting up its first naval base in Djibouti, a small military outpost in Tajikistan and joint patrol with the Afghanistan army.

Other scholars like Len (2015) and Dhaka (2018) perceived the BRI as a charm offensive strategy – China’s tactics to win over its territorial disputes in the South China Sea. Apart from US’s meddling in its territorial disputes, China is facing resistance from other ASEAN countries such as the Philippines and Vietnam over the control of the South China Sea. This may hinder the development of the 21st Century Maritime Silk Road apart from other factors such as regime change of member countries and unfamiliarity with the practices of Chinese companies. The vagueness and lack of transparency had also become major hindrances of the execution of BRI.

Scholars are also divided on the environmental impact of these infrastructure projects. Xiao, Cheng and Wang (2018) analysed the BRI model with sustainable development models and observed a unified inherent value that is vital for its participating countries to reach the Sustainable Development Goals (SDGs). The authors also addressed the wide gaps among countries in term of its sustainable development composite index and the average score for infrastructure development is the lowest as compared to other indices such as environmental and social sustainability.

Based on the environmental Kuznets curve, Teo et al. (2019) explored the possibility of the BRI in reducing the environmental pollution of its member countries. China, its host country managed to reduce its CO₂ emissions through research and technological upgrades whereas the cost of renewable energy infrastructures had gone down due
to large investment. In fact, the authors cited Chinese initiatives in upgrading coal plants and power grids through technology transfer in Tajikistan, Bangladesh and Kyrgyzstan.

Yet, the authors also acknowledge the loophole in the Chinese environmental protection policies. Firstly, considering the scale of BRI, working under multiple jurisdictions and countries pose a problem in successfully implementing projects that are environmentally safe. Apart from that, enforcement of these policies is weak and they are only binding with Chinese SOEs and not its private sectors. Inconsistent environmental standards or guidelines could also pose a threat in the development of BRI as the Green Finance Initiative discovered that “green” BRI projects may not be as green by international standards.

For instance, the initiative had no known key performance indicators (KPIs) in which much of its projects are not tied with any environmental impact assessments (EIAs) or any equivalent assessments (Tracy, Shvarts, Simonov and Babenko, 2017; Ascensão et al., 2018).

This exerts important concerns and pressures in the global stage as China is planning for infrastructure projects in almost every region in the world. Yet, if the violation in environmental protection is rampant, it will not only paint a negative view on the initiative and China but also worsening the climate crisis, losing biodiversity and destruction of an ecosystem.

In the discussion of this topic, the vast body of literature resulted in diverged views on the possible outcomes of its inception due to two main prospects – one in which the BRI is purely an economic cooperation promoting win-win cooperation for its member countries, a way for China to open up and promote its currency, a tool for the country to escape its middle-income trap and a complementary policy for US’s Asia Pacific Rebalancing Strategy. On the other hand, some scholars viewed the initiative as China’s attempt to topple the US’s
dominance in the global stage, a way to seek global political leadership and sharpen its influence (Xiao, Cheng and Wang, 2018). As a result, many studies have contrasting views and results regarding the initiative which is hampering the development of the initiative itself.

Considering the scale and scope of the BRI, there is a need to consolidate the research results of its impact on geopolitics, environment and trade for its participating countries. This study will provide a unified analysis to identify the main themes and issues discussed on BRI.

This study intends to extract insightful information from two different sources which are academic papers and official reports. By grouping similar type of information (i.e., three major aspects; geopolitics, environment and trade), it can benefit further analysis based on insightful information retrieved and extracted from the documents.

2. Literature Review

With the large scale and scope of BRI, academicians across various sectors had conducted various impact assessments of these projects on a nation’s environment and geopolitical influences.

2.1. Environmental Concerns

Despite the initiative being lauded as the engine of economic growth in some countries, it is undeniable that some of these projects may degrade the environment through habitat loss, overexploitation of resources and landscape degradation. Ascensão et al. (2018) cited World Wildlife Fund’s (WWF) report on how proposed BRI projects are overlapping with 1,739 Important Bird Areas (IBAs) which importance were recognised for the conversation of bird populations. On top of that, it was also reported that these projects are within the range of 265 threatened species of which 39 are critically endangered.
Although the authors acknowledged China’s recent efforts in improving the legal landscape to protect its environment, other developing and least developed economies in the BRI are not likely to prioritise on such issue considering their main goal is for raising economic and social standards. Given China’s Ecological and Environmental Cooperation Plan under BRI that strive for environmental protection, the authors suggested for the incorporation of Strategic Environmental and Social Assessments (SESA) into the BRI framework, especially in the initial stage of decision making.

Tracy, Shvarts, Simonov and Babenko (2017) made a strong case against the BRI after discovering that PRC are shifting its pollution-heavy activities away from China and towards BRI member countries. PRC had negotiated with Russia in early 2016 to shift industries like cement, metallurgy and chemical plants toward Russia’s eastern area. Besides, the authors asserted that under China’s new environmental policy, cement producers were given three options; (a) upgrade to energy-efficient technology, (b) pay for the costs of environmental damages or (c) relocate manufacturing facilities outside of China. This is due to the cement industry’s major contribution of smog in Chinese cities and a major consumer of energy. Hence, countries with weak environmental laws and poor economies such as Tajikistan became a central focus for China’s Huaxin Cement and a private Zhejiang producer to build a cement factory there. Thus, Tracy, Shvarts, Simonov and Babenko (2017) implored member countries to incorporate Environmental Impact Assessments (EIAs) for any BRI-related projects proposed by China.

Other scholars like Teo et al. (2019) took a step further by creating a typology of each BRI infrastructure, studying the possible direct and indirect impacts on its hydrosphere, biosphere and geosphere. For instance, transport infrastructure bears the risk of air pollution, acid rain
while also endangering wildlife habitats and exotic species. Energy-related infrastructure like coal and hydropower plants bring significant impact on the environment in relative to wind and solar farms.

Conversely, a study by Saud, Chen, Danish and Haseeb (2019) utilised the panel unit root tests on 59 member countries of BRI to discover a strong negative relationship between financial development (FDI and DDI) towards environmental degradation. The authors argued that an enhanced financial development help to mobilise capitals for environmentally friendly projects by utilising better technologies.

2.2. Geopolitical Concerns

2.2.1. China and the US

Consistently throughout its operation and execution, certain countries and media in general had painted a rather negative notion on BRI. One evident opposition against PRC as of recent came from the U.S. The feud had academicians predicting the Thucydides Trap, the inevitable eruption and subsequently, a war between two major powers.

Under Obama’s administration, Washington’s initial reaction towards the initiative is mixed. Citing US Deputy Secretary of State’s speech in 2015, Cai (2018) highlighted US’s willingness to cooperate and coordinate with PRC on their respective policies over Central Asia. Conversely, Washington had negatively reacted to PRC’s growing influence in the Asia-Pacific region, allying on countries that are also weary of PRC.

Fast forward to today, under President Donald Trump’s radical stance of “America First”, the leading nation shifted the tone by being protectionist and inward-looking. Steve Bannon, then senior political adviser to Trump highlighted the contradiction between Trump and Xi, saying in an interview: “I think it’d be good if people compare Xi’s
speech at Davos and President Trump’s speech in his inaugural. You’ll see two different world views”. Trump backtracked from the Asia-Pacific, leaving the now-defunct Trans-Pacific Partnership Agreement (TPPA). Seeing the opportunity, PRC revived the trade deal called Regional Comprehensive Economic Partnership (RCEP) in which all 11 countries had agreed to proceed without US in the negotiation (Nordin and Weissmann, 2018).

2.2.2. China and EU

Historically, China had been trading with the Europeans through the Silk Road for silk, chinaware and tea. This relationship continues until the present day as Europe remains as China’s largest trading partner. The bilateral cooperation transcends trade as both parties continue to cooperate for investment opportunities through the AIIB in which 14 European countries with the likes of France, Germany and Britain are members.

However, political ties between the two superpowers are not as long-standing as their economic ties. Zeng (2017) highlighted Europe’s marginalised role in China’s foreign policy discussions, especially under Xi’s leadership. In 2014, PRC’s Vice-Minister of Foreign Affairs asserted that BRI’s vision is to connect Central Asia, Southeast Asia and Western Asia with a part of Europe. Its vague statement on Europe, leaving a big question on which part of Europe is connected to the initiative.

EU’s European Parliamentary Research Service (EPRS) views the BRI as China-centric and a medium for China to build geopolitical influence. The think-tank made a case by exemplifying UN Security Council’s acceptance of the “community of shared destiny” concept into the UN Human Rights Council resolutions. Apart from that, PRC’s lack of transparency on BRI projects, lion’s share of contracts for Chinese
firms and the use of Chinese standards instead of international ones were also highlighted.

EU’s political ties with China was also made apparent after Italy decided to join BRI in early 2019. Despite not being the first EU country to participate in the initiative (Greece and Hungary participated earlier), the EU was quick to accuse PRC of playing the “divide and rule” game in the region (Zhao, 2016).

2.2.3. China and Southeast Asia

A growing body of literature had examined the perception of various countries or regions, analysing their acceptance or rejection towards BRI. Sein (2016) highlighted three different responses drawn by ASEAN member countries while dealing with BRI; enthusiastic, cautiously positive and sceptical. Philippines, Vietnam and Myanmar are sceptical wherein Cambodia, Laos and Thailand were found to be enthusiastic towards the initiative. The remaining member countries; Brunei, Malaysia, Singapore and Indonesia adopt a rather cautiously positive sentiment, largely due to the territorial tensions in South China Sea. The same can be said for EU member countries where Central and Eastern European Countries (CEEC) welcomed China with open hands as compared to older EU members such as Germany, France and the UK. Italy being the exception, had joined BRI as one of its participating countries.

2.3. Trade Concerns

BRI brings optimistic impact on trade across the world. Many institutions had deployed relevant econometric models in evaluating its impact on trade. Lu, Rohr, Hafner and Knack (2018) examine the airport, railway and road density including the logistics performance
index of each BRI country. Across the first three indicators, Mongolia and Russia own the least density of transport infrastructure whereas UAE has the least railway and road density and Kazakhstan has the least airport and road density. For comparison, the airport, rail and road density of EU countries are 0.732, 0.055 and 1.451 respectively whereas the BRI countries collectively own 0.125, 0.010 and 1.315 respectively, highlighting the need for new and improved infrastructure for developing and least developed BRI countries.

From the study, the authors deployed the gravity model to estimate the impact of improved transport infrastructure and connectivity under the initiative. It was found that having an increase in railway connection will significantly boost exports of BRI countries by 3%. Further, improved transport infrastructure will not only enhance trade for BRI countries but will also boost trade with the EU and other countries.

Garcia Herrero and Xu (2017) used three scenarios to estimate the impact of trade for EU countries. First scenario explores the result of trade due to a reduction in trade costs meanwhile the second scenario played with the possibility of establishing a free trade agreement (FTA) for the BRI region. Final scenario combines the first two scenarios. Results indicate a clear win for each EU country on the first and third scenarios with negatively insignificant impact from the second scenario.

Despite a plethora of studies concerning BRI within its three main aspects, there was no known effort in applying text mining analysis to detect recurring themes within the literature considering a large amount of textual data available. One recent effort from a team of researchers Thürer et al. (2020) brought about a comprehensive systematic review of 173 peer-reviewed articles which was conducted manually through a two-dimensional matrix. However, the findings of the study are limited as other white papers or official documents were excluded from the sample and the study focused mainly on the impact of BRI on the global
supply chain.

Prior attempts in applying text mining analysis on BRI gravitate towards the news media narrative; sentiment analysis by Arifon, Huang, Zheng and Melo (2019) on Twitter accounts of four news outlets based in Europe and China, analysis of about 100,000 news headlines within the media outlets in China and the Korean Peninsula (Li and Jin, 2019) and comparative analysis of news discourse regarding the initiative (Zhang and Wu, 2017; Xin and Matheson, 2018).

Therefore, this study will address the main tropes of BRI’s academic literature and official documents by focusing on a wider scope of foreign relations, sustainability and trade activities in order to have a better comprehension of the challenges or opportunities that lie ahead for this initiative. This study will be assisted by several text mining tools to provide clear-cut findings from the literature gathered.

3. Methodology

This section discusses the data collection, methodology, tests and procedures and the conceptual framework. Considering the large scale of the BRI, there is a rich amount of studies conducted by scholars and researchers in various fields. This study intends to study BRI in relation to three aspects; geopolitics, environmental and trade. Using big data analysis, textual content analysis will be conducted with text mining approach. Although the text mining method is relatively new in the academic research, one study by O’Mara-Eves et al. (2015) agrees on the efficiency of text mining analysis when discovering that workload reduction can occur by 30-70%.

Simply put, text mining is a process of extracting notable and meaningful information from free or unstructured textual data (Kao and Poteet, 2005). For this study, unstructured textual data refers to any
portable document formats (PDFs) or Word document retrieved during data collection. A collection of these documents is called corpus.

3.1. Data Collection and Grouping

This study will collect data from two different papers; academic papers and official reports. Approximately 100 official reports and academic papers published from 2013 to 2020 regarding the initiative will be included for review. Academic papers will be collected from two abstract and citation databases; Google Scholar and Scopus. Search queries made include several terms such as “One Belt One Road”, “Belt and Road Initiative”, “BRI”, “Chinese BRI”, “New Silk Road”, “New Silk Route”, “Polar Silk Road” and “Maritime Silk Road”.

Meanwhile, the official reports are derived from several organisations and official documents released by the PRC itself (see Table 2). Official reports were included in this study as it provides a factual perspective and results as compared to academic papers that may be tainted with personal biases from researchers on the initiative. On top of that, a brief abstract review will be conducted in order to identify and group these papers according to three recurring themes of this study.

In the initial stage, a total of 402 academic papers were collected. By conducting a review on the titles and abstracts of these papers, about 23 papers were removed as the research scope does not relate to the three research questions of this study. Further, another 7 papers were excluded from the review process as it only serves as historical explanation and literature review of the BRI. However, these papers will be utilised for the earlier section of this study in introducing the BRI.

Thus, a total of 372 academic papers will be included in this study in which 180 papers are regarding to geopolitical issues, 82 papers on the environmental aspects, and 110 on trade analysis.
Table 2 List of Official Reports

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Number of Official Documents/Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Republic of China</td>
<td>7</td>
</tr>
<tr>
<td>Leading Group for Promoting the Belt and Road Initiative</td>
<td>1</td>
</tr>
<tr>
<td>China International Development Cooperation Agency</td>
<td>2</td>
</tr>
<tr>
<td>China Council for International Cooperation on Environment and Development</td>
<td>1</td>
</tr>
<tr>
<td>World Bank</td>
<td>7</td>
</tr>
<tr>
<td>United Nations</td>
<td>3</td>
</tr>
<tr>
<td>World Wide Fund for Nature (WWF)</td>
<td>1</td>
</tr>
<tr>
<td>National Bureau of Asian Research</td>
<td>4</td>
</tr>
<tr>
<td>OECD</td>
<td>1</td>
</tr>
<tr>
<td>Stockholm International Peace Research Institute (SIPRI)</td>
<td>3</td>
</tr>
<tr>
<td>Bruegel</td>
<td>1</td>
</tr>
<tr>
<td>RAND</td>
<td>1</td>
</tr>
<tr>
<td>German Institute for International and Security Affairs</td>
<td>1</td>
</tr>
<tr>
<td>McKinsey</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>35</td>
</tr>
</tbody>
</table>

3.2. Transforming Unstructured Textual Data to Structured Data

These unstructured texts will then be transformed into structured data during the pre-processing step. Orange3 software provides several methods for this, namely transformation, tokenisation, normalisation and filtering.

3.2.1. Transformation

The first method of pre-processing is data transformation. This includes transforming each word in the corpus as lowercase and removing any accents detected for uniformity.

3.2.2. Tokenisation

Tokenisation is a pivotal step in NLP as it segments the whole text in a document into smaller components such as words, punctuation and
numbers.

3.2.3. Normalisation

As large parts of the texts apply grammatical rules (i.e. eat, eats, eating, ate), there are two main methods- stemming and lemmatisation that help in transforming these inflected words into its base words.

3.2.4. Filtering

Stop words are defined as commonly used words such as ‘a’, ‘the’, ‘and’, ‘or’ and ‘in’ which do not represent any significant meaning and must be removed prior to data analysis.

3.3. Data Analysis

After transforming the unstructured textual data into structured data, data analysis is required. There is various analysis provided in text mining according to the initial objective of the research. Firstly, the “Duplicate Detection” widget will be used in order to detect any similarities amongst the documents collected. This is highly important as the similar documents may interfere with results in further analysis.

Primarily, this study will utilise the “bag of words” widget in the Orange3 software. This includes the term frequency-inverse document frequency (TF-IDF hereafter) parameter, a simple statistical measure used to evaluate how important a word is to a document or the corpus (collection of documents) as follows:

\[
\text{Term Frequency (TF)} \quad \text{Inverse Document Frequency (IDF)}
\]
4. Results and discussion

This section provides an analysis for the result. This section will discuss on the document maps to explore the spread of research studies on BRI and non-BRI countries while also exploring context of the discussion followed by an extensive analysis on the context for 3 of the most important terms in each corpus.

4.1. Geopolitics Corpus

Table 3 Top 10 Country Mentions for Geopolitics Corpus

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of times mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>153</td>
</tr>
<tr>
<td>Russia</td>
<td>63</td>
</tr>
<tr>
<td>India</td>
<td>60</td>
</tr>
<tr>
<td>Malaysia</td>
<td>39</td>
</tr>
<tr>
<td>Pakistan</td>
<td>38</td>
</tr>
<tr>
<td>Japan</td>
<td>36</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>36</td>
</tr>
<tr>
<td>Myanmar</td>
<td>34</td>
</tr>
<tr>
<td>Iran</td>
<td>32</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29</td>
</tr>
</tbody>
</table>

Figure 2 Document Map for Geopolitics Corpus
Table 3 lists down the 10 highest frequencies of countries mentioned in the geopolitics corpus. China has the highest number of mentions (153 times), followed by Russia (63 times) and India (60 times).

4.1.1. Russia

Russia is the second most mentioned country within each corpus. In the discussion on energy and security, Russia’s position within the Arctic Circle came up more than any other Arctic States such as Canada (6 times), Norway (4 times) and Sweden (3 times). China’s presence in Russia’s Far North region of the Arctic started even before the development of PSR, as both countries cooperated for the liquified natural gas (LNG) plants in the Yamal Peninsula. These had led to the development of other projects in the region including Gydan Peninsula’s LNG project, Sabetta seaport at the Yamal Peninsula and China-owned China Oilfield Services Limited’s partnership with Russia’s Gazprom drilling rig at Leningradskoye (Erokhin, Gao and Zhang, 2018).

Another recurring theme in the discussion on China-Russia relationship is the power dynamics with former Soviet states. Russia’s own economic plan called the Eurasian Economic Union (EEU) overlaps with China’s BRI and the Shanghai Cooperation Organisation (SCO) which also include other Central Asian countries.

4.1.2. India

India and China’s territorial disputes were put into spotlight in academic studies relating to BRI. Although India is part of the BRI ecosystem through the planned BCIM corridor, the South Asian country reserved itself from participating in BRI and was absent during the Second Belt and Road Forum in 2019. In fact, India’s External Affairs Minister
S. Jaishankar reinforced India’s stand against BRI, citing sovereignty matters as one of its causes of resistance.

Lags and delays in the development of BCIM is understandable considering that both countries have multiple disputes concerning different geological areas including Pakistan’s involvement through CPEC which creates access for China to the Gulf and the Indian Ocean via the Karakoram Highway (Bhattacharjee, 2015). China’s increased presence in Pakistan Occupied Kashmir (POK), specifically in the Gilgit-Baltistan area, made the situation worse as both Pakistan and India are involved in a longstanding rivalry stemming from the 1947’s partition of British India.

Table 4 is a tabulation of the 10 largest and smallest words from the word cloud based on the weightage calculated. “Arctic” has the highest weightage of 15.00 while the word “Soviet” has the lowest weightage of 1.97 in the geopolitics corpus. “MSRI” refers to Maritime Silk Road Initiative meanwhile “IOR” represents the Indian Ocean Region and “NSR” represents the Northern Sea Route.

**Table 4 Word Weightage for Geopolitics Corpus**

<table>
<thead>
<tr>
<th>Word/Term</th>
<th>Weightage</th>
<th>Word/Term</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>arctic</td>
<td>15.00</td>
<td>ior</td>
<td>2.01</td>
</tr>
<tr>
<td>cooperation</td>
<td>12.40</td>
<td>nsr</td>
<td>2.01</td>
</tr>
<tr>
<td>msri</td>
<td>12.10</td>
<td>uzbekistan</td>
<td>2.01</td>
</tr>
<tr>
<td>investment</td>
<td>11.90</td>
<td>usa</td>
<td>1.99</td>
</tr>
<tr>
<td>security</td>
<td>10.90</td>
<td>war</td>
<td>1.99</td>
</tr>
<tr>
<td>policy</td>
<td>10.10</td>
<td>social</td>
<td>1.99</td>
</tr>
<tr>
<td>infrastructure</td>
<td>9.76</td>
<td>diplomatic</td>
<td>1.98</td>
</tr>
<tr>
<td>power</td>
<td>9.01</td>
<td>stability</td>
<td>1.98</td>
</tr>
<tr>
<td>energy</td>
<td>7.81</td>
<td>train</td>
<td>1.98</td>
</tr>
<tr>
<td>asean</td>
<td>6.43</td>
<td>soviet</td>
<td>1.97</td>
</tr>
</tbody>
</table>
4.1.3. Arctic

China’s growing presence in the Arctic is the most discussed theme in term of geopolitics and security. China’s Arctic Policy released in 2018 marked its aspiration to incorporate the Arctic shipping routes into the BRI logistics network while expressing interests in oil and gas exploration in Russian and Northern Europe territories (Erokhin, Gao and Zhang, 2018).

The Arctic Blue Economic Corridor (ABEC) shipping route is China’s version of BRI in the Arctic, connecting the Nordic countries with Russia’s Northern Sea Route (NSR) and China. Russia’s warm welcome over this initiative is partly due to its massive economic potential. Currently, Russia’s Arctic region contributes to 10% of its GDP and 20% of its export revenue. It also produced 95% of its gas resources and 70% of its oil and high shares of metals. Yet, international
transit shipments in the region had decreased due to the lack of infrastructure and cheaper fuel that eliminated the need for a shorter shipping route. Thus, ABEC may help boost economic activities and trade within the region.

Meanwhile, EU’s policy in the Arctic is largely transportation-oriented due to its competitive edge in the construction of icebreakers and cargo vessels. Denmark’s lead in shipbuilding may align with the development of ABEC especially since Greenland is located between the US and Europe. Finland prioritised on research and scientific studies in the Arctic, providing knowledge-based services on the region. This is largely due to it not having direct access to the Arctic seas. The same can be said for Sweden as it does not have access to the Arctic shipping routes and is providing research in environmental protection and biodiversity (ibid.).

One vocal opponent of China’s presence in the Arctic is the US, an Arctic nation whom questioned China’s sovereignty and role in the region. Referring itself as the “near-Arctic state” in its policy papers further exacerbated the situation as the title was not granted with any official recognition.

4.1.4. Cooperation

The term “cooperation” appeared abundantly in the geopolitics corpus. As China is expanding the scope of the BRI, cooperation with international actors is pivotal in maintaining the stability of each project. One central theme in BRI is the win-win cooperation formula that benefits both parties and the rest of the world. President Xi asserted that regional cooperation should expand beyond mutual benefits to shared belief that is now known as the ‘community of shared destiny’.

Beijing’s peripheral diplomacy discussed by Callahan (2016) can be traced back to Deng Xiaoping’s foreign policy that focused on economic
cooperation rather than security rivalry. AIIB, Shanghai Cooperation Organisation (SCO) and various economic corridors and under the BRI portrayed such element on China’s current foreign affairs, marking a significant departure from its more assertive policies around 2010. Under the peripheral diplomacy, China had also built military cooperation with various countries including Russia, South Korea, Malaysia, Thailand and Singapore on joint military activities.

Lim (2018) asserted that China’s cooperation with Arctic nations remains integral in achieving its ambition in the region. This was made clear in China’s Arctic Policy that values international cooperation to maintain a peaceful and stable Arctic order. In fact, four basic guiding principles outlined in the white paper are respect, cooperation, win-win result and sustainability (Erokhin, Gao and Zhang, 2018).

Chen and Yao (2017) highlighted on how pragmatic cooperation helps in accelerating plans in the MSR countries. One example drawn was its cooperation with Indonesia whom proposed the Global Maritime Fulcrum (GMF) back in 2014 to enhance inter-island connectivity among its archipelagos. Cooperation between the two countries helps in aligning and achieving their ambitions. The Jakarta-Bandung High Speed Railway is China’s 150 kilometres flagship project that connects the capital with its fourth largest city.

In some cases, cooperation transcends inter-governmental relations. China and Malaysia first set up the Sister Industrial Parks in 2012, in which more than USD30 billion were channelled to the Kuantan Industrial Park meanwhile the Qinzhou Industrial Park managed to attract over USD19 billion in total investment from 50 industrial projects. Following the success of the cooperation, Malaysia established a port alliance for its 9 ports with 12 Chinese ports for knowledge and best practices sharing as well as port terminal investment.
4.1.5. MSRI

The Maritime Silk Road Initiative (MSRI) consists of a sea route that extends from major ASEAN countries to Sri Lanka’s Port of Colombo, Djibouti in Eastern Africa, the Suez Canal, Port of Piraeus in Greece and ends in Italy’s Port of Trieste. It further extends toward Central Europe and the North Sea through a railway network.

Despite its central focus on trade, MSRI involves various other non-trade hard infrastructure projects including the China-Maldives Friendship Bridge that connects the capital of Male with the nearby Hulhule Island for tourists and locals commute as well as an expansion project for Maldives’s Velena International Airport.

Narratives revolving around MSRI are plentiful. Blanchard (2018) discussed the various characterisation of China’s intentions, from a political and economic standpoint to the allegations of it being China-centric and the country’s exertion of hard versus soft power on participating countries. Len (2015) claimed that MSRI is part of China’s strategy in repairing its image over the South China Sea’s territorial disputes in Asia.

Regarding the assertion over MSRI being China-centric, one scholar went as far by claiming its intention to restructure Asia’s political, economic and security order as well as the dept-trap allegations that were largely associated with projects in MSRI. Yet, the claims were later denounced as one Chinese State Councillor stated that these projects should be sustainable to ensure economic benefits. Rajah, Dayant and Pryke (2019) also refuted the claims, stating that to date, there is no evidence of China being the primary driver of debt risks in smaller countries.

On the soft and hard power claims, Blanchard (2018) asserted that although there is no evidence of hard power being exerted by China, the
construction of seaports that also serve as its naval bases in Port of Doraleh in Djibouti and Gwadar Port in Pakistan is the main concern, especially amongst Indian scholars. Chinese State Councillor refuted the claims, stating China’s intolerant over “monopoly or coercion” on the initiative. One Chinese scholar pointed out that MSRI serves only for economic benefits and security over the sea lines of communications. Nevertheless, Blanchard (2018) opined that there are several unwarranted narratives behind MSRI and that China will continue facing opposition over protectionism, instability and competition from national actors.

4.2. Environment Corpus

Table 5 Top 10 Country Mentions for Environment Corpus

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of times mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>49</td>
</tr>
<tr>
<td>Mongolia</td>
<td>22</td>
</tr>
<tr>
<td>India</td>
<td>22</td>
</tr>
<tr>
<td>Russia</td>
<td>21</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15</td>
</tr>
<tr>
<td>Thailand</td>
<td>15</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>13</td>
</tr>
<tr>
<td>Iran</td>
<td>11</td>
</tr>
<tr>
<td>Turkey</td>
<td>11</td>
</tr>
</tbody>
</table>

Table 5 tabulates the frequency of mentions based on the document map above. China is the most mentioned country in the environment corpus (49 times) meanwhile its closest neighbours, Mongolia and India were mentioned 22 times.
4.2.1. Mongolia

Mongolia is a landlocked country that shares its borders with China and Russia. A trilateral meeting was first conducted in 2014 which brought to the signing of MOUs the following year for 32 projects within CMREC. Mongolia sourced its energy primarily from its 7 coal-fired power plants and 2 hydropower plants. Under the UN Framework Convention on Climate Change’s Intended Nationally Determined Contributions (INDC), the country pledged to reduce its greenhouse gas emissions by 14% through its shift towards renewable energy (Ren, Liu and Zhang, 2017).

China’s Ministry of Ecology and Environment first introduced the Green Economy Research Fellowship Programme, in participation with UN Environment, for both Mongolia and Central Asian countries. This six-week fellowship at Beijing Normal University
exposed local researchers on green investment and water sector while also participating in a policy roundtable on green economy.

4.2.2. India

Despite the geopolitical rift between China and India as highlighted earlier, 90.4% of India’s coal-fired power projects involved Chinese corporations. However, ever since 2010, China’s presence shrunk due to several changes in India’s domestic policy relating to energy and its own INDC to reducing carbon intensity by 33-35% by 2030.

Being the second most populous nation after China, India has its sets of issues on environmental degradation. Fang et al. (2020) asserted that urbanisation as the main driver of the decline in air quality and that India’s atmospheric particulate matter (PM) had continuously increased continuously over the past 16 years.

Although most BRI countries are lacking in environment-related research activities (Jia, 2017), one study by Liu et al. (2019) suggested for BRI to be utilised as a knowledge-sharing platform for both China and India to share their expertise and understanding on ecological preservation. The authors cited the success of India’s Sustainable Landscapes and Restoration program established to improve forest and tree covers with positive impact on biodiversity conservation, food security, and the rural economy.

Table 6 lists down the weightage of each of the 10 most prominent and least prominent words according to the word cloud. “Energy” has the highest weightage throughout the whole corpus with 22.80 whereas “legislation” has the least weightage with 2.53. A few acronyms listed are “PHH”, “UCHIA”, “UN”, “EIA” and “VSA” refers to the pollution haven hypothesis, underwater cultural heritage impact assessment, United Nations, environmental impact assessment and vessel sharing agreement respectively.
Table 6 Word Weightage for *Environment* Corpus

<table>
<thead>
<tr>
<th>Word/Term</th>
<th>Weightage</th>
<th>Word/Term</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>energy</td>
<td>22.80</td>
<td>gas</td>
<td>2.94</td>
</tr>
<tr>
<td>emission</td>
<td>17.70</td>
<td>phh</td>
<td>2.89</td>
</tr>
<tr>
<td>carbon</td>
<td>16.90</td>
<td>uchia</td>
<td>2.88</td>
</tr>
<tr>
<td>investment</td>
<td>14.20</td>
<td>responsibility</td>
<td>2.84</td>
</tr>
<tr>
<td>cooperation</td>
<td>13.00</td>
<td>plant</td>
<td>2.74</td>
</tr>
<tr>
<td>policy</td>
<td>12.70</td>
<td>un</td>
<td>2.73</td>
</tr>
<tr>
<td>infrastructure</td>
<td>11.30</td>
<td>eia</td>
<td>2.71</td>
</tr>
<tr>
<td>risk</td>
<td>10.90</td>
<td>vsa</td>
<td>2.66</td>
</tr>
<tr>
<td>congestion</td>
<td>10.80</td>
<td>exchange</td>
<td>2.57</td>
</tr>
<tr>
<td>tfee</td>
<td>10.80</td>
<td>legislation</td>
<td>2.53</td>
</tr>
</tbody>
</table>

Figure 5 Word Cloud for *Environment* Corpus
4.2.3. Energy

During the Second Belt and Road Forum, the concept of a green Silk Road was proposed, as a way for countries to share their knowledge and expertise in combatting climate change. This is in accordance to the Belt and Road Science, Technology and Innovation Cooperation Action Plan in 2016 that highlighted energy efficiency and emission reduction into technological cooperation and joint development (China Council for International Cooperation on Environment and Development, 2018).

There is a primary concern over BRI and environmental protection due to its investment in coal and energy sector in other countries. On top of that, Tekdal (2018) claimed that China is transferring its highly polluting industries to BRI countries as in the case of the shift of its cement industry to Tajikistan.

However, Lechner et al. (2020) asserted that Chinese investment in BRI countries is relatively small from its overall investment profile. Yet, the negotiation and awarding process of the energy projects must be further scrutinised. The authors exemplified Indonesia and Malaysia on how the energy investments correlates with the governance of host countries. Indonesian protectionist policy over its mining sector inhibits foreign ownership and thus Chinese investment shift from mining to coal power plants and construction.

As for Malaysia, former prime minister Najib Razak negotiated energy projects linked with the scandal-plagued 1MDB. Under the first regime change in 2018, Malaysia put both Multi-Product Pipeline (MPP) and Trans-Sabah Gas Pipeline (TSGP) under scrutiny and is now under review.
4.2.4. Emission

Carbon emission from the maritime industry is a cause of concern. It is forecasted that by 2050, CO$_2$ emissions from maritime shipping may increase by 50% to 250% depending on economic growth and energy developments. Dong et al. (2019) highlighted that the existing ports in MSRI has different environmental performances due to the variety of port operating systems and layouts. Fully automated ports in Shanghai, Antwerp and Singapore have less CO$_2$ emissions during its operation. There are a number of initiatives and policies such as the Maritime Singapore Green Initiative and the Ship and Port Pollution Prevention Special Action Plan (2015–2020) in China. The International Maritime Organisation (IMO) set a specific goal in 2018 to reduce greenhouse gas emissions by at least 50% by 2050.

Chen et al. (2020) asserted that a low-carbon transformation policy within BRI context may not be easy as most member countries rely on coal as its source of energy although price reforms in clean energy and increasing coal prices may help. For emission reduction measures, implementing carbon emissions trading market or carbon tax is effective in developing alternative source of energy and low-carbon technologies. The authors suggested for China to lead by strengthening dialogues and discussion on eco-environmental policies and reach agreements in relation to law and regulations as well as technical practices.

4.2.5. Carbon

There are several usages of the term “carbon” within the environment corpus, one from the “Blue Carbon Cooperation” while others may refer to the “carbon dioxide”, “carbon footprint”, “carbon emissions” and so on.
The blue carbon cooperation was etched in China’s Vision for Maritime Cooperation under the Belt and Road Initiative in which they proposed for a joint effort along the MSRI. It refers to any activities that use marine activities to absorb and store carbon dioxide in the atmosphere. Scientific studies had discovered that salt marshes, mangroves and seagrasses are among the most efficient in carbon-storing capabilities. It is worth noting that such initiative had been practised by many NGOs and companies including the South Pole Group, Conservation International and China itself among others.

Zhao et al. (2019) adopted a simulation approach to construct a blue carbon cooperation network in the MSRI region and suggested for the involvement of financial institutions to provide supple financing on blue carbon investment while China could increase funding on research to develop new techniques or strategies to ensure the efficiency of the project.

Climate change and green development is a central issue in BRI. Han et al. (2020) studied the carbon inequality and discovered that the carbon emissions per capita of BRI countries are lower than global average although its cumulative growth rate is higher than non-BRI countries. Among member countries, the inequality in carbon emissions decreased from 0.19 to 0.06 although there is a big gap between countries and regions.

Muhammad, Long, Salman and Dauda (2020) studied both the impact of urbanisation and trade among BRI countries. Urbanisation showed the presence of Environmental Kuznets Curve (EKC) hypothesis only in upper and high-income countries as urbanisation has an inverted U-shaped relationship with carbon emissions. Interestingly, the study confirmed the presence of the pollution haven hypothesis as industrialised nations set up factories abroad will look for the cheapest option in resources.
4.3. Trade Corpus

Table 7 Top 10 Country Mentions for Trade Corpus

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of times mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>82</td>
</tr>
<tr>
<td>Russia</td>
<td>40</td>
</tr>
<tr>
<td>Pakistan</td>
<td>36</td>
</tr>
<tr>
<td>India</td>
<td>35</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>30</td>
</tr>
<tr>
<td>Mongolia</td>
<td>27</td>
</tr>
<tr>
<td>Malaysia</td>
<td>27</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25</td>
</tr>
<tr>
<td>Thailand</td>
<td>24</td>
</tr>
<tr>
<td>Cambodia</td>
<td>23</td>
</tr>
</tbody>
</table>

Table 7 represents the tabulation of the 10 most mentioned countries in the trade corpus. Again, China leads with 82 mentions, followed by Russia (40 times) and Pakistan (36 times).

Figure 6 Document Map for Trade Corpus
4.3.1. Russia

Considering that 3 major economic initiatives run through Russia; NELB, CMREC and Polar Silk Road, it is not surprising that Russia was considerably mentioned in the trade corpus. Not only that Russia benefits from the logistics integration with the Eurasian region, Cieślik (2020) discovered that the indicative trade potential from China to Russia could rise to 10% for wholesale and retail trade, chemicals and pharmaceutical products.

In term of energy trade, China had invested USD400 billion for the Power of Siberia’s gas pipeline that travels 1,800 miles to China’s industrial hubs in the northern region. An additional USD55 billion is expected as both countries are in discussion for a second gas pipeline which if signed, helps to market LNG gas from Russia’s Yamal gas plant in the Arctic.

Russia’s control over the Northern Sea Route (NSR) allows it faster access to European countries although historical shipment route went as far as Liberia and Panama (Zeng et al., 2020). Due to its unique climate, NSR is easily accessible in summer when the ice melts.

4.3.2. Pakistan

Pakistan is one of the largest beneficiaries under BRI through its many planned infrastructure projects under CPEC, BRI’s flagship project. One that stands out is the Gwadar Port, the largest deep seaport in the world. Through China’s involvement, the seaport will be turned into a smart port city while eyeing for the possibility of becoming the main gateway for trade with the landlocked Central Asian countries and Western China due to its close proximity (Shibasaki, Tanabe, Kato and Lee, 2019).
This could help diversify Pakistan’s trade considering that its export to China, its largest trading partner had declined over the years. Pakistan Business Council blamed on the poor negotiation on FTA with China where its jewellery, cotton, rice and sugar were imposed with 20% higher tariffs (Zhang, Alon and Lattemann (eds.), 2018).

Table 8 shows that the term “port” has the highest weightage of 27.40 throughout the corpus whereas “Bangladesh” has the lowest weightage of 2.61.

4.3.3. Port

Discussion on the development of seaports is largely dominated by the MSRI with some considerable focus on the dry port of Khorgos Gateway in Kazakhstan. Adopting network simulation approach, Shibasaki, Tanabe, Kato and Lee (2019) discovered that the Gwadar Port in Pakistan has the capability in becoming the gateway to Central Asian countries as well as China’s Xinjiang region, not only due to its close proximity but also its capacity to handle rising volume of containers, provided that the railway network is completed. This is supported by Panneerselvam (2017) whom reported that Gwadar Port’s long-term master plan expects the port to increase its throughput from 42-65 million tonnes to 321-345 million tonnes in the year 2021 to 2055 as it sets to be the major transit route for the Chinese trade of oil and gas.

Feng, Liu and Zhang (2019) proposed a port alliance between MSRI ports as it may enhance overall capabilities of each port within the region while opening up the possibility of a new ocean transport network.
Table 8 Word Weightage for Trade Corpus

<table>
<thead>
<tr>
<th>Word/Term</th>
<th>Weightage</th>
<th>Word/Term</th>
<th>Weightage</th>
</tr>
</thead>
<tbody>
<tr>
<td>port</td>
<td>27.40</td>
<td>malaysian</td>
<td>2.76</td>
</tr>
<tr>
<td>export</td>
<td>20.80</td>
<td>gas</td>
<td>2.75</td>
</tr>
<tr>
<td>infrastructure</td>
<td>16.80</td>
<td>integration</td>
<td>2.74</td>
</tr>
<tr>
<td>network</td>
<td>16.50</td>
<td>gwadar</td>
<td>2.73</td>
</tr>
<tr>
<td>corridor</td>
<td>14.40</td>
<td>gvc</td>
<td>2.70</td>
</tr>
<tr>
<td>transport</td>
<td>14.20</td>
<td>vertical</td>
<td>2.70</td>
</tr>
<tr>
<td>investment</td>
<td>13.10</td>
<td>myanmar</td>
<td>2.69</td>
</tr>
<tr>
<td>cost</td>
<td>13.00</td>
<td>colombo</td>
<td>2.69</td>
</tr>
<tr>
<td>ofdi</td>
<td>12.60</td>
<td>textile</td>
<td>2.62</td>
</tr>
<tr>
<td>economy</td>
<td>12.30</td>
<td>bangladesh</td>
<td>2.61</td>
</tr>
</tbody>
</table>

Figure 7 Word Cloud for Trade Corpus
Upgrade and construction of seaports however, perturbed other BRI countries on their competitiveness in global trade. Krishnan and Sriganesh (2017) reviewed the development of seaports in Malaysia and Sri Lanka and how it may affect Singapore’s export-oriented economy. As in the case of Malaysia, the authors opined Singaporean ports activities due to its large capacity making it one of the two leading ports in the Southeast Asia. In fact, Melaka Gateway, situated in the north of Singapore, will have a storage capacity that is lesser than one-tenth of Singaporean ports, thus making it unlikely to be a threat. The authors, however, is unclear whether the Hambantota Port in Sri Lanka could create a new competition despite its strategic location in the IOR considering the controversies clouding the development of the port at the time of writing.

Fardella and Prodi (2017) expressed the same concern over the development of the Port of Piraeus in Greece and how it may affect the Italian economy. As China plans to transform the Piraeus Port into its main gateway to Central and Eastern Europe, the China-funded Budapest-Belgrade railway line would be connected to the port to increase connectivity. The authors claimed that Italian ports of Venice and Trieste are countering the growing competition as the Port of Venice plans to expand its capacity with a new offshore port while Port of Trieste is increasing its connectivity to the northern Italy and the rest of Europe via a new railway network.

4.3.4. Export

As BRI promised unimpeded trade, many studies had evaluated its impact on trade for participating countries. Cui and Song (2019) discovered that certain Chinese sectors would experience increase in export, particularly in textile, chemical rubber and plastics as well as the
ferrous industry. Besides, almost all sector will boost its exports if China pursues FTAs with participating countries.

Meanwhile, Leng et al. (2020) explored the trade potential for Chinese wind energy products and found out that although export grew by 392.4% from 2007 to 2017, the market is rather concentrated in ASEAN countries, South and Western Asia. Through the win-win concept, with every 1% increase in GDP for importing countries, China’s export of wind energy products will increase by 0.93%.

On top of that, de Soyres et al. (2018) showed that BRI could substantially reduce shipment times and trade costs by 3.2% and 2.8% respectively among the BRI countries. For global trade, 2.5% of shipment times and 2.2% of trade costs is expected to decline.

One point to highlight is the lack of focus on BRI’s impact on trade for individual country or region apart from Europe (Garcia Herrero and Xu, 2016; Fardella and Prodi, 2017; Holslag, 2017). Many studies were centred on China’s trade potential with BRI countries (Cui and Song, 2018; Dumor and Li, 2019; Yu, 2019; Leng et al., 2020, Cieślik, 2020) or took a macro view on the impact of trade for all BRI countries. Although most results pointed out that global trade would benefit from BRI, a granular view would help evaluate the presence of win-win cooperation for participating countries.

4.3.5. Infrastructure

Infrastructure connectivity is the second pillar outlined under BRI. As mentioned earlier, improved infrastructure is one of the key elements in trade facilitation. However, Zhang, Li, Liu and Cheng (2019) discerned that countries like the Philippines, Pakistan and Vietnam have lower level of infrastructure connectivity compared to its Asian counterparts and require special focus to optimise trade facilitation. Demand for infrastructure investment between 2016 to 2020 in major Asian countries
require approximately USD6.5 trillion meanwhile AIIB and Silk Road Fund had the funding capacity of USD1.2 trillion and USD40 billion respectively. Other entities investing in Asia include the World Bank and Asian Development Bank (ADB) with a total of USD150 billion cumulatively as well as Japan which had long been a major investor in the region with total investment amounting to USD110 billion (Yang, Huang, Huang and Chen, 2020).

However, researchers had continuously proved that export activities will increase through trade facilitation that consists of efficient border management, enhanced technological adoption and improvement in transport infrastructure (Ramasamy, Yeung, Utoktham and Duval; 2017, Zhang, Li, Liu and Cheng, 2019; Ramasamy and Yeung, 2019). Thus, China and host countries should not only focus on hard infrastructure but also soft infrastructure to ensure smooth and unimpeded trade. Training, leadership and knowledge sharing may help as in the case of Malaysia’s port alliance with China highlighted in the earlier section.

5. Conclusion

This study answered the question on the main themes and issues discussed by relevant studies on BRI, in the context of geopolitics, environment and trade. Besides, this study went further by highlighting the absence of certain themes that are deemed pivotal in the development of BRI.

Within the geopolitical aspect, the culmination of PSR in the Arctic is increasingly scrutinised by scholars. China’s claim as the near-Arctic state may degrade its goals within the region and cause further rift with the US. Although China is welcomed by Russia for the NSR, it is worth noting the trade sanctions faced by Russia from EU and it is worth exploring how ABEC may come into effect.
The environment corpus highlighted several initiatives and challenges ahead for BRI in ensuring low carbon emissions and green development. China should promote the construction of green infrastructure through its technological capabilities in BRI countries and reduce the consumption of cement, iron and steel while further reducing carbon emissions.

Discussion on trade mostly focused on several flagship projects in BRI such as the Gwadar Port from CPEC, MSRI and the massive energy trade that China inked with Russia. However, most studies tend to focus on the impact of trade on the Chinese economy as compared to any individual country or as a region. The lack of studies or discussion on this will not help to justify the win-win cooperation but rather portrayed the BRI as China-centric development plan.

Notes

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Afterword
AFTERWORD

China: Pandemic and Repression, Biopower and Governmentality

As Contemporary Chinese Political Economy and Strategic Relations: An International Journal marches into its seventh year, the present issue of the journal is put forward as a more voluminous issue, comprising eighteen articles covering various themes representative of the journal’s usual approach. These articles are placed under three separate headings: Diplomacy and International Relations, Geopolitics and Biopolitics, and Trade and Investment.

During this testing time of a devastating pandemic, since the great plague of the 2019 novel coronavirus pneumonia spread from the world’s first explosive outbreak in Wuhan, China (mainland China, officially “People’s Republic of China”), across the world, the global tragedy has fast turned into an arena of influence contest between the world’s great powers, witnessing a ferocious, relentless effort by the Chinese Communist Party’s non-electoral one-party ruling regime to spin a potential image disaster for its free speech-stifling, free press-proscribing political governance model that is widely seen standing as the key contributor to the world calamity into a diplomatic triumph with a combination of huge blame-shifting propaganda and foreign relation carrots through its earlier “mask diplomacy” and later “vaccine
diplomacy”. Interestingly, across the Taiwan Strait, the vibrantly liberal democratic island state of Taiwan (officially still the “Republic of China” on Taiwan since her political separation from the Chinese Communist Party-conquered mainland China in 1949 at the end of the Chinese Civil War) has also been engaging in an important international publicity campaign emphasising the country’s role as the earliest whistle-blower who could have saved the world from this disaster if not being contemptuously sidelined and ignored by a World Health Organization (WHO) under Beijing’s sway, as well as, as the second largest face-mask-producing country in the world, a “mask diplomacy” of her own. It is thus opportune that China’s “mask diplomacy” and the PRC-Taiwan diplomatic tussle in general form the targets of investigation of the first two papers of this journal issue, and further to the focus on the cross-Strait relations in this issue’s beginning section on diplomacy and international relations is a commentary proposing a Taiwan response to political repression in Hong Kong – a central CCP one-party State action through an oppressive national security law for the special administrative region being enforced in earnest by a subservient SAR Chief Executive and her government after the recent pro-democracy fansongzhong (反送中, “anti-extradition-to-China”) protests that rocked the territory, a tumultuous and momentous event covered in detail by the last special focus issue of this journal, For rights and liberty: The anti-Extradition Law Amendment Bill (anti-ELAB) protest movement and Hong Kong’s struggle for democracy\(^1\).

The two issues that respectively begins and ends this first section, namely the pandemic and the Hong Kong protests and subsequent State repression, do bear a connection that has been rarely mentioned. The global mass killing by the novel coronavirus (nCoV) pneumonia spreading from China’s Wuhan across the world and the large-scale violent clashes between the Hong Kong people and the government...
police suppression forces triggered by the anti-extradition bill protests and the subsequent White Terror instituted under the Beijing-imposed national security law for Hong Kong, however, are actually inextricably linked to the Chinese Communist Party’s totalitarian rule, and this seven-decade iron-fist rule of the CCP has indeed come under these two consecutive unusual severe tests from 2019 to 2020 and beyond that have in turn served to reveal the nature and global implications of the CCP’s mode of governance in general and the current Xi Jinping administration in particular.²

Beyond the first two papers and the commentary article that focus on the PRC, Taiwan and Hong Kong in the contexts of cross-Strait diplomatic tussle, the pandemic and State repression, completing this first section on IR and diplomacy are three other papers respectively on India-China relations, Pakistan-China relations and the PRC’s Digital Silk Road project in the context of the United States-China power rivalry in the international system.

The next section, covering geopolitics, i.e. issues of power relationships linked to geographic space, and biopolitics, here referring to the Foucauldian concept of governmentality that regulates populations through “biopower” – regarding the application and impact of political power on all aspects of human life³ – or Arvanitis’s conceptual and operative framework for societal development⁴, consists of six papers covering the Arctic ambitions of the non-Polar PRC, a self-designated “near-Arctic” state though actually located 3,000 km from the Arctic Circle, India’s unease regarding China’s influence outreach into Myanmar, the PRC’s economic expansion into Africa and Latin America and its impacts on the local society and economy, Taiwan (ROC)’s socio-cultural relations with Southeast Asia with particular reference to the country’s promotion of halal tourism, and the PRC’s economic reforms and private sector. The journal issue then closes with a last
section focusing on the *trade* and *investment* aspects with another six papers covering the PRC’s direct investments in Eastern Europe (the case of Hungary) and African countries, the “Made in China 2025” strategic plan and the US AI (artificial intelligence) response strategy, Xi Jinping’s signature Belt and Road Initiative, PRC’s ambitions in global economic governance, and the US-China trade war.

As the present issue of the journal brings it into its seventh year of contribution to academic research, it is heart-warming to review that for over six years this journal has been humbly carrying out its mission of studying the political economy of contemporary China, both domestic and international, through a critical lens, leaving no space for self-censorship, remembering those encouraging words of the late Professor Arif Dirlik, who had been with us as an advisory board member of our predecessor journal since 2012 and of this journal since its launching in 2015, that Rebecca E. Karl cited in her essay “In Memoriam: Arif Dirlik (1940-2017)”⁵ – to be fearlessly radical and radically fearless – that have motivated us to continue staying true to the principles and holding dear the ideals forming the cornerstone of the journal since its founding in 2015 and over 2010-2014 of its predecessor that this editor had previously managed. Both included, over eleven years of journal editorship have witnessed the maturing of academic efforts that doubtlessly began as being foolhardy or even brash, and a sense of mission that has driven us to pull no punches, mince no words – *J’Accuse*...! – as Émile Zola said⁶, as reflected by the range of research papers published and special focus issues whether on more general international and domestic political economy and governance aspects related to the contemporary rise of China, or on more specific areas such as the evolving properties of an enduring dictatorship, human rights, pro-democracy movements, political freedom and civil liberties, creeping authoritarianism, resurrection of totalitarianism, or ethnoregional self-
determination in the face of central State political oppression. *La vérité est en marche et rien ne l’arrêtera* — “truth is on the march, and nothing will stop it”, as Zola said in *J’Accuse...!* — that is the march that the journal has been upholding, whether within an environment of political oppression, a perilous atmosphere wherein freedom of expression is under mortal threat, or a warped reality wherein “truth” for gullible minds is increasingly framed as what the State propaganda machine defines it to be. Marching into its seventh year, the journal is set to continue upholding the noble principles of academic honesty and integrity in its contribution to global academia within the research field of contemporary Chinese political economy and strategic relations as reflected in its title.

Before ending this afterword, we would like to thank all the contributing authors of the articles in the various sections of this issue, and the anonymous reviewers of these articles, for their invaluable efforts in making the publication of this Volume 7, Issue 1 (April 2021) of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* possible. We are also grateful to Miss Wu Chien-yi (吳千宜) for the journal’s website construction and maintenance. The responsibility for any errors and inadequacies that remain is of course fully mine.

*Dr Emile Kok-Kheng Yeoh*

*Chief Editor*

Contemporary Chinese Political Economy and Strategic Relations: An International Journal

*National Sun Yat-sen University (Taiwan) / University of Malaya (Malaysia)*

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Notes


6. Émile Zola’s open letter published on 13th January 1898 on the front page of Georges Clemenceau’s liberal Paris daily L’Aurore, which formed a
major turning point in the Dreyfus Affair.

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